



Five green energy sources on the grid in 2020

Elfelagið SEV Grid Accounts 2020





Management Report

The Board of Directors and Management hereby submit SEV's Grid Annual Report and Accounts for fiscal year 1 January - 31 December 2020. 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 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 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 2020, 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 2020, which we have audited.

In our opinion, the grid accounts for Eifelagið 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 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, 19 March 2021

P/F JANUAR

State Authorised Public Accountants

Hans Laksá
State Auth. Auditor

Jógvan Amonsson
State Auth. Auditor

Key Figures

Amounts in 1,000 DKK	2020	2019	2018	2017	2016
Income Statement					
Net sales	553,407	511,096	429,648	434,900	421,436
EBITDA	114,484	107,697	102,611	90,602	90,739
Result before financial items	65,351	43,291	61,696	55,684	56,661
Financial items	-23,290	-19,977	-24,102	-21,348	-35,106
Annual result	30,283	30,247	28,625	33,302	12,351
Balance Sheet					
Total assets	1,722,098	1,458,891	1,601,382	1,337,184	1,295,072
Equity	563,496	556,291	451,323	449,456	449,734

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 its customers 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 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 2020 to 31 December 2020.

DISTRIBUTION OF OPERATIONAL PROFIT

The Production Division shall have all of its operational costs, 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 [Landsverk], and Faroese Telecom [Føroya Tele].

In 2020, the Company erected several new 10 and 20 kV transformer stations in different regions around the country. Also the 60 kV station at Vestmanna is being refurbished and this work is expected to be completed in the first quarter of 2021. An additional new 20 kV station was added alongside the old sub-station at Sund while at the same time a new 60 kV transformer station was erected and taken into service in association with the new Station 3 at Sund. 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 expected to be completed at the end of 2021.

Figure 1: Faults per year 1989 - 2020

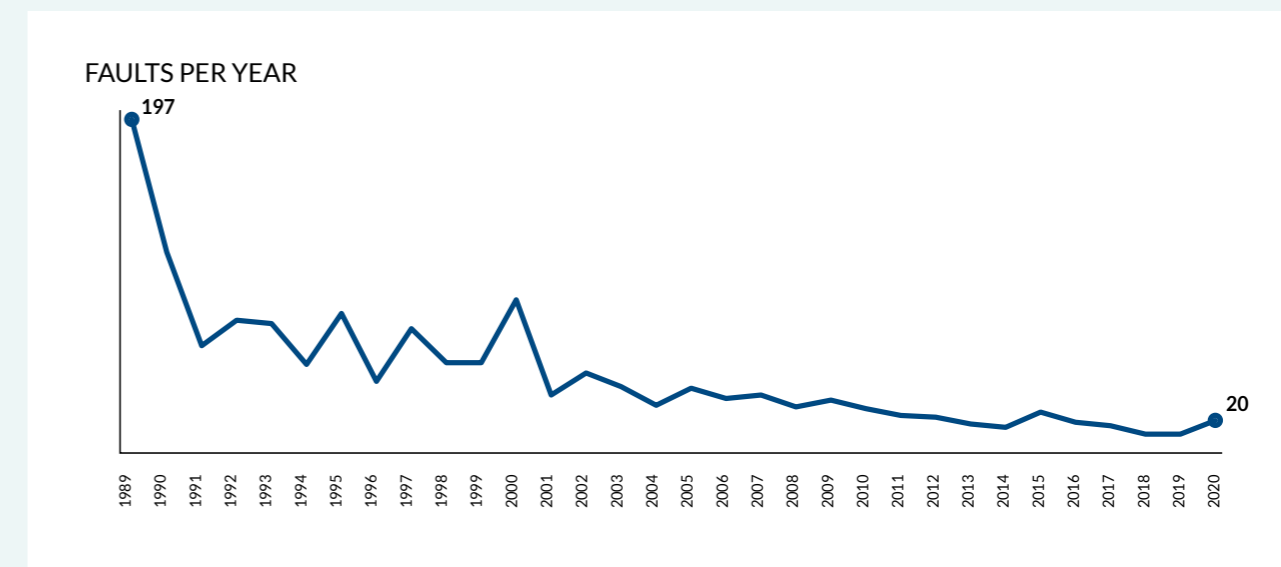
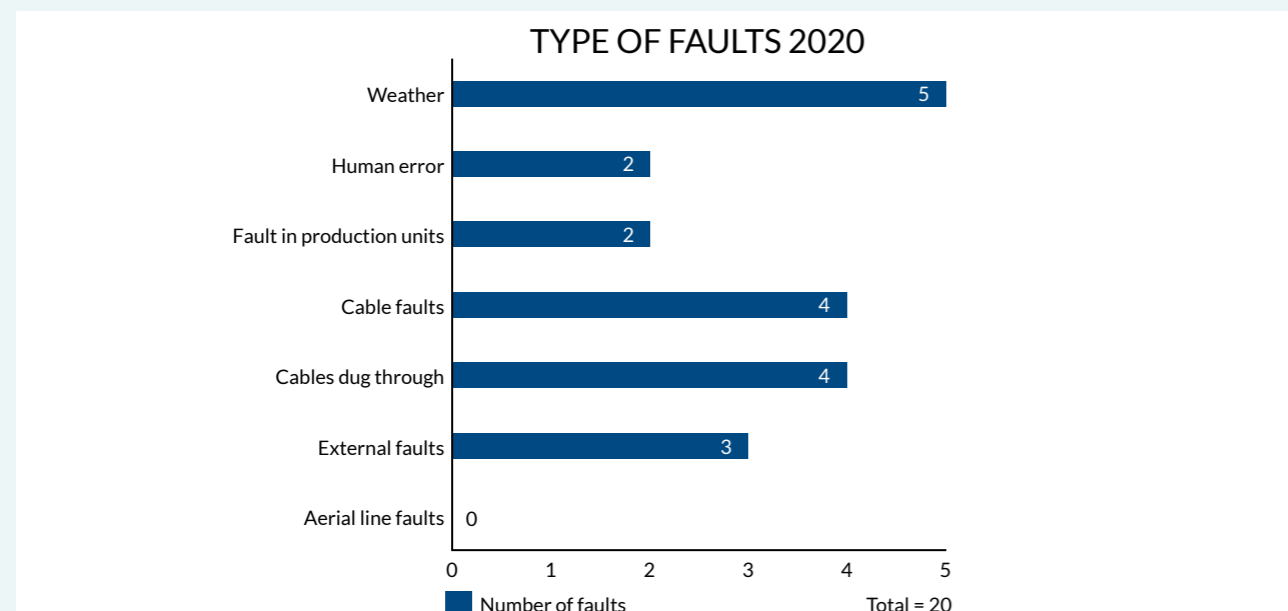


Figure 2: Type of faults 2020



MAINTENANCE

Again in 2020, 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 2020. 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.

Sixteen of the 20 faults registered in 2020 are not the type of faults that impact every customer simultaneously but were faults that impacted limited areas of the country. For example, they could have been faults resulting from a cable disruption in a particular village or section of town or a high-voltage circuit breaker that failed at a specific transformer station. Four faults resulted in blackouts where all customers in the area lost power at the same time.

FAULTS IN THE HIGH-VOLTAGE GRID IN 2020

In 2020, there were 20 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 30.3 million in 2020, and DKK 30.2 million in 2019.

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 base-rate payments, connection fees and other service fees from certain customers, etc.

As of 1 January 2020, SEV increased the price of electricity by DKK 0.05 per kWh for all customers, except the "industrial customers" where the price increase was DKK 0.10 per kWh to strengthen the fiscal economy of the Company.

NET SALES

Net sales have now risen to nearly one-half billion DKK and sales have hit a new record of 370.4 GWh, corresponding to an advance in sales of 5.7%, compared to 9.3% for the previous year. Thus, there has been major growth both years.

Income from kWh sales and the fixed fees is DKK 540.9 million, compared to DKK 487.4 million, which in the main was derived from increased sales to the fishing industry and the aquaculture industry and production and construction activities. Moreover, sales to private customers increased. Income from connection fees is DKK 11.2 million, which is DKK 12.8 million lower than the previous year. The income from the fixed base-fee increased a little compared to the previous year.

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

A disagreement has arisen between the Electricity Production Oversight Authority (the 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 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. Table 1 below shows the amounts for the individual years that the disagreement can impact the accounts of the windfarm company, if the view of the Authority is adopted.

Table 1 below shows that, pursuant to the Authority, including 2020, SEV (Grid Division) had paid DKK 6.2 million too much over the last five years to P/F Vindfelagið í Húshaga. This is money that the windfarm company, pursuant to the 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 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 Authority on 16 February 2021 with the

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	

request that the Authority approve it. The Authority is currently reviewing the matter.

To afford the reader some insight into the impact of the disagreement outlined in Table 1, Table 2 is provided to show how the sales, the annual result, the transfer accounting with the parent company and the share equity of SEV might appear if the respective figures were booked in the accounts.

For a more detailed discussion of the accounting numbers of P/F Vindfelagið í Húsahaga, please refer to the 2020 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 Table 3 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

Table 3

CUSTOMER SEGMENTS IN GWH

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Change 19-20 GWh	Change 19-20 %
Agriculture, aquaculture, fisheries and other commodities	25.9	26.4	29.4	29.2	31.1	36.6	37.9	42.1	56.8	70.6	83.9	13.4	18.9
Manufacturing, production and construction	48.9	44.5	52.5	69.3	76.1	76.5	73.9	85.5	82.2	95.1	96.5	1.4	1.5
Retail, catering and lodging	22.5	22.4	21.6	22.7	24.7	23.1	24.4	24.4	24.9	25.1	25.0	-0.1	-0.5
Transport, postal and telecom services	28.7	31.8	34.7	25.1	25.7	24.9	25.6	24.3	24.3	24.3	23.6	-0.7	-2.9
Finance, insurance and other business services	4.2	4.2	3.9	4.0	4.0	3.9	3.9	3.6	3.7	3.7	3.5	-0.2	-5.3
Public and private services, churches, congregations, etc.	36.5	36.8	36.6	37.7	37.3	37.9	40.5	41.5	42.1	44.1	45.5	1.5	3.4
Street lighting	6.8	7.3	6.9	7.4	7.0	7.1	7.0	6.7	6.6	6.4	6.2	-0.2	-3.3
Residential housing, apartments, holiday homes and boathouses	81.3	81.4	75.7	78.9	78.0	78.0	78.1	78.2	79.9	81.2	86.2	5.1	6.2
Total settlement	254.8	254.8	261.3	274.3	283.9	288.0	291.4	306.3	320.5	350.4	370.4	20.0	5.7
Change in % by year	1.1	0.0	2.6	5.0	3.5	1.4	1.2	5.2	4.6	9.3	5.7		

group "Manufacturing, production and construction", reflecting the processing of a large quantity of fish, especially in the pelagic fisheries.

In total, sales have increased by 5.7% in 2020, compared to an increase in sales in 2019 of some 9.3%. Thus, on average the last five years have seen a growth in sales of nearly 5.2%, compared to an annual average growth of 2.5% over the previous five years. On average the last ten years some 300 GWh were sold to the customers of the Company. From 2016 through 2020, the growth was 79 GWh, corresponding to 21% of total sales in 2020. 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 2020 increased by DKK 53.5 million or 11%. 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 "Housing, apartments, etc." See Table 4 below. The income from the connection fees for 2020 is lower than the previous year. Altogether, the net income increased by DKK 42.3 million in 2020, which is a result of more sales

Table 4

ELECTRICITY SALES AND FIXED FEE BY CUSTOMER SEGMENTS IN DKK MILLION

	2020	2019	Change 20-19	Change 20-19 %
Agriculture, aquaculture, fisheries and other commodities	110.7	85.9	24.8	28.8
Manufacturing, production and construction	132.2	120.3	11.8	9.8
Retail, catering and lodging	37.3	36.2	1.1	3.1
Transport, postal and telecom services	34.1	33.6	0.6	1.7
Finance, insurance and other business services	5.1	5.2	0.0	-0.9
Public and private services, churches, congregations, etc.	68.7	64.1	4.6	7.1
Street lighting	9.6	9.6	0.0	0.0
Residential housing, apartments, holiday homes and boathouses	143.1	132.5	10.7	8.0
Total settlement	540.9	487.4	53.5	11.0

Table 5
PRIVATE CONSUMPTION BY ISLAND

	kWh per island 2020	kWh per island 2019	kWh per island 2018	No. of customers 2020	No. of customers 2019	No. of customers 2018	Average per customer 2020	Average per customer 2019	Average per customer 2018
Borðoy	8,344,222	8,058,751	7,996,263	2,161	2,145	2,136	3,861	3,757	3,744
Eysturoy	18,672,895	18,101,953	17,696,238	4,511	4,472	4,507	4,139	4,048	3,926
Fugloy	38,624	35,103	36,898	13	13	13	2,971	2,700	2,838
Hestur	49,989	51,811	50,459	27	29	27	1,851	1,787	1,869
Kalsoy	163,322	160,243	161,664	82	85	81	1,992	1,885	1,996
Koltur	7,942	8,137	9,004	2	2	2	3,971	4,069	4,502
Kunoy	275,981	279,096	272,700	71	68	69	3,887	4,104	3,952
Mykines	70,114	71,992	72,148	41	42	41	1,710	1,714	1,760
Nólsoy	415,988	392,259	405,441	142	137	138	2,929	2,863	2,938
Sandoy	2,241,602	2,122,007	2,115,370	712	687	697	3,148	3,089	3,035
Skúvoy	81,182	78,916	81,220	41	43	40	1,980	1,835	2,031
Streymoy	37,752,402	37,243,087	36,645,044	10,168	10,113	9,987	3,713	3,683	3,669
Suðuroy	7,339,604	7,052,086	7,039,166	2,287	2,314	2,300	3,209	3,048	3,061
Svínoy	47,742	43,041	41,156	22	22	24	2,170	1,956	1,715
Vágoy	5,673,040	5,622,102	5,578,304	1,423	1,395	1,404	3,987	4,030	3,973
Viðoy	960,164	934,190	902,287	230	230	224	4,175	4,062	4,028
Total	82,134,813	80,254,774	79,103,362	21,933	21,797	21,690	3,745	3,682	3,647

and an increase in the price of electricity for each sold kWh.

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 Viðoy have the greatest average consumption, while the customers on Streymoy have an average consumption of some 3,713 kWh. The average consumption for all islands is 3,745 kWh. Small communities such as on Fugloy, Hestur, Skúvoy and Mykines have the least number of customers, because often homes stand empty part of the year. This impacts the average consumption for each customer in such locations.

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 2020 were DKK 523.1 million, of which DKK 361.6 million related to the purchase of electricity and the universal service obligation.

MANAGEMENT OF THE ELECTRICITY 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 electricity 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.

EXPENSES ASSOCIATED WITH MANAGEMENT OF THE ELECTRIC 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 at the Fossá power plant in Vestmanna.

The cost of some DKK 2.3 million to manage the power grid from the Fossá power plant is calculated, thus: total employee wage expenses at the Fossá power plant (DKK 3.0 million for a normal operational year) minus employee expenses related to the normal operation of the power plant itself per operational year of 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 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.

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 11.3 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 ELECTRIC SYSTEM AND THE UNIVERSAL SERVICE AGREEMENT

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 power reserves at the Sund and Vágs 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, 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 23.1 million.

The Company is presently engaged in the re-evaluation the costs associated with the management of the electric 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.

WAGE EXPENSES DKK 0.5 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 2020, total employee expenses were DKK 43.3 million, against DKK 42.8 million in 2019, including administration, corresponding to an increase in expense of some DKK 0.5 million.

Employee expenses for power grid activities in 2020 were DKK 26.1 million, compared to DKK 24.0 million in 2019, representing an increase of DKK 2.1 million, while employee expenses for administration were DKK 17.2 million in 2020, against DKK 18.8 million in 2019, corresponding to a reduction of DKK 1.6 million, when harmonization of pension reserves is included, equalling DKK 0.7 million.

Harmonization of pension reserves aside, employee expenses for administration in 2020 were DKK 16.5 million, compared to DKK 16.0 million for 2019, which is DKK 0.5 million greater than the previous year.

GOODS AND SERVICES DKK 3.9 MILLION HIGHER

In 2020, total expenses for supplies and services were DKK 33.8 million, compared to DKK 29.9

million in 2019, and thus are DKK 3.9 million higher in 2020 than in 2019. The expenses can be subdivided into grid activities and administration.

GRID ACTIVITIES

In 2020, expenses for supplies and services related to power grid activities were DKK 12.3 million, compared to DKK 10.0 million in 2019, corresponding to an increase of DKK 2.3 million based on the consumption of the Production Division of the Company.

ADMINISTRATION

Expenses for goods and services for administration in 2020 were DKK 21.5 million, compared to DKK 19.9 million in 2019, which reflects an increase of DKK 1.6 million.

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

FINANCIAL EXPENSES

Interest expense was DKK 23.3 million in 2020, compared to DKK 20.0 million in 2019, corresponding to greater financial expenses of DKK 3.3 million. Within the total amount of DKK 23.3 million is included capital gains of DKK 1.6 million from SEV's subsidiary companies.

At present, the Company has a total long-term gross debt of DKK 1,638 million at a fixed rate of interest based on loan facilities bearing a fixed rate of interest and an interest rate transfer agreement. More information regarding these financial expenses can be found in SEV's Consolidated Concern Accounts, available at www.sev.fo.

DEPRECIATION

In 2020, depreciation was DKK 49.1 million, compared to DKK 44.4 million in 2019, of which DKK 41.6 million is derived from power grid activities and DKK 7.5 million from administration.

INVESTMENT

Investment in sub-stations and the grid was in total DKK 178.2 million in 2020, compared to DKK 134.4 million in 2019, as shown in Table 6.

Table 6
INVESTMENTS, DKK MILLION

	2020	2019
Sub-stations	51.5	61.2
Grid	101.0	59.2
Administration building, tools, and IT equipment	25.7	14.1
Total	178.2	134.4

Table 7
INVESTMENTS, DKK MILLION

	2020	2019
Investment booked as work-in-progress	163.7	122.9
Investment booked directly as transition	14.6	11.6
Investments at year-end	178.2	134.4

Table 8
WORK-IN-PROGRESS, DKK MILLION

	2020	2019
Opening balance	140.8	167.9
Investment booked to work-in-progress	163.7	122.9
Work transferred to fixed assets	-139.5	-150.0
Closing balance	165.0	140.8
Changes to work-in-progress	24.1	-27.1

Table 9
TRANSFER TO FIXED ASSETS, DKK MILLION

	2020	2019
Work transferred to fixed assets	139.5	150.0
Investments booked directly to fixed assets	14.6	11.6
Transfers at year-end	154.1	161.5

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

	2020
Sub-station Vestmanna	23.7
60 and 20 kV cable Eysturoy Sub-sea Tunnel	11.8
60 kV cable Northern Isles Sub-sea tunnel	11.7
60 and 10 kV cable Hvalba tunnel	11.6
20 kV sub-station Sund	10.1
60 and 10 kV cable Klaksvik - Strond	8.9
60 and 20 kV cable Leirvík tunnel	8.8
Pump-to-storage Vestmanna	7.3
Sub-station Porkerishálsur	4.9
20 and 10 kV cable Vágur - Tvøroyri	4.8
Total	103.7

Table 11
LARGEST TRANSFERS TO FIXED ASSETS, DKK MILLION

	2020
Refurbishment building at Landavegur 92	33.8
60 and 20 kV cable Eysturoy Sub-sea Tunnel	26.9
20 kV sub-station Sund	16.9
Remote control grid and production	12.9
60 and 10 kV cable Hvalba tunnel	11.6
Total	102.2

Table 12
CABLE AND GRID INVESTMENT BY AREA, DKK MILLION

	2020
Administration	8.5
Northern Isles	2.8
Eysturoy	16.7
Vágoy	2.0
North Streymoy	0.2
South Streymoy	17.1
Sandoy	1.2
Suðuroy	4.6
Total	50.1

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.

Major investment was made in the grid, sub-stations, buildings and other items related to the grid over the past several years and in 2020, 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 2020 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 51.5 million, while investment in the grid equalled DKK 101.0 million.

SEV is also underway to erect 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 it is expected the station will be completed in the first quarter of 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 223.9 million, compared to DKK 125.1 million in 2019. In addition, the Company has available unused drawing rights and lines of credit at the financial institutions equalling DKK 302.8 million.

Thus, cash-on-hand, the credit facilities, and the unused drawing rights equalled DKK 526.6 million in 2020, compared to DKK 690 million in 2019. 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 2021

The result before taxes for 2021 is a budgeted profit of around DKK 30-40 million, based on the submitted budget for 2021 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% in 2021. The other customer groups will experience an increase of between 1% and 3%. However, it is projected that the demand of the customer group "Stores, restaurants and hotels" will increase by 4%. On the other hand, it is projected that "Street lights" demand will continue to decline. Thus, for 2021, it is budgeted that there will be a decline in demand from the customer group, "Street lights".

Based on sales in 2019 and partially on sales in 2020, sales in 2021 are budgeted to be around 374 GWh, yielding a net revenue of DKK 548 million. This suggests an increase in net revenue of around DKK 8 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 76 million in 2021, compared to DKK 77.0 million in 2020, corresponding to a lower expenditure of DKK 1.0 million. Budgeted depreciation is set at DKK 61 million and interest expense is budgeted at DKK 34 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 2021 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 2021 can be found in the 2021 Operations, Financial and Investment Budget 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 Eifelagið 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 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-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	2020	2019	
1	Net turnover	553,407	511,096
	Electricity purchased	-346,502	-307,456
	Wind and biogas power purchased	-3,805	-2,338
	Power sold to Production Division (own consumption)	11,743	0
	System services	-23,070	-20,781
2	Cost of oil	-169	-190
3	Materials and services	-33,818	-29,867
	Gross earnings	157,785	150,466
4	Wages	-43,301	-42,768
	EBITDA	114,484	107,697
	Depreciation and amortisation of fixed assets	-49,133	-44,430
	Result before financials	65,351	63,268
5	Financial expenses	-23,290	-19,977
	Result before tax	42,061	43,291
6	Tax on annual result	-11,779	-13,043
	Annual result	30,283	30,247
	Proposed distribution of results:		
	Result brought forward	31,839	29,660
	Reserve for net revaluation as per the equity method	-1,557	587
	Total distribution	30,283	30,247

Balance Sheet 31 December

ASSETS in 1,000 DKK

Note	2020	2019
Tangible fixed assets		
7, 18 Distribution grid	790,346	713,767
7 Buildings and land	79,709	48,175
7 Operating equipment	38,929	42,097
7 Investment work-in-progress	164,980	140,841
Total tangible fixed assets	1,073,964	944,880
8 Investment in Associated and Subsidiary Companies	33,000	36,704
9 Loans to subsidiary companies	69,809	78,428
10 Derivatives	14,989	22,111
Total financial assets	117,798	137,243
Total fixed assets	1,191,762	1,082,122
Current assets		
Inventory	17,087	21,870
Total inventory	17,087	21,870
11 Materials and services debtors	109,222	106,894
Inter-company account	163,909	113,862
Prepayments	16,264	9,020
Total receivables	289,395	229,775
Cash-on-hand	223,854	125,123
Total current assets	530,336	376,769
Total assets	1,722,098	1,458,891

Balance Sheet 31 December

LIABILITIES in 1,000 DKK

Note	2020	2019
Equity		
12 Deposits	4,140	4,140
Hedge reserve	-42,170	-21,240
Reserve for revaluation as per the equity method	1,250	4,954
Results carried forward	600,276	568,436
Total equity	563,496	556,291
Provisions		
Provisions for pensions and equivalent liabilities	20,155	19,598
Other provisions	2,734	1,419
Total provisions	22,890	21,017
Debt		
13 Long-term debt	974,702	782,836
Total long-term debt	974,702	782,836
13 Current portion of long-term debt	870	870
Bank debt	0	7
Prepayments received from customers	1,239	1,199
Trade creditors	47,415	34,241
10 Derivatives	91,020	42,160
Other creditors	20,467	20,269
Total short-term debt	161,011	98,747
Total debt	1,135,713	881,583
Total liabilities	1,722,098	1,458,891
14 Grid result by area		
15 Grid overview		
16 Mortgages and other liabilities		

Cash Flow Statement

Note	Amounts in 1,000 DKK	2020	2019
	Annual result	30,283	30,247
16	Adjustments	80,498	77,450
Changes in working capital:			
	Inventory	4,782	-2,060
	Receivables	-39,853	-21,480
	Trade creditors	13,174	-20,884
	Inter-company accounts – Production	-50,047	-102,810
	Other operating debt	31,075	12,816
	Operations cash flow before financials	69,912	-26,722
	Interest expense paid and equivalent expenses	-21,733	-20,564
	Adjustment for non-cash items in interest expense	6,039	7,617
	Cash flow from operations	54,218	-39,669
	Purchase of tangible fixed assets	-154,079	-161,507
	Changes to work-in-progress	-24,139	27,081
	Cash flow from investment	-174,514	-134,426
	Net loan facilities	210,415	100,000
	Interest accrual	-7	1
	Repayments of long-term debt	8,619	8,431
	Increased draw on credit facility	0	0
	Cash flow from financing	219,027	108,433
	Total cash flow during the year	98,731	-65,662
	Opening cash-on-hand	125,123	190,785
	Closing cash-on-hand	223,854	125,123



Grid Accounts 2020

Notes



Note 1

1. NET SALES

Amounts in 1,000 DKK	2020	2019
kWh charges etc.	522,833	469,997
Fixed charges	18,039	17,381
Connection fees	11,187	24,014
Other charges, past due charges and other sales	1,348	-295
Total	553,407	511,096

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	169	190
Total	169	190

3. MATERIALS AND SERVICES

Amounts in 1,000 DKK	2020	2019
Cable and lines	3,516	2,837
Dams, pipes and tunnels	2	13
Tanks and environment	116	99
Motors	0	1
Electric and technical	252	48
Buildings and land	1,785	1,788
Annual Meeting and Board	149	262
Studies and consultancy	2,325	4,639
IT	7,645	6,514
Management and office expenses	2,263	2,093
Loss on receivables	1,237	-538
Other operating expenses	372	205
Other administrative expenses	14,156	11,906
Total	33,818	29,867

4. EMPLOYEE EXPENSES

Amounts in 1,000 DKK	2020	2019
Wages	36,341	36,295
Pensions	4,915	4,493
Contributions	2,045	1,979
Total	43,301	42,768
Number of employees	97	90
Full-time equivalent	102	101

5. FINANCIAL EXPENSES

Amounts in 1,000 DKK	2020	2019
Result from subsidiary companies	1,557	-587
Interest, loans and bank loans etc.	17,989	17,147
Establishment fees, commissions	2,710	2,090
Unrealised exchange rate gains and losses	-19,644	127
Unrealised adjustments on derivatives	21,636	817
Other interest expenses	-957	384
Total	23,290	19,977

Notes 6–7

6. TAXES ON ANNUAL RESULT

Amounts in 1,000 DKK	2020	2019
Adjustment of deferred tax	-11,779	-13,043
Tax for the year according to P&L	-11,779	-13,043
Deferred tax liability 1 January	-1,419	-23,981
Adjustment to previous years	0	23,847
Adjustment to deferred tax from P&L	-11,779	-13,043
Adjustment of deferred tax on derivatives direct in equity	10,463	11,759
Deferred tax liability 31 December	-2,734	-1,419
Total	11,779	13,043

7. TANGIBLE FIXED ASSETS

Amounts in 1,000 DKK	Grid	Buildings	Equipment	Total 2020	2019
Acquisition value, opening balance	1,270,493	84,570	213,047	1,568,110	1,406,603
Additions during the year	111,288	34,148	10,375	155,811	162,069
Disposals during the year	0	0	-1,732	-1,732	-562
Acquisition value year-end	1,381,782	118,718	221,689	1,722,189	1,568,110
Depreciation opening balance	-556,726	-36,395	-170,950	-764,072	-719,642
Depreciation during the year	-34,709	-2,614	-13,542	-50,866	-44,991
Depreciation reversed on disposals	0	0	1,732	1,732	562
Depreciation closing balance	-591,436	-39,009	-182,760	-813,205	-764,072
Book value year-end	790,346	79,709	38,929	908,984	804,039
Book value year-end 2019	713,767	48,175	42,097	804,039	
Work-in-progress					
Work-in-progress opening balance	122,476	12,855	5,510	140,841	167,922
Investment booked to work-in-progress	139,919	20,963	2,778	163,660	122,871
Completed work transferred to depreciation	-103,976	-33,818	-1,727	-139,521	-149,952
Closing balance	158,419	0	6,561	164,980	140,841
Balance at year-end 2019	122,476	12,855	5,510	140,841	
Fixed assets at year-end	948,765	79,709	45,490	1,073,964	944,880
Fixed assets at year-end 2019	836,243	61,030	47,607	944,880	

Notes 8–11

8. INVESTMENTS IN ASSOCIATED AND SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	31.12.20	31.12.19
Acquisition value opening balance	31,750	31,750
Acquisition value closing balance	31,750	31,750
Subsidiary companies' result opening balance	4,954	4,367
Result from subsidiary companies	-1,557	587
Adjustment derivatives in equity	-2,147	0
Subsidiary companies' result closing balance	1,250	4,954
Carrying amount year-end	33,000	36,704

ASSOCIATED AND SUBSIDIARY COMPANIES:

Amounts in 1,000 DKK	Share	Equity	Annual result	Recognized value
P/F Fjarhitafelagið, Tórshavn	50%	62,949	467	2,750
P/F Vindfelagið í Húshaga	100%	20,867	-406	20,867
P/F Vindfelagið í Neshaga	100%	9,383	-3,298	9,383

The financial statement for P/F Fjarhitafelagið for the year 2019 is not available. The numbers shown are from 2019.

9. LOANS TO SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	Duration	Loan amount	Balance 31.12.20	Repayment next year	Balance in 5 years
P/F Vindfelagið í Húshaga	12 years	75,000	52,166	6,030	27,230
P/F Vindfelagið í Neshaga	10 years	28,175	17,643	2,781	6,142
Total		103,175	69,809	8,811	33,372

10. DERIVATIVES

Amounts in 1,000 DKK	Assets 31.12.20	Liabilities 31.12.20	Total 31.12.20	31.12.19
Oil-price hedge	0	-17,318	-17,318	13,407
Currency hedge	0	-35,879	-35,879	7,117
Interest rate hedge	14,989	-37,822	-22,833	-40,573
Total	14,989	-91,020	-76,030	-20,049

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.

11. MATERIALS AND SERVICES DEBTORS

Amounts in 1,000 DKK	31.12.20	31.12.19
Goods and services debtors	110,044	105,948
Other debtors	2,515	3,299
Receivables write-down	-3,338	-2,353
Total	109,222	106,894

Notes 12-14

12. EQUITY

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.19 - 31.12.19					
Balance 01.01.19	4,140	-53,840	4,367	496,656	451,323
Adjustment to derivatives	0	32,600	0	0	32,600
Correction to prior years' deferred tax *	0	0	0	42,120	42,120
Result from subsidiary companies	0	0	587	-587	0
Annual result	0	0	0	30,247	30,247
Balance 31.12.19	4,140	-21,240	4,954	568,436	556,291
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	-20,930	-2,147	0	-23,078
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

* It is necessary to correct deferred tax for the period prior to 31.12.2018 due to a reclassification of tax balances between equipment and buildings. This is done by posting a correction within equity of DKK 42.1 million in 2019.

13. LONG-TERM DEBT

Amounts in 1,000 DKK	Accrued interest	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.20	Total debt 31.12.19
Debt to financial institutions	870	0	974,702	974,702	782,836
Total	870	0	974,702	974,702	782,836

There are no repayments in the next financial year, and the average maturity date is 6.3 years.

14. GRID RESULT BY DEPARTMENT

Amounts in 1,000 DKK	Revenue	Oil	Materials	Wages	Depreciation	Interest	Taxes	Total
Sub-stations	-929	0	-1.326	-16	-11.159	0	0	-13.430
Distribution grid	-804	-169	-7.610	-14.131	-25.460	0	0	-48.173
Installations	692	0	-2.233	-5.869	-3.121	0	0	-10.531
Engineering	56	0	-541	-4.296	-1.654	0	0	-6.435
Technical	0	0	-601	-1.802	-213	0	0	-2.617
Grid without administration	-985	-169	-12.311	-26.114	-41.607	0	0	-81.186
Administration	192.758	0	-21.507	-17.187	-7.526	-23.290	-11.779	111.469
Grid result	191.773	-169	-33.818	-43.301	-49.133	-23.290	-11.779	30.283

Notes 15

15. GRID ASSETS

	Fugloy	Svínoy	Víðoy	Borðoy	Kunoy	Kalsoy	Eysturoy	Vágoy	Streymoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suðuroy	Total
TRANSFORMER STATIONS																		
6kV	1			1														2 pcs.
10kV		1	9	40	4	8			84		1			28			54	229 pcs.
20kV				3			136	37	117				1				18	312 pcs.
60kV				2			4		6									12 pcs.
Total	1	1	9	46	4	8	140	37	207		1		1	28			72	555 pcs.
TRANSFORMERS																		
6kV	2			2														4 pcs.
10kV		1	13	57	4	8			101		1			31			76	292 pcs.
20kV				4			181	55	167				1	3			23	434 pcs.
60kV				4			7		18									29 pcs.
Total	2	1	13	67	4	8	188	55	286		1		1	34			99	759 pcs.
CABLE CABINETS																		
0,4kV	15	26	87	526	32	34	1,665	552	2,488	7	38		10	230	11	1	897	6,619 pcs.
AERIAL LINES AND CABLES																		
60kV line				1.1			37.8		37.9									76.8 km
60kV cable				18.4			42.2		43.4									104.1 km
20kV line							32.2	0.6	46.7								9.6	89.1 km
20kV cable				11.6			256.6	57.8	189.2				0.6	0.6			32.9	549.1 km
10kV line		3.1	10.0	11.0	5.4	0.3			1.1								17.2	48.1 km
10kV cable		0.6	21.5	47.6	6.4	17.8			98.7		1.5			49.3			74.2	317.5 km
6kV line	2.2			6.2														8.4 km
6kV cable	0.2			0.0														0.2 km
0,4kV line																		0.0 km
0,4kV cable	1.1	4.2	11.9	68.2	3.5	3.9	220.4	68.1	316.9	0.5	3.4	0.4	0.9	30.5	0.9	0.1	108.3	843.2 km
METERS																		
Digital meters	64	80	292	2,609	89	132	5,638	1,679	11,419	57	177	4	43	845	54	5	2,944	26,131 pcs.
Manual meters	0	0	0	5	0	1	6	4	19	0	0	0	0	1	0	0	8	44 pcs.
Total	64	80	292	2,614	89	133	5,644	1,683	11,438	57	177	4	43	846	54	5	2,952	26,175 pcs.
Change 2020	1	0	3	17	1	2	54	25	127	1	-2	0	0	5	0	0	10	244 pcs.

Notes 16–18

16. MORTGAGES AND OTHER OBLIGATIONS

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

17. ADJUSTMENTS

Amounts in 1,000 DKK	2020	2019
Result from subsidiary companies	0	-587
Interest expenses and equivalent expenses	19,741	19,621
Unrealized interest expenses	1,992	943
Depreciation	49,133	44,430
Adjustment derivatives in subsidiary over financial fixed asset and equity	-2,147	0
Tax	11,779	13,043
Total	80,498	77,450

18. SPECIFICATION OF FIXED ASSETS INCLUDED IN GRID

Amounts in 1,000 DKK	2020	2019
Sub-stations	298,025	289,337
Distribution grid	492,321	424,430
Total	790,346	713,767



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