



Botnur hydro plant 100 years

Elfelagið SEV Grid Accounts 2021

Table of Contents

Management Review	5
Independent Auditor's Report	6
Key Figures	8
Management Report	9
Accounting Principles	20
Income Statement 1 January – 31 December	25
Balance Sheet 31 December	26
Cash Flow Statement	28
Notes	32



Management Report

The Board of Directors and Management hereby submit SEV's Grid Annual Report and Accounts for fiscal year 1 January - 31 December 2021. The Grid Accounts are also a part of the Group's Annual Report.

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

It is our opinion that the accounting methods used are suitable and that the Accounts give a true and fair view of the Company's assets, liabilities, financial position as at 31 December 2021 and the

result of operations and cash flow for fiscal year 1 January - 31 December 2021.

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

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

Tórshavn, 4 April 2022

Management

Hákun Djurhuus
Managing Director, CEO

Financial Management

Bogi Bendtsen
Director of Administration, CFO

Board

Kári Johansen
Chairman

Haraldur S. Hammer
Vice Chairman

Niclas Hentze

Oddmar á Lakjuni

Poul Klementsén

Sonni L. Petersen

Sune Jacobsen

Independent Auditor's Report

TO THE MANAGEMENT OF ELFELAGIÐ SEV

OPINION

We have audited the grid accounts of Eifelagið SEV for the financial year 1 January - 31 December 2021, which comprise Income Statement, Statement of Financial Position, cash flow statement, and notes. The amounts in the grid accounts are part of the annual accounts for Eifelagið SEV for the financial year 1 January - 31 December 2021, which we have audited.

In our opinion, the grid accounts for Eifelagið SEV for the financial year 1 January - 31 December 2021 in all material aspects are prepared in accordance with the accounting principles described in the grid accounts.

BASIS OF OPINION

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Faroe Islands. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the grid accounts". We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Faroe Islands, and we have fulfilled our additional ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER IN THE GRID ACCOUNTS – ACCOUNTING PRINCIPLES

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

This has not affected our opinion on the grid accounts.

THE MANAGEMENT'S RESPONSIBILITIES FOR THE GRID ACCOUNTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE GRID ACCOUNTS

Our objectives are to obtain reasonable assurance about whether the grid accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or on aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of these grid accounts.

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands, we exercise professional evaluations and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the grid accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding of internal control.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate

in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal controls.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control that we identify during our audit.

Tórshavn, 4 April 2022

P/F JANUAR

State Authorised Public Accountants

Hans Laksá
State Auth. Auditor

Key Figures

Amounts in 1,000 DKK	2021	2020	2019	2018	2017
Income Statement					
Net sales	590,385	553,407	511,096	429,648	434,900
EBITDA	91,775	114,484	107,697	102,611	90,602
Result before financial items	34,044	65,351	43,291	61,696	55,684
Financial items	-16,171	-23,290	-19,977	-24,102	-21,348
Annual result	7,421	30,283	30,247	28,625	33,302
Balance Sheet					
Total assets	1,665,712	1,722,098	1,458,891	1,601,382	1,337,184
Equity	630,155	563,496	556,291	451,323	449,456

Management Review

MAIN ACTIVITIES

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

The accounts for the Grid Division of SEV are a part of the consolidated accounts of SEV. This review encompasses SEV's power grid activities, including administration, for the period 1 January 2021 through 31 December 2021.

DISTRIBUTION OF OPERATIONAL PROFIT

The Production Division shall have all of its operational costs covered, including its portion of the costs related to the universal service obligation. In addition, the Production Division shall derive a profit corresponding to around 5% of opening balance equity.

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

UPGRADING AND REFURBISHMENT

The work to update and expand the 10, 20, and 60 kV grid continues. The work is being done in close cooperation with the relevant government authorities, the municipalities, the Faroese Public Works Department, and Faroese Telecom.

In 2021, the Company erected several new 10 and 20 kV transformer stations in different regions around the country. The 60 kV sub-station at Vestmanna was refurbished in 2021 and DKK 59.4 million was posted to the depreciation account. Also the 60 and 20 kV cables in Klaksvík were refurbished, as well as the high-voltage cables through the Vágar and the Norðoy tunnels. In this regard, some DKK 52.6 million was added to the depreciation account. In connection with the windfarm on Suðuroy, a new sub-station was erected at Hovi. This station shall also house the battery system and the synchronous compensator, which will be set up as part of the new windfarm at Porkerishagi. The station is nearly complete at the end of 2021.

Figure 1: Faults per year 1989 - 2021

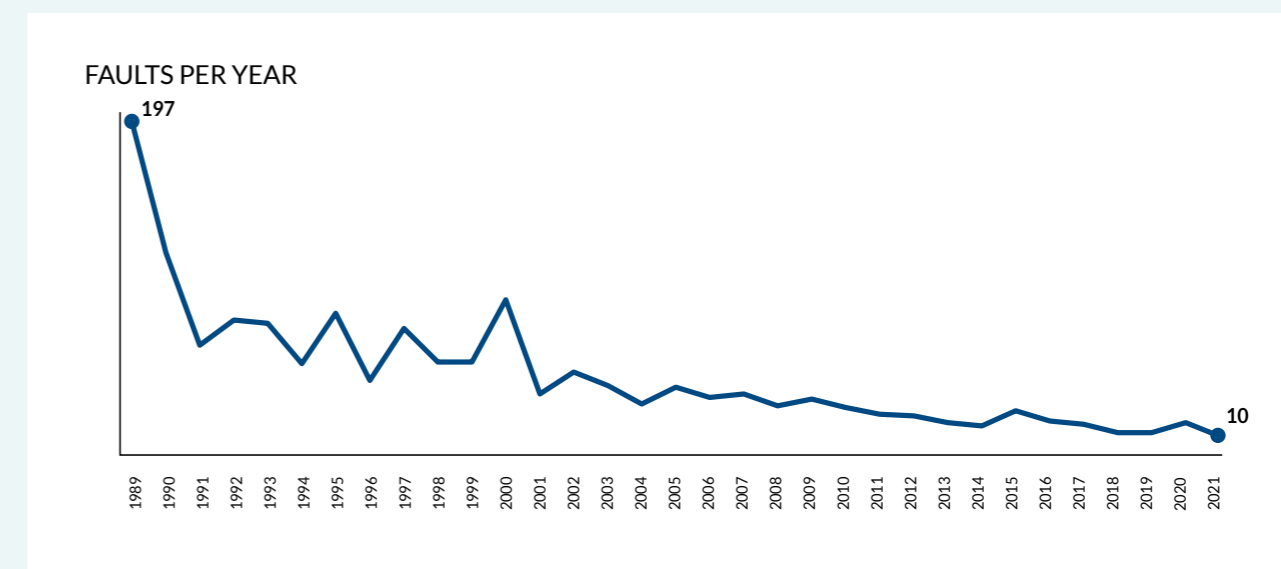
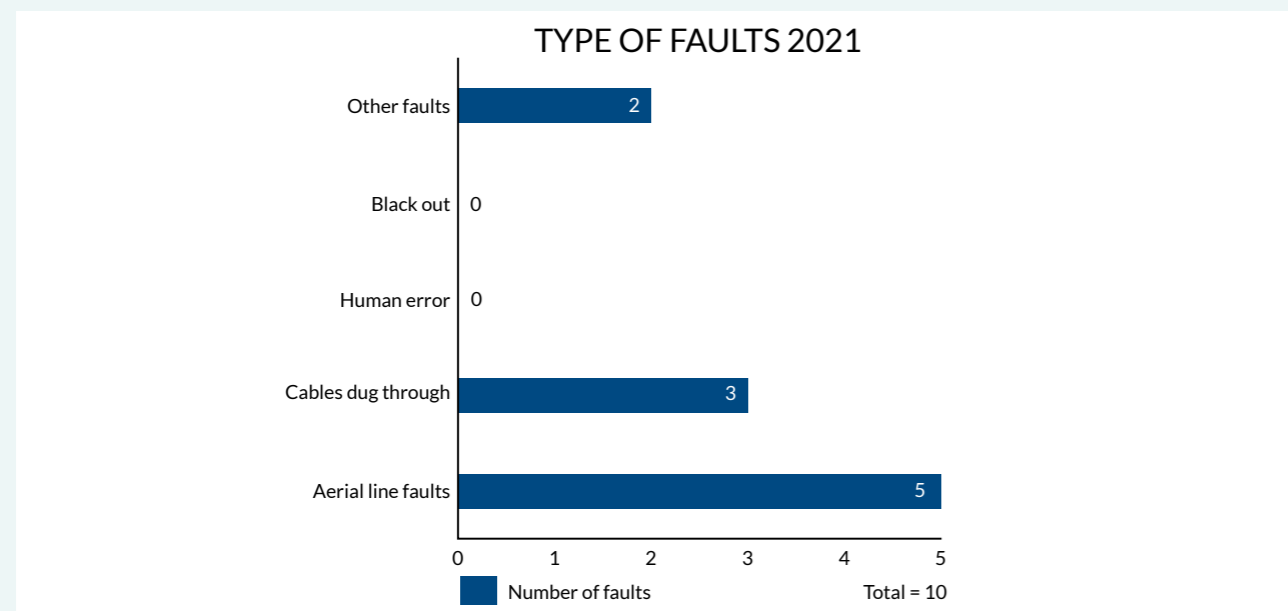


Figure 2: Type of faults 2021



MAINTENANCE

Again in 2021, a good deal of maintenance work was carried out on the grid to ensure a stable and secure supply of power to our customers.

Figure 1 provides an overview of the number of faults over the past years. The Figure shows that the number of faults has declined from 1989 through 2021. Systematic maintenance work, combined with the continued upgrading of the grid, is the reason that SEV today has considerably fewer faults in the high-voltage electricity grid.

FAULTS IN THE HIGH-VOLTAGE GRID IN 2021

In 2021, there were 10 faults in the high-voltage grid. Figure 2 shows what type of fault occurred and where in the system they occurred.

FINANCIAL TRENDS AND OVERVIEW

RESULT

The total result for the Grid Division was DKK 7.4 million in 2021, and DKK 30.3 million in 2020.

INCOME

There are three factors that impact SEV's principal income: changes in electricity prices, changes in overall electricity consumption, and shifts between the various customer price groups from year to year.

Income of the Grid Division is derived from the sale of electricity to commercial, private and public sector customers, including the municipalities. Further, income is derived from fixed fees, connection fees and other service fees from certain customers, etc.

The Company did not increase the price of electricity as of 1 January 2021.

NET SALES

Net sales have now risen to over half billion DKK and sales have hit a new record of 387.6 GWh, corresponding to an increase in sales of 4.6%, compared to 5.7% for the previous year. Thus, there has been major growth both years.

Income from kWh sales and the fixed fees is DKK 563.9 million, compared to DKK 540.9 million, which in the main was due to increased sales to the fishing industry and the aquaculture industry and production and construction activities. Moreover, sales to public offices and private services, churches, religious groups, as well as sales to private family homes, increased. Income from connection fees is DKK 23.5 million, which is DKK 12.3 million higher than the previous year. The income from the fixed fee remained at nearly the same level as the previous year.

DISAGREEMENT ABOUT THE SETTLEMENT OF ACCOUNTS REGARDING ELECTRICITY PRODUCTION TO P/F VINDFELAGIÐ Í HÚSAHAGA

A disagreement arose in 2020 between the Electricity Production Oversight Authority on one side, and P/F Vindfelagið í Húshaga and SEV (Grid Division) on the other side regarding how electricity production shall be calculated.

P/F Vindfelagið í Húshaga and SEV (Grid Division) are agreed that the commercial conditions of the government authorities and the offer submitted in 2012 to the government authorities state that SEV (Grid Division) shall offer P/F Vindfelagið í Húshaga an income assurance of at least 41.4 GWh. This assumes that the wind turbines of the windfarm company are in good technical and operational status.

The Electricity Production Oversight Authority is not in agreement with the windfarm company and SEV (Grid Division). The disagreement came to light in November/December 2018, but has ongoing significance relative to the income implications for the companies. The Table below shows the amounts for the individual years that the disagreement can impact the accounts of the windfarm company, if the view of the Electricity Production Oversight Authority is adopted.

Table 1 below shows that, pursuant to the Electricity Production Oversight Authority, including 2020, SEV (Grid Division) had paid DKK 6.2 million too much in the years 2016-2020 to P/F Vindfelagið í Húshaga. This is money that the windfarm company, pursuant to the Electricity Production Oversight Authority, shall repay to the parent company, SEV (Grid Division).

The original pricing agreement between the parties did not include a detailed description of the income assurance that was set forth in the offer of the government authorities and the tender of the windfarm company. The windfarm company and SEV (Grid Division) have come to an agreement to amend the original pricing agreement and forward it to the Electricity Production Oversight Authority with a request that it approve the newly revised agreement such that the original conditions regarding income assurance in the offer and tender are renewed and adopted. This is the reason that the figures are not booked in the accounts. The new revised pricing agreement was sent to the Electricity Production Oversight Authority on 16 February 2021 with the request that the Authority approve it. The Authority did not agree to the request, and in 2021 ordered the windfarm company to account for the effects shown in Table 2. The windfarm company has booked these adjustments in equity in 2021.

Table 1
DIFFERENCE BETWEEN SETTLEMENT AND THE AUTHORITY'S OPINION IN DKK MILLION

	2016	2017	2018	2019	2020	Total
The Authority's opinion on GWh to settle with P/F Vindfelagið í Húshaga	34.6	38.1	40.7	34.1	31.5	179.0
GWh P/F Vindfelagið í Húshaga has settled with SEV (Grid)	41.4	41.4	40.3	40.5	35.4	199.0
Difference between the Authority's opinion and settlement in GWh	-6.8	-3.3	0.4	-6.4	-3.9	-20.1
Difference between the Authority's opinion and settlement in DKK million	-2.2	-1.1	0.1	-2.2	-1.3	-6.7
Grid loss not subtracted for the years 2016-2019 in DKK million	0.1	0.1	0.2	0.1	0.0	0.5
Difference between Authority and P/F Vindfelagið í Húshaga in DKK million	-2.1	-1.0	0.3	-2.0	-1.3	-6.2

Table 2

EFFECT OF ADJUSTING THE ACCOUNTS ACCORDING TO THE AUTHORITY'S OPINION IN DKK MILLION

	2016	2017	2018	2019	2020	Total
Effect on sales income						
Sales income in the accounts	14.2	13.7	12.7	13.7	12.4	66.6
Sales income in the Authority's opinion	12.1	12.7	13.0	11.6	11.1	60.5
Effect	2.1	1.0	-0.3	2.0	1.3	6.2
Effect on net result						
Net result in the accounts	-0.5	0.4	-0.6	-0.1	-0.4	-1.1
Net result in the Authority's opinion	-2.2	-0.3	-0.4	-1.7	-1.5	-6.2
Effect	-1.7	-0.8	0.2	-1.7	-1.1	-5.1
Effect on inter-company account with parent company						
Inter-company account in the accounts	1.0	3.2	3.2	5.6	5.1	
Inter-company account in the Authority's opinion	-1.1	0.2	0.4	0.7	-1.0	
Effect	-2.1	-3.1	-2.8	-4.8	-6.2	
Effect on equity						
Equity in the accounts	21.5	22.0	21.3	21.3	20.9	
Equity in the Authority's opinion	19.8	19.4	19.1	17.3	15.8	
Effect	-1.7	-2.5	-2.3	-3.9	-5.1	

SEV has appealed the Authority's decision to the Industry Appeals Board and awaits its decision.

For a more detailed discussion of the accounting numbers of P/F Vindfelagið í Húshaga, please refer to the 2021 accounts of the company, which can be found at www.sev.fo.

DISTRIBUTION OF SALES IN THE VARIOUS CUSTOMER GROUPS

Table 3 shows the calculated electricity sales in GWh to the Company's customers. Please refer to the various detailed financial analyses regarding sales in SEV's Consolidated Concern Accounts, available at www.sev.fo.

GROWING ELECTRICITY SALES

For several years in a row, revenue has grown, almost without exception, from increasing

consumption of electricity. Annual changes in electricity consumption are shown in Table 3.

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

Table 3

CUSTOMER SEGMENTS IN GWH

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Change 20-21 GWh	Change 20-21 %
Agriculture, aquaculture, fisheries and other commodities	26.4	29.4	29.2	31.1	36.6	37.9	42.1	56.8	70.6	83.9	89.5	5.6	6.6
Manufacturing, production and construction	44.5	52.5	69.3	76.1	76.5	73.9	85.5	82.2	95.1	96.5	101.0	4.5	4.7
Retail, catering and lodging	22.4	21.6	22.7	24.7	23.1	24.4	24.4	24.9	25.1	25.0	26.9	1.9	7.7
Transport, postal and telecom services	31.8	34.7	25.1	25.7	24.9	25.6	24.3	24.3	24.3	23.6	22.7	-0.9	-3.7
Finance, insurance and other business services	4.2	3.9	4.0	4.0	3.9	3.9	3.6	3.7	3.7	3.5	3.6	0.1	3.2
Public and private services, churches, congregations, etc.	36.8	36.6	37.7	37.3	37.9	40.5	41.5	42.1	44.1	45.5	49.4	3.9	8.6
Street lighting	7.3	6.9	7.4	7.0	7.1	7.0	6.7	6.6	6.4	6.2	5.9	-0.3	-4.3
Residential housing, apartments, holiday homes and boathouses	81.4	75.7	78.9	78.0	78.0	78.1	78.2	79.9	81.2	86.2	88.5	2.2	2.6
Total settlement	254.8	261.3	274.3	283.9	288.0	291.4	306.3	320.5	350.4	370.4	387.6	17.1	4.6
Change in % by year	0.0	2.6	5.0	3.5	1.4	1.2	5.2	4.6	9.3	5.7	4.6		

Table 4

ELECTRICITY SALES AND FIXED FEE BY CUSTOMER SEGMENTS IN DKK MILLION

	2021	2020	Change 21-20	Change 21-20 %
Agriculture, aquaculture, fisheries and other commodities	118.1	110.7	7.4	6.7
Manufacturing, production and construction	138.1	132.2	6.0	4.5
Retail, catering and lodging	40.1	37.3	2.7	7.3
Transport, postal and telecom services	32.9	34.1	-1.2	-3.5
Finance, insurance and other business services	5.3	5.1	0.2	3.1
Public and private services, churches, congregations, etc.	74.3	68.7	5.5	8.1
Street lighting	9.2	9.6	-0.4	-4.1
Residential housing, apartments, holiday homes and boathouses	145.9	143.1	2.8	2.0
Total settlement	563.9	540.9	23.0	4.3

"Public and private services, churches, religious community groups".

In total, sales have increased by 4.6% in 2021, compared to an increase in sales in 2020 of some 5.7%. Thus, on average the last five years have seen a growth in sales of nearly 5.9%, compared to an annual average growth of 2.7% over the previous five years. On average the last ten years some 313 GWh were sold to the customers of the Company. From 2017 through 2021, the growth was 81 GWh, corresponding to 27% of total sales in 2017. Thus, the point is that there has been major growth in sales over the last few years to the customers of the Company.

The growth in GWh sales is also seen in the income derived from the sale of electricity and the fixed fees, which in 2021 increased by DKK 23.0 million or 4.3%. The growth in income is most evident in the customer group, "Agriculture, fish farming, fishing industry, and the raw materials industry", together with the group "Manufacturing, Production and Construction", and the group "Public and private services, churches, religious community groups." See Table 4 below. The income from the connection

Table 5
PRIVATE CONSUMPTION BY ISLAND

	kWt per island 2021	kWt per island 2020	kWt per island 2019	No. of customers 2021	No. of customers 2020	No. of customers 2019	Average per customer 2021	Average per customer 2020	Average per customer 2019
Borðoy	8,230,186	8,344,222	8,058,751	2,138	2,161	2,145	3,849	3,861	3,757
Eysturoy	18,681,562	18,672,895	18,101,953	4,594	4,511	4,472	4,067	4,139	4,048
Fugloy	37,467	38,624	35,103	13	13	13	2,882	2,971	2,700
Hestur	51,670	49,989	51,811	28	27	29	1,845	1,851	1,787
Kalsoy	168,980	163,322	160,243	86	82	85	1,965	1,992	1,885
Koltur	8,646	7,942	8,137	2	2	2	4,323	3,971	4,069
Kunoy	254,612	275,981	279,096	66	71	68	3,858	3,887	4,104
Mykines	69,891	70,114	71,992	42	41	42	1,664	1,710	1,714
Nólsoy	398,465	415,988	392,259	136	142	137	2,930	2,929	2,863
Sandoy	2,267,073	2,241,602	2,122,007	696	712	687	3,257	3,148	3,089
Skúvoy	102,917	81,182	78,916	40	41	43	2,573	1,980	1,835
Streymoy	37,318,717	37,752,402	37,243,087	10,489	10,168	10,113	3,558	3,713	3,683
Suðuroy	7,272,329	7,339,604	7,052,086	2,264	2,287	2,314	3,212	3,209	3,048
Svínoy	47,975	47,742	43,041	23	22	22	2,086	2,170	1,956
Vágoy	5,671,071	5,673,040	5,622,102	1,435	1,423	1,395	3,952	3,987	4,030
Víðoy	933,849	960,164	934,190	225	230	230	4,150	4,175	4,062
Tilsamans	81,515,410	82,134,813	80,254,774	22,277	21,933	21,797	3,659	3,745	3,682

fees for 2021 is much higher than the previous year, DKK 23.5 million in 2021 compared to DKK 11.2 million in 2020, more than double the amount in 2020. Altogether, the net income increased by DKK 40.0 million in 2021, which is a result of increased sales.

DISTRIBUTION OF SALES TO PRIVATE CUSTOMERS BY ISLAND

Table 5 shows the consumption of private customers distributed by island.

As Table 5 shows, the private customers on Koltur have the highest average consumption, while the customers on Streymoy have an average consumption of some 3,558 kWh. The average consumption for all islands is 3,659 kWh.

For more detailed discussions of the data relative to sales, please refer to the Consolidated Concern Accounts of SEV, available at www.sev.fo.

EXPENSES

EXPENSES RELATED TO THE PURCHASE OF ELECTRICITY AND THE UNIVERSAL SERVICE OBLIGATION

Expenses in 2021 were DKK 583.0 million, of which DKK 418.8 million related to the purchase of electricity and the universal service obligation.

MANAGEMENT OF THE ELECTRICAL SYSTEM AND THE UNIVERSAL SERVICE OBLIGATION

The total expenses of the Company include the costs for the production of electric power and the costs related to the management of the electrical system and costs related to the universal service obligation.

Total expenses can be subdivided into the expenses for the management and control of available power, rolling power, reactive power, and high-voltage and frequency management. The electricity production plants sell their power production 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.

The Company is presently engaged in the re-evaluation the costs associated with the management of the electrical system and the universal service obligation. The ultimate decision will depend on whether these costs are higher than the costs currently booked in the accounts.

EXPENSES ASSOCIATED WITH MANAGEMENT OF THE ELECTRICAL SYSTEM

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

The cost of managing the central power grid is DKK 6.5 million, which comprises operating expenses, wages, and depreciation. The cost of managing the Suðuroy power grid is DKK 2.3 million.

EXPENSES ASSOCIATED WITH THE UNIVERSAL SERVICE OBLIGATION

The expenses related to SEV's power supply guarantee, rolling power and its power reserve are estimated to be 5.0% of total operational expenses, including depreciation of the Sund and Vágs power plants, which equals DKK 12.7 million and DKK 2.0 million, respectively. This reflects a "best estimate" calculation of expenses.

The cost of the universal service obligation around the country is otherwise 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 electricity power plant at Strond receives reimbursement for employee expenses and supplies relative to the thermal production of electricity in return for a supply guarantee. The remaining costs are recovered via a purchase of production for resale agreement.

TOTAL EXPENSES ASSOCIATED WITH THE MANAGEMENT OF THE ELECTRICAL SYSTEM AND THE UNIVERSAL SERVICE AGREEMENT

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

WAGE EXPENSES DKK 3.2 MILLION HIGHER

SEV relies on a variety of technical expertise and complies with the various public wage agreements specific to these areas of expertise. In 2021, total employee expenses were DKK 46.5 million, against DKK 43.3 million in 2020, including administration, corresponding to an increase in expense of some DKK 3.2 million.

Employee expenses for power grid activities in 2021 were DKK 30.0 million, compared to DKK 26.1 million in 2020, representing an increase of DKK 3.9 million, while employee expenses for administration were DKK 16.5 million in 2021, against DKK 17.2 million in 2020, corresponding to a reduction of DKK 0.7 million, when harmonization of pension reserves is included, equalling DKK 0.7 million.

Harmonization of pension reserves aside, employee expenses for administration in 2021 were DKK 17.2 million, compared to DKK 15.8 million for 2020, which is DKK 1.4 million greater than the previous year.

GOODS AND SERVICES DKK 0.5 MILLION LOWER

In 2021, total expenses for supplies and services were DKK 33.3 million, compared to DKK 33.8 million in 2020, and thus are DKK 0.5 million lower in 2021 than in 2020. The expenses can be subdivided into grid activities and administration.

GRID ACTIVITIES

In 2021, expenses for supplies and services related to power grid activities were DKK 14.6 million, compared to DKK 12.3 million in 2020, corresponding to an increase of DKK 2.3 million.

ADMINISTRATION

Expenses for goods and services for administration in 2021 were DKK 18.7 million, compared to DKK 21.5 million in 2020, which reflects a decrease of DKK 2.8 million.

Please refer to the various detailed financial analyses regarding expenses for goods and services in SEV's Consolidated Group Accounts, available at www.sev.fo.

FINANCIAL EXPENSES

Interest expense was DKK 16.2 million in 2021, compared to DKK 23.3 million in 2020, corresponding to lower financial expenses of DKK 7.1 million. Within the total amount of DKK 16.2 million is included capital losses of DKK 1.8 million from SEV's subsidiary companies.

At present, the Company has a total long-term gross debt of DKK 1,593 million at a fixed rate of interest based on loan facilities bearing a fixed rate of interest and an interest rate hedge agreement. More information regarding these financial expenses can be found in SEV's Consolidated Concern Accounts, available at www.sev.fo.

DEPRECIATION

In 2021, depreciation was DKK 57.7 million, compared to DKK 49.1 million in 2020, of which DKK 49.3 million is derived from power grid activities and DKK 8.4 million from administration.

INVESTMENT

Investment in sub-stations and the grid was in total DKK 145.8 million in 2021, compared to DKK 178.2 million in 2020, as shown in Table 6.

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

Table 6
INVESTMENTS, DKK MILLION

	2021	2020
Sub-stations	64.7	51.5
Grid	67.7	101.0
Administration building, tools, and IT equipment	13.4	25.7
Total	145.8	178.2

Table 7
INVESTMENTS, DKK MILLION

	2021	2020
Investment booked as work-in-progress	119.7	163.7
Investment booked directly as transition	26.1	14.6
Investments at year-end	145.8	178.2

Table 8
WORK-IN-PROGRESS, DKK MILLION

	2021	2020
Opening balance	165.0	140.8
Investment booked to work-in-progress	119.7	163.7
Work transferred to fixed assets	-152.5	-139.5
Closing balance	132.2	165.0
Changes to work-in-progress	-32.8	24.1

Table 9
TRANSFER TO FIXED ASSETS, DKK MILLION

	2021	2020
Work transferred to fixed assets	152.5	139.5
Investments booked directly to fixed assets	26.1	14.6
Transfers at year-end	178.7	154.1

Table 10
LARGEST INVESTMENTS IN SUB-STATIONS AND GRID, DKK MILLION

	2021
Synchronous compensator Porkerishálsur	17.6
Battery system Porkerishálsur	15.3
20 kV cable Vágoy sub-sea tunnel	12.1
60 and 20 kV cable Sandoy sub-sea tunnel	11.6
Sub-station Porkerishálsur	11.2
10 and 20 kV cable Vágur - Tvøroyri	8.1
60 and 20 kV cable Gamlarætt	5.4
Main area control room	5.3
Sub-station Vestmanna	4.4
Synchronous compensator and battery Sund	3.6
Total	94.4

Table 11
LARGEST TRANSFERS TO FIXED ASSETS, DKK MILLION

	2021
Sub-station Vestmanna	59.4
60 and 10 kV cable Klaksvik - Strond	29.2
20 kV cable Vágoy sub-sea tunnel	12.1
60 kV cable Northern Isles sub-sea tunnel	11.3
Main area control room	5.3
Total	117.4

Major investment was made in the grid, sub-stations, buildings and other items related to the grid over the past several years and in 2021, and significant investment lies ahead as well. The focus is especially on ensuring that the grid is stable and secure and shall continually be strengthened to make it possible for SEV to receive more wind energy and to provide the power that its customers demand.

Considerable investment has been carried out over the last few years relative to new sub-stations and 2021 was no exception. These stations are critical to ensure that electric energy is distributed to each and every locale in the country. Altogether, investment in the sub-stations equalled DKK 64.7

million, while investment in the grid equalled DKK 67.7 million.

SEV is also underway to install a new sub-station in Vestmanna. This sub-station will replace the old station, which now is no longer serviceable. Work on this project began at the end of 2018 and the station was completed in 2021.

In addition to the investments in the sub-stations, major investment was undertaken relative to the laying of cables, especially in connection with the renovation of the tunnels in the country.

Please refer to the various detailed financial analyses regarding investments in SEV's Consolidated Concern Accounts, available at www.sev.fo.

LIQUIDITY

Liquidity has not been divided between production and the grid; a transfer pricing current account between the divisions has been utilized. Thus, the liquidity of the Production Division is set to DKK 0.00 million, while all the activities of the power plants are financed by payment from the power Grid Division, thereby securing the necessary liquidity. The same is applicable to the windfarm subsidiaries, which are also financed by payments from the Grid Division.

SEV's cash-on-hand at year end was DKK 144.2 million, compared to DKK 223.9 million in 2020. In addition, the Company has available unused drawing rights and lines of credit at the financial institutions equalling DKK 420.0 million.

Thus, cash-on-hand, the credit facilities, and the unused drawing rights equalled DKK 564.2 million in 2021, compared to DKK 526.6 million in 2020. The largest portion of the unused drawing rights shall be used to finance the investments planned in the coming years. It is deemed necessary to have sufficient liquidity to cover daily operations of the Company. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets.

The purpose of maintaining appropriate liquidity is to ensure that SEV always has sufficient funds to

pay for the purchase of oil and the costs associated with any damage at one of the production plants or in the grid. Furthermore, it is deemed necessary to have sufficient liquidity to cover daily operations of the power plants and the grid. Additionally, it is considered advisable to maintain adequate liquidity, given the instability of the global financial markets. Further details on the Company's liquidity are available in the Consolidated Annual Accounts available on the Company's website, www.sev.fo.

RISK ASSESSMENT

The risks of the Company can be divided into different groups. Further details on the Company's overall risk assessments are available in the Consolidated Annual Accounts available on the Company's website, www.sev.fo.

PROSPECTS FOR OPERATIONAL YEAR 2022

The result before taxes for 2022 is a budgeted profit of around DKK 20 million, based on the submitted budget for 2022 and after an evaluation of the distribution of the result compared to the requirements of share equity.

It is projected that the Company's private customers will realize an increase in demand of some 2.5% in 2022. The other customer groups will experience an increase of between 2% and 5%. However, it is projected that the demand of the customer group "Stores, restaurants and hotels" will increase by 10%. For 2022, it is budgeted that there will be a decline in demand from the customer group, "street lights" of some 3%.

Based on sales in 2020 and partially on sales in 2021, sales in 2022 are budgeted to be around 406 GWh, yielding a net revenue of DKK 587 million. This suggests an increase in net revenue of around DKK 10 million.

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

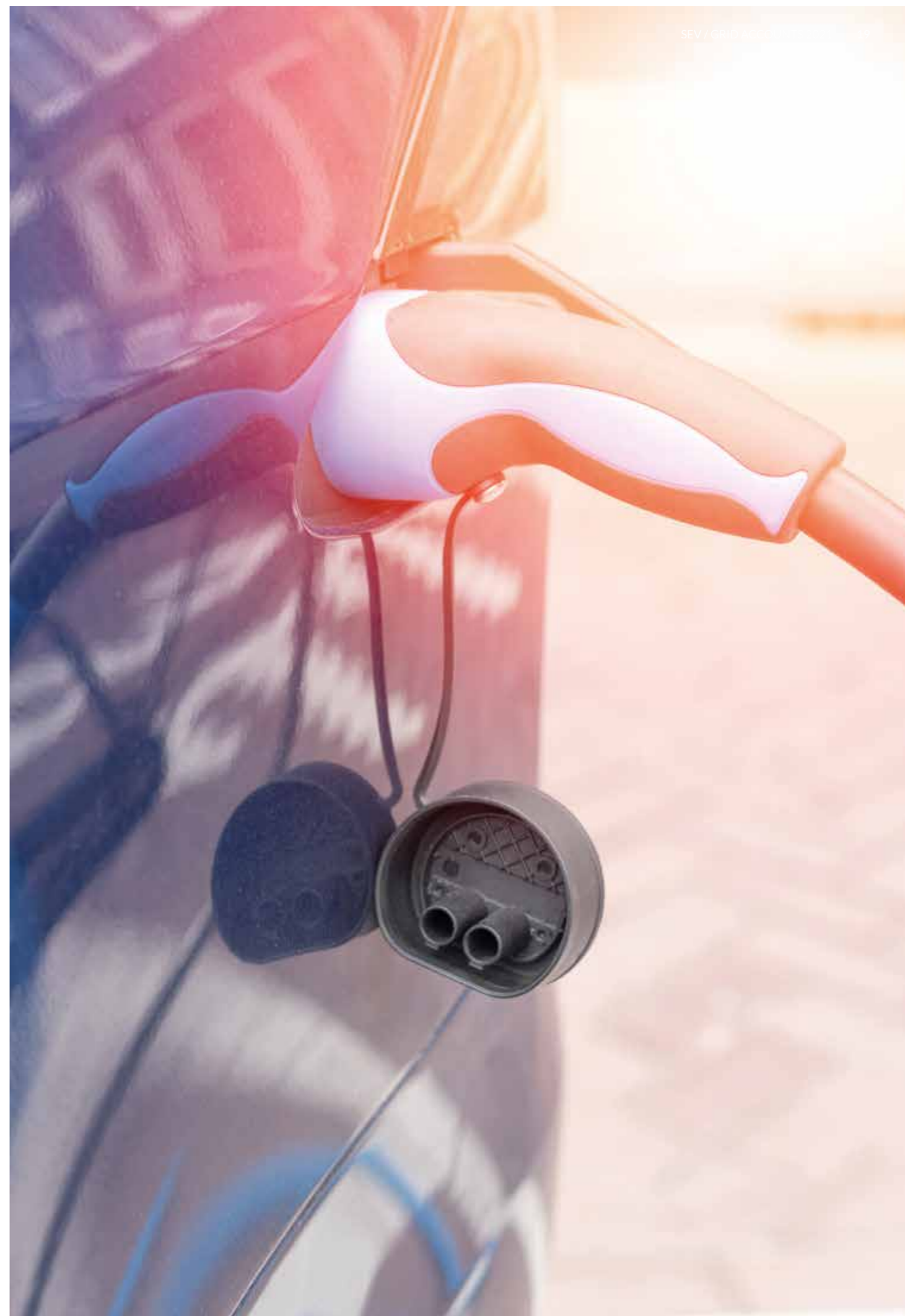
Operational expenses are estimated to be DKK 85 million in 2022, compared to DKK 76.0 million in 2021, corresponding to a higher expenditure of DKK 9.0 million. Budgeted depreciation is set at DKK 64 million and interest expense is budgeted at DKK 40 million. Depreciation and interest expenses reflect the increased investment undertaken by the Company and the loan facilities to finance this investment.

With an estimated profit in 2022 that, all things considered, is deemed satisfactory, the operational share for the Grid Division will provide sufficient self-financing for investment. It is critical to earn a satisfactory result and thus have sufficient self-financing from operations to help finance the upcoming investment in sub-stations and ongoing maintenance of the existing grid plus the requisite investment in enhancements of the grid that are needed to ensure that the grid is able to accept a growing amount of electricity generated by renewable power resources and distribute further this electricity to the Company's customers.

Further details regarding 2022 can be found in the Operations, Financial and Investment Budget for 2022 found on the Company's website, www.sev.fo.

EVENTS AFTER THE CLOSING OF THE ACCOUNTS

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



Accounting Principles

GENERAL

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

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

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

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

BASIS FOR RECOGNITION AND VALUATIONS

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

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

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

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

TRANSLATION OF FOREIGN CURRENCY

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

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

INCOME STATEMENT

NET SALES

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

CONSUMPTION OF MATERIALS AND SERVICES

Consumption of materials and services includes costs for the purchase of raw materials and consumables, less rebates and changes in inventory during the year.

OTHER EXTERNAL EXPENSES

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

SYSTEM SERVICES AND DISTRIBUTION OF INCOME

The cost of electricity production can be divided into actual production cost, and the cost of system services. System services include the planning and control of available generating power, spinning reserve, reactive reserve, regulating power and regulating frequency. The cost for the system services is an estimated share of the total operating cost of the Sund and Vágur power plants.

The cost for system services elsewhere in the country is based on the cost of operating the smaller power plants. Their operating cost for materials and wages are reimbursed as system services cost, the remaining cost as production cost. The Strond power plant is reimbursed for the materials and wages related to the thermal production as system services cost, and the remaining cost as production cost.

The income of the smaller power plants is equal to their total cost, and in addition they receive as income a percentage of their equity at the beginning of the year. This percentage is based on the yield of long-term bonds and the cost of maintaining assets.

GRID CONTROL

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

DISTRIBUTION OF INCOME

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

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

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

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

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

EMPLOYEE EXPENSES

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

DEPRECIATION AND WRITE-DOWNS

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

FINANCIALS

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

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

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

RESULTS FROM EQUITY IN SUBSIDIARIES

After full elimination of intercompany profit, the equity investment in the group enterprise is recognised in the profit and loss account at a proportional share of the group enterprise's results after tax.

BALANCE SHEET**TANGIBLE ASSETS**

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

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

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

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

	Useful life years	Residual value
Distribution plant	10-50	0%
Buildings	50	0%
Production equipment, furnishings	3-5	0%

Equipment with an expected useful life under one year is expensed in the year of acquisition.

DEPRECIATION OF FIXED ASSETS

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

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

The recoverable amount is either the net realisable or sale value or the capital value. Capital value is calculated as the current value of the expected net revenues accruing from using an asset or asset group.

FINANCIAL ASSETS**CAPITAL INVESTMENT IN ASSOCIATED COMPANIES**

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

INVENTORY

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

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

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

RECEIVABLES

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

PREPAYMENTS

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

CASH-ON-HAND

Cash-on-hand includes cash-on-hand and short-term (under 3 months) securities that could be

readily converted to cash and where there is an insignificant risk for changes in valuation.

CURRENT AND DEFERRED TAXES

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

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

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

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

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

OTHER PROVISIONS

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The Company holds no trading derivatives.

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

CASH FLOW HEDGES

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

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

LIABILITIES

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

Debt to financial institutions is valued at amortised realised value, which corresponds to the residual debt of a cash loan. Regarding the value of bonds,

the amortised realised value is calculated as the cash value on the date the bond was issued, adjusted by the booked depreciation during the instalment period of the effective rate of interest at the time of contracting such debt.

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

CASH FLOW STATEMENT

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

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

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

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

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

Income Statement 1 January – 31 December

Amounts in 1,000 DKK

Note	2021	2020
1		
Net turnover	590,385	553,407
Electricity purchased	-395,505	-346,502
Wind and biogas power purchased	-10,191	-3,805
Power sold to Production Division (own consumption)	8,795	11,743
System services	-21,899	-23,070
2		
Cost of oil	0	-169
3		
Materials and services	-33,270	-33,818
Gross earnings	138,316	157,785
4		
Wages	-46,541	-43,301
EBITDA	91,775	114,484
Depreciation and amortisation of fixed assets	-57,731	-49,133
Result before financials	34,044	65,351
5		
Financial expenses	-16,171	-23,290
Result before tax	17,873	42,061
6		
Tax on annual result	-10,452	-11,779
Annual result	7,421	30,283
Proposed distribution of results:		
Result brought forward	9,271	31,839
Reserve for net revaluation as per the equity method	-1,849	-1,557
Total distribution	7,421	30,283

Balance Sheet 31 December

ASSETS in 1,000 DKK

Note	2021	2020
Tangible fixed assets		
7, 19 Transmission and distribution grid	896,144	790,346
7 Buildings and land	84,346	79,709
7 Operating equipment	49,419	38,929
7 Investment work-in-progress	132,171	164,980
Total tangible fixed assets	1,162,081	1,073,964
Financial assets		
8 Investment in subsidiary companies	25,931	30,250
9 Investment in associated company	2,750	2,750
10 Loans to subsidiary companies	60,998	69,809
11 Derivatives	49,279	14,989
Total financial assets	138,959	117,798
Total fixed assets	1,301,039	1,191,762
Current assets		
Inventory	25,399	17,087
Total inventory	25,399	17,087
12 Materials and services debtors	121,927	109,222
Inter-company account	61,648	163,909
Prepayments	11,517	16,264
Total receivables	195,092	289,395
Cash-on-hand	144,182	223,854
Total current assets	364,673	530,336
Total assets	1,665,712	1,722,098

Balance Sheet 31 December

LIABILITIES in 1,000 DKK

Note	2021	2020
Equity		
13 Deposits	4,140	4,140
Hedge reserve	13,358	-42,170
Reserve for revaluation as per the equity method	0	1,250
Results carried forward	612,657	600,276
Total equity	630,155	563,496
Provisions		
Provisions for pensions and equivalent liabilities	19,406	20,155
Other provisions	30,217	2,734
Total provisions	49,623	22,890
Debt		
14 Long-term debt	816,783	974,702
Total long-term debt	816,783	974,702
14 Current portion of long-term debt	982	870
Bank debt	649	0
Prepayments received from customers	175	1,239
Trade creditors	26,148	47,415
Inter-company account	84,873	0
11 Derivatives	32,839	91,020
Other creditors	23,485	20,467
Total short-term debt	169,151	161,011
Total debt	985,934	1,135,713
Total liabilities	1,665,712	1,722,098
15 Grid result by area		
16 Grid overview		
17 Mortgages and other liabilities		

Cash Flow Statement

Note	Amounts in 1,000 DKK	2021	2020
	Annual result	7,421	30,283
18	Adjustments	84,354	80,498
Changes in working capital:			
	Inventory	-8,312	4,782
	Receivables	23,333	-39,853
	Trade creditors	-21,267	13,174
	Inter-company account - Production	188,995	-50,047
	Other operating debt	-30,087	31,075
	Operations cash flow before financials	244,437	69,912
	Interest expense paid and equivalent expenses	-14,322	-21,733
	Adjustment for non-cash items in interest expense	-4,802	6,039
	Cash flow from operations	225,313	54,218
	Purchase of tangible fixed assets	-178,656	-154,079
	Changes to work-in-progress	32,809	-24,139
	Cash flow from investment	-141,528	-174,514
	Net loan facilities	-173,027	210,415
	Interest accrual	760	-7
	Repayments of long-term debt	8,811	8,619
	Increased draw on credit facility	0	0
	Cash flow from financing	-163,456	219,027
	Total cash flow during the year	-79,672	98,731
	Opening cash-on-hand	223,854	125,123
	Closing cash-on-hand	144,182	223,854



Grid Accounts 2021

Notes



Note 1

1. NET SALES

Amounts in 1,000 DKK	2021	2020
kWh charges etc.	546,036	522,833
Fixed charges	17,956	18,039
Connection fees	23,472	11,187
Other charges, past due charges and other sales	2,922	1,348
Total	590,385	553,407

Since 2011, SEV has published independent accounts for the Production Division and the Grid Division. In this regard, the Company determined to calculate earnings for the Production Division in the same manner as demanded for wind power tenders. Thus, this calculation of earnings affords an accurate picture of production operations, compared to the requirement for a profit and an adequate return on assets of the Production Division. For the Production Division, this means that it shall always cover all of its costs, including its portion of the costs related to management of the grid and SEV's universal service obligation. In addition, the Production Division shall derive a profit corresponding to around 5% of opening balance equity. Calculated profit for 2021 was DKK 40.5 million, corresponding to 5.0% of the Production Division's opening balance equity. SEV believes this is a reasonable profit at present, compared to inflation and other investment possibilities. The total result for the Production Division was DKK 35.0 million, which reflects the requirement for self-financing.

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

When infrastructure investment is needed, a portion of the investment required shall be self-funded, thus negating that the entire investment be financed by a loan facility. SEV has determined that self-financing of some 25% is sufficient and the Production and Grid accounts for 2016-2021 reflect this expectation. The level of self-financing required is based on the budgeted investments in the Production and Grid Divisions. Hitherto, the Company has maintained a high equity ratio, but in step with decreasing equity ratios, the requirement is for increasing self-financing from 25% to 42.5%, which

is the internal target for long-term equity ratio. The equity ratio required by loan agreements is 35% (previously 37.5%).

The level shall be viewed in the context of budgeted investment for a rolling 5-year period. SEV's 2021 budget projects investment for 2021-2025 for the Production Division to be DKK 1,188 million, equalling on average some DKK 238 million annually. The self-financing projected for 2021 is budgeted to be DKK 59 million. For the Grid Division, projected investment is set at DKK 747 million, of which self-financing equals DKK 37 million for 2021. It is advisable that self-financing is of a sufficient amount and this can be realized only from an operational profit.

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

For the Grid Division, this means that the annual result shall be adjusted such that the profit is equal to the expenses incurred by the Grid Division plus a self-financing requirement of 25% of the annual average investment in the grid over the next five years. Distribution of profit between the Production Division and the Grid Division in previous years was based on an allocation to the Production Division that ensured that all costs were covered, including costs for its respective portion of grid administration and the grid's universal service obligation plus a 5% return on opening balance equity.

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

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

Notes 2-5

2. OIL EXPENSES

Amounts in 1,000 DKK	2021	2020
Gas oil	0	169
Total	0	169

3. MATERIALS AND SERVICES

Amounts in 1,000 DKK	2021	2020
Cables and lines	4,101	3,516
Dams, pipes and tunnels	0	2
Tanks and environment	86	116
Motors	0	0
Electric and technical	19	252
Buildings and land	1,793	1,785
Annual Meeting and Board	192	149
Studies and consultancy	4,827	2,325
IT	7,427	7,645
Management and office expenses	874	2,263
Loss on receivables	344	1,237
Other operating expenses	2,612	372
Other administrative expenses	10,995	14,156
Total	33,270	33,818

4. EMPLOYEE EXPENSES

Amounts in 1,000 DKK	2021	2020
Wages	38,770	36,341
Pensions	5,582	4,915
Contributions	2,188	2,045
Total	46,541	43,301
Number of employees	100	97
Full-time equivalent	108	102

5. FINANCIAL EXPENSES

Amounts in 1,000 DKK	2021	2020
Result from subsidiary companies	1,849	1,557
Interest, loans and bank loans etc,	17,790	17,989
Establishment fees, commissions	2,184	2,710
Unrealised exchange rate gains and losses	15,108	-19,644
Unrealised adjustments on derivatives	-22,862	21,636
Other interest expenses	2,103	-957
Total	16,171	23,290

Notes 6-7

6. TAXES ON ANNUAL RESULT

Amounts in 1,000 DKK	2021	2020
Adjustment of deferred tax	-10,452	-11,779
Tax for the year according to P&L	-10,452	-11,779
Deferred tax liability 1 January	-2,734	-1,419
Adjustment to deferred tax from P&L	-10,452	-11,779
Adjustment of deferred tax on derivatives direct in equity	-17,031	10,463
Deferred tax liability 31 December	-30,217	-2,734

7. TANGIBLE FIXED ASSETS

Amounts in 1,000 DKK	Grid	Buildings	Equipment	Total 2021	2020
Acquisition value, opening balance	1,381,782	118,718	212,622	1,713,122	1,568,110
Additions during the year	144,947	7,574	26,134	178,656	155,811
Disposals during the year	0	0	-1,353	-1,353	-1,732
Acquisition value year-end	1,526,729	126,292	237,403	1,890,425	1,722,189
Depreciation opening balance	-591,436	-39,009	-173,693	-804,138	-764,072
Depreciation during the year	-39,149	-2,937	-15,645	-57,731	-50,866
Depreciation reversed on disposals	0	0	1,353	1,353	1,732
Depreciation closing balance	-630,585	-41,946	-187,984	-860,515	-813,205
Book value year-end	896,144	84,346	49,419	1,029,910	908,984
Book value year-end 2020	790,346	79,709	38,929	908,984	
Work-in-progress					
Work-in-progress opening balance	158,419	0	6,561	164,980	140,841
Investment booked to work-in-progress	87,394	16,910	15,403	119,707	163,660
Completed work transferred to depreciation	-137,596	-614	-14,306	-152,516	-139,521
Closing balance	108,217	16,296	7,658	132,171	164,980
Balance at year-end 2020	158,419	0	6,561	164,980	
Fixed assets at year-end	1,004,361	100,642	57,077	1,162,081	1,073,964
Fixed assets at year-end 2020	948,765	79,709	45,490	1,073,964	

Notes 8-10

8. INVESTMENTS IN SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	31.12.21	31.12.20
Acquisition value opening balance	29,000	29,000
Acquisition value closing balance	29,000	29,000
Subsidiary companies' result opening balance	1,250	4,954
Result from subsidiary companies	-1,849	-1,557
Adjustment derivatives in equity	2,597	-2,147
Subsidiary companies' result closing balance	-3,069	1,250
Carrying amount year-end	25,931	30,250

SUBSIDIARY COMPANIES:

Amounts in 1,000 DKK	Share	Equity	Annual result	Book value
P/F Vindfelagið í Húsahaga	100%	14,317	-1,483	14,317
P/F Vindfelagið í Neshaga	100%	11,614	-366	11,614

9. INVESTMENT IN ASSOCIATED COMPANY

Amounts in 1,000 DKK	31.12.21	31.12.20
Carrying amount start-of-year	2,750	2,750
Carrying amount year-end	2,750	2,750

ASSOCIATED COMPANY:

Amounts in 1,000 DKK	Share	Equity	Annual result	Book value
P/F Fjarhitafelagið, Tórshavn	50%	60,999	-1,949	2,750

The financial statement for P/F Fjarhitafelagið for the year 2021 is not available. The numbers shown are from 2020.

10. LOANS TO SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	Maturity	Loan amount	Balance 31.12.21	Repayment next year	Balance in 5 years
P/F Vindfelagið í Húsahaga	12 years	75,000	46,136	6,164	13,915
P/F Vindfelagið í Neshaga	10 years	28,175	14,862	2,843	0
Total		103,175	60,998	9,007	13,915

Notes 11–13

11. DERIVATIVES

Amounts in 1,000 DKK	Assets 31.12.21	Liabilities 31.12.21	Total 31.12.21	31.12.20
Oil-price hedge	40,438	0	40,438	-17,318
Currency hedge	3,948	-6,203	-2,255	-35,879
Interest rate hedge	4,894	-26,636	-21,743	-22,833
Total	49,279	-32,839	16,440	-76,030

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

12. MATERIALS AND SERVICES DEBTORS

Amounts in 1,000 DKK	31.12.21	31.12.20
Goods and services debtors	121,358	110,044
Other debtors	4,165	2,515
Receivables write-down	-3,596	-3,338
Total	121,927	109,222

13. EQUITY

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.20 - 31.12.20					
Balance 01.01.20	4,140	-21,240	4,954	568,436	556,291
Adjustment to derivatives	0	-31,394	-2,147	0	-33,541
Deferred tax	0	10,463	0	0	10,463
Result from subsidiary companies	0	0	-1,557	1,557	0
Annual result	0	0	0	30,283	30,283
Balance 31.12.20	4,140	-42,170	1,250	600,276	563,496
Equity statement 01.01.21 - 31.12.21					
Balance 01.01.21	4,140	-42,170	1,250	600,276	563,496
Adjustment to prior years' result	0	0	-5,066	6,179	1,113
Adjustment to derivatives	0	72,560	2,597	0	75,157
Deferred tax	0	-17,031	0	0	-17,031
Result from subsidiary companies	0	0	-1,849	1,849	0
Transfer adjustment reserve to result	0	0	3,069	-3,069	0
Annual result	0	0	0	7,421	7,421
Balance 31.12.21	4,140	13,358	0	612,657	630,155

Notes 14–15

14. LONG-TERM DEBT

Amounts in 1,000 DKK	Accrued interest	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.21	Total debt 31.12.20
Debt to financial institutions	982	0	816,783	816,783	974,702
Total	982	0	816,783	816,783	974,702

There are no repayments in the next financial year, and the average maturity is 5.3 years.

15. GRID RESULT BY DEPARTMENT

Amounts in 1,000 DKK	Revenue	Oil	Materials	Wages	Deprecia- tion	Interest	Taxes	Total
Sub-stations	-1,639	0	-1,084	-11	-13,445	0	0	-16,179
Distribution grid	-1,080	0	-9,533	-17,565	-29,014	0	0	-57,193
Installations	3,900	0	-1,943	-5,972	-3,595	0	0	-7,610
Engineering	45	0	-1,525	-4,495	-3,123	0	0	-9,098
Technical	120	0	-468	-2,002	-174	0	0	-2,524
Grid without administration	1,346	0	-14,554	-30,044	-49,351	0	0	-92,603
Administration	170,239	0	-18,716	-16,497	-8,380	-16,171	-10,452	100,024
Grid result	171,586	0	-33,270	-46,541	-57,731	-16,171	-10,452	7,421

Note 16

16. GRID ASSETS

	Fugloy	Svínoy	Víðoy	Borðoy	Kunoy	Kalsoy	Eysturoy	Vágoy	Streymoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suburoy	Total
TRANSFORMER STATIONS																		
6 kV	1			1														2 pcs
10 kV		1	9	45	4	8			88		1			25			57	238 pcs
20 kV				3			143	38	113				1				18	316 pcs
60 kV				2			4		6									12 pcs
Total	1	1	9	51	4	8	147	38	207		1		1	25			75	568 pcs
TRANSFORMERS																		
6 kV	2			2														4 pcs
10 kV		1	13	65	4	8			107		1			31			80	310 pcs
20 kV				4			192	59	150				1	3			25	434 pcs
60 kV				4			7		18									29 pcs
Total	2	1	13	75	4	8	199	59	275		1		1	34			105	777 pcs
CABLE CABINETS																		
0,4 kV	15	26	87	530	32	34	1,694	563	2,520	7	41		10	232	11	1	896	6,699 pcs
AERIAL LINES AND CABLE																		
60 kV line				1,1			37,8		37,8									76,7 km
60 kV cable				20,2			42,2		44,7								11,3	118,4 km
20 kV line							32,2	0,6	46,7								9,6	89,1 km
20 kV cable				9,9			257,7	58,5	187,5				0,6	0,6			64,8	579,5 km
10 kV line		3,1	10,0	11,0	5,4	0,3			1,1								12,5	43,4 km
10 kV cable		0,6	21,5	48,8	6,4	17,8			103,5	1,6				50,7			87,5	338,3 km
6 kV line	2,2			6,2														8,4 km
6 kV cable	0,2			0,0														0,2 km
0,4 kV line																		0,0 km
0,4k V cable	1,1	4,3	11,9	67,1	3,5	3,9	227,8	70,0	324,2	0,5	3,7	0,4	0,9	31,6	0,9	0,1	108,3	860,1 km
METERS																		
Digital meters	64	83	297	2,707	99	136	5,913	1,776	12,265	57	182	4	43	876	54	6	2,994	27,556 pcs.
Manual meters	0	0	0	4	0	0	1	1	8	0	0	0	0	1	0	0	4	19 pcs
Total	64	83	297	2,711	99	136	5,914	1,777	12,273	57	182	4	43	877	54	6	2,998	27,575 pcs
Change 2021	0	3	5	97	10	3	270	94	835	0	5	0	0	31	0	1	46	1,400 pcs

Notes 17-19

17. MORTGAGES AND OTHER OBLIGATIONS

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

18. ADJUSTMENTS

Amounts in 1,000 DKK	2021	2020
Result from subsidiary companies	1,849	0
Interest expenses and equivalent expenses	19,125	19,741
Unrealized interest expenses	-4,802	1,992
Depreciation	57,731	49,133
Adjustment derivatives in subsidiary over financial fixed asset and equity	0	-2,147
Tax	10,452	11,779
Total	84,354	80,498

19. SPECIFICATION OF FIXED ASSETS INCLUDED IN GRID

Amounts in 1,000 DKK	2021	2020
Sub-stations	354,308	298,025
Transmission and distribution grid	541,837	492,321
Total	896,144	790,346



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