



**Pioneering technologies
secure higher yield
from wind power**

Elfelagið SEV Grid Accounts 2022

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Management Report

The Board of Directors and Management hereby submit SEV's Grid Annual Report and Accounts for fiscal year 1 January - 31 December 2022. 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 2022 and the

result of operations and cash flow for fiscal year 1 January - 31 December 2022.

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, 31 March 2023

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 2022, 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 2022, which we have audited.

In our opinion, the grid accounts for Eifelagið SEV for the financial year 1 January - 31 December 2022 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, 31 March 2023

P/F JANUAR

State Authorised Public Accountants

Hans Laksá
State Auth. Auditor

Key Figures

Amounts in 1,000 DKK	2022	2021	2020	2019	2018
Income Statement					
Net sales	587,753	590,385	572,114	530,785	452,083
EBITDA	53,875	91,775	114,484	107,697	102,611
Result before financial items	-7,512	34,044	65,351	43,291	61,696
Financial items	17,258	-14,322	-21,733	-20,564	-25,294
Annual result	9,966	7,421	30,283	30,247	28,625
Balance Sheet					
Total assets	2,096,067	1,665,712	1,722,098	1,458,891	1,601,382
Equity	655,729	630,155	563,496	556,291	451,323

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 2022 through 31 December 2022.

DISTRIBUTION OF OPERATIONAL PROFIT

The annual result for the Grid Division is adjusted so that the profit equals 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.

Subsequently, the Production Division shall have all of its operational costs covered, including its portion of the costs related to ancillary services. In

addition, the Production Division shall derive a profit corresponding to around 5% of opening balance equity.

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 2022, the Company erected several new 10 and 20 kV transformer stations around the country. The 20 kV station at Porkerishálsur was completed in 2022. Some DKK 22.4 million was added to the depreciation basis. Work was carried out on the 60 and 20 kV cables to Sandoy, as well as the high-voltage cables through the Sandoy tunnel. Regarding this work, some DKK 52.6 million was added to the depreciation basis.

In connection with the wind farm at Gellingarklettur, a new temporary sub-station was erected at Skarðshjalla, as well as the sub-station at Húsareyni was extended to receive the production from the wind farm at Flatnahagi. At the Sund power plant, a building was erected to house the battery station and the synchronous compensator, such that we could receive the production from the

Figure 1: Faults per year 1989 - 2022

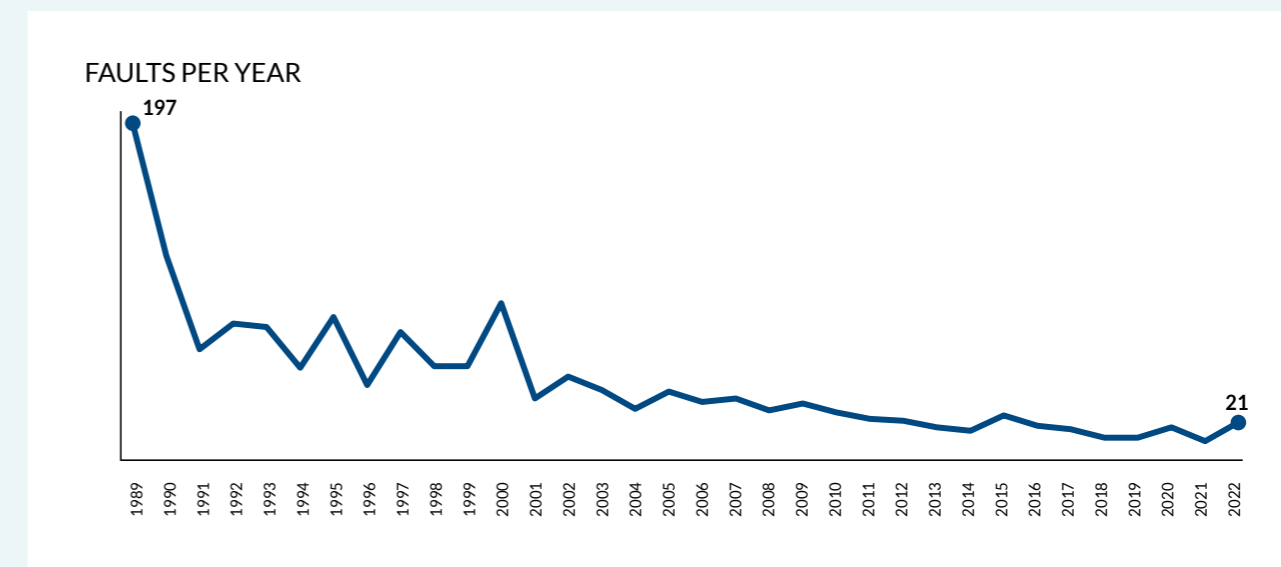
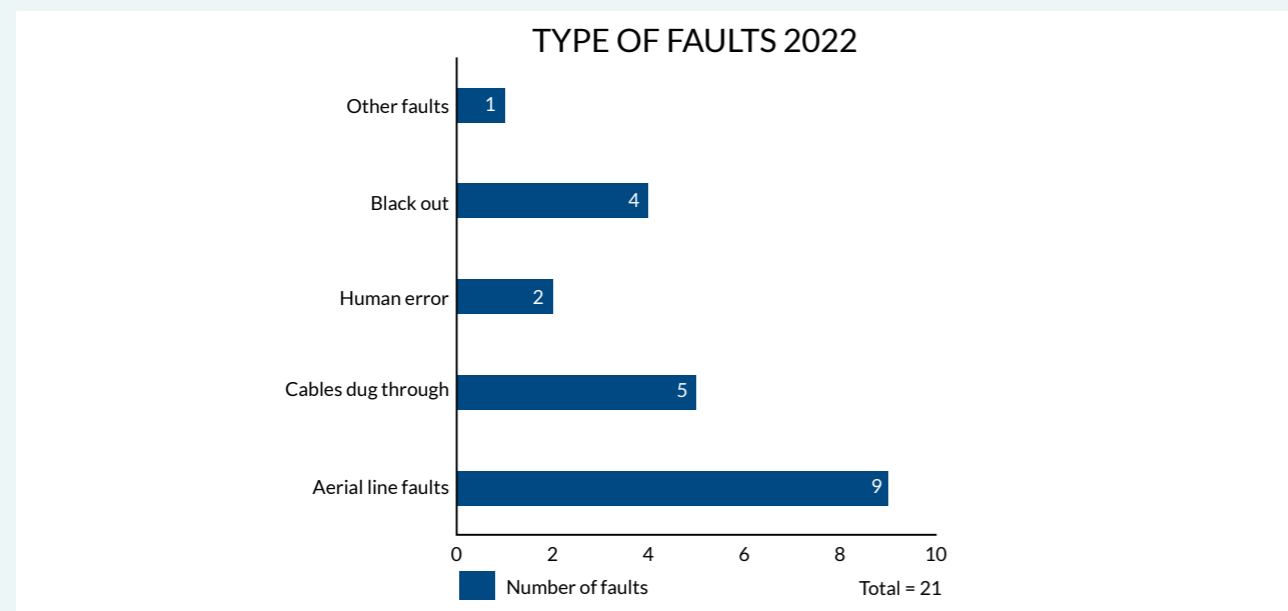


Figure 2: Type of faults 2022



new wind farm that were erected in Suðurstreymoy. The building will be completed at the end of 2023.

MAINTENANCE

Again in 2022, 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 2022. 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 grid.

FAULTS IN THE HIGH VOLTAGE GRID IN 2022

In 2022, there were 21 faults in the high-voltage grid, which is an increase over the previous year, and reflects the adverse weather conditions and the severing of underground cables by excavation machinery. 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 10.0 million in 2022, and DKK 7.4 million in 2021.

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.

The 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.

The Company did not increase the price of electricity as of 1 January 2022.

NET SALES

In 2022, net sales were 395.3 GWh for the customers of SEV and was a record. The growth in 2022 was 2.0%, compared to 4.6% the previous year. Thus, there has been major growth both years.

Income from kWh sales and the fixed fees is DKK 571.6 million, compared to DKK 563.9 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 public offices and private services, churches, religious groups, as well as sales to private family homes, increased. Income from

connection fees is DKK 16.0 million, which is DKK 7.5 million less than the previous year. The income from the fixed base-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 between the Electricity Production Oversight Authority on one side, and SEV (Grid Division) on the other side regarding how electricity production and its purchase from P/F Vindfelagið at Húshaga and SEV shall be calculated and how the pricing agreement and the connection security otherwise should be understood. SEV placed the issue with the Business Appeal Board.

In 2022, the Business Appeal Board presented a conclusion of the issue, which was not consistent with SEV's view. On the other hand, SEV believed that certain circumstances were not reviewed by the Business Appeal Board during their review and SEV decided to place the issue forward with the Faroese Appeal Board with the request to review the issue. The Faroese Appeal Board approved the

conclusion of the Business Appeal Board. The Board of SEV has since reviewed the issue and has concluded to end the matter. Thus, SEV will not do anything more on the issue.

The 2021 accounts of the P/F Vindfelagið í Húshaga explain the issue and reflect the impact of the accounting numbers and the accounts are done pursuant to the requirements stipulated by the Electricity Production Oversight Authority. For further information and the accounts please refer to www.sev.fo.

DISTRIBUTION OF SALES IN THE VARIOUS CUSTOMER GROUPS

Table 1 shows the electricity sales in GWh to the Company's customers. Please refer to the various detailed financial analyses regarding sales in SEV's Consolidated Group 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 1.

Table 1
CUSTOMER SEGMENTS IN GWH

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Change 21-22 GWh	Change 21-22 %
Agriculture, aquaculture, fisheries and other commodities	29.4	29.2	31.1	36.6	37.9	42.1	56.8	70.6	83.9	89.5	94.4	4.9	5.5
Manufacturing, production and construction	52.5	69.3	76.1	76.5	73.9	85.5	82.2	95.1	96.5	101.0	101.2	0.3	0.2
Retail, catering and lodging	21.6	22.7	24.7	23.1	24.4	24.4	24.9	25.1	25.0	26.9	27.3	0.4	1.5
Transport, postal and telecom services	34.7	25.1	25.7	24.9	25.6	24.3	24.3	24.3	23.6	22.7	22.9	0.2	0.7
Finance, insurance and other business services	3.9	4.0	4.0	3.9	3.9	3.6	3.7	3.7	3.5	3.6	3.6	-0.1	-2.1
Public and private services, churches, congregations, etc.	36.6	37.7	37.3	37.9	40.5	41.5	42.1	44.1	45.5	49.4	50.6	1.1	2.3
Street lighting	6.9	7.4	7.0	7.1	7.0	6.7	6.6	6.4	6.2	5.9	5.6	-0.3	-5.2
Residential housing, apartments, holiday homes and boathouses	75.7	78.9	78.0	78.0	78.1	78.2	79.9	81.2	86.2	88.5	89.7	1.2	1.4
Total settlement	261.3	274.3	283.9	288.0	291.4	306.3	320.5	350.4	370.4	387.6	395.3	7.7	2.0
Change in % by year	2.6	5.0	3.5	1.4	1.2	5.2	4.6	9.3	5.7	4.6	2.0		

As the Table for 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. Electricity sales to the group "Manufacturing, Production and Construction" is the same as the previous year. Also, there has been an increase in sales to the group, "Public and private services, churches, religious community groups", while sales to residential housing etc. remain relatively flat.

Altogether, sales increased by 2.0% in 2022, compared to an increase in sales in 2021 of some 4.6%. On average over the last five years, the annual growth has been 4.7%, compared to an annual average growth of some 5.3% during the previous five years. On average over the last ten years, some 327 GWh were provided to customers of the Company. From 2018 to 2022, the growth has been

Table 2
ELECTRICITY SALES AND FIXED FEE
BY CUSTOMER SEGMENTS IN DKK MILLION

	2022	2021	Change 22-21	Change 22-21 %
Agriculture, aquaculture, fisheries and other commodities	124.0	118.1	5.9	5.0
Manufacturing, production and construction	138.4	138.1	0.3	0.2
Retail, catering and lodging	40.6	40.1	0.6	1.4
Transport, postal and telecom services	33.1	32.9	0.2	0.6
Finance, insurance and other business services	5.1	5.3	-0.1	-2.6
Public and private services, churches, congregations, etc.	75.7	74.3	1.4	1.9
Street lighting	8.7	9.2	-0.5	-5.0
Residential housing, apartments, holiday homes and boathouses	145.9	145.9	0.0	0.0
Total settlement	571.6	563.9	7.7	1.4

75 GWh, corresponding to 23% of total sales in 2018. Thus, there has been a major growth in sales over the last years to customers of SEV.

Table 3
PRIVATE CONSUMPTION BY ISLAND

	kWh per island 2022	kWh per island 2021	kWh per island 2020	No. of customers 2022	No. of customers 2021	No. of customers 2020	Average per customer 2022	Average per customer 2021	Average per customer 2020
Borðoy	8,011,719	8,230,186	8,344,222	2,184	2,138	2,161	3,668	3,849	3,861
Eysturoy	18,260,568	18,681,562	18,672,895	4,594	4,594	4,511	3,975	4,067	4,139
Fugloy	33,138	37,467	38,624	15	13	13	2,209	2,882	2,971
Hestur	48,828	51,670	49,989	28	28	27	1,744	1,845	1,851
Kalsoy	166,233	168,980	163,322	89	86	82	1,868	1,965	1,992
Koltur	13,537	8,646	7,942	2	2	2	6,769	4,323	3,971
Kunoy	235,363	254,612	275,981	67	66	71	3,513	3,858	3,887
Mykines	62,410	69,891	70,114	41	42	41	1,522	1,664	1,710
Nólsoy	373,550	398,465	415,988	139	136	142	2,687	2,930	2,929
Sandoy	2,153,356	2,267,073	2,241,602	722	696	712	2,982	3,257	3,148
Skúvoy	81,463	102,917	81,182	41	40	41	1,987	2,573	1,980
Streymoy	36,243,425	37,318,717	37,752,402	10,578	10,489	10,168	3,426	3,558	3,713
Suðuroy	6,956,064	7,272,329	7,339,604	2,292	2,264	2,287	3,035	3,212	3,209
Svínoy	47,492	47,975	47,742	23	23	22	2,065	2,086	2,170
Vágoy	5,476,207	5,671,071	5,673,040	1,433	1,435	1,423	3,821	3,952	3,987
Viðoy	909,723	933,849	960,164	226	225	230	4,025	4,150	4,175
Total	79,073,076	81,515,410	82,134,813	22,474	22,277	21,933	3,518	3,659	3,745

The growth in GWh sales is also seen in the income derived from the sale of electricity and the fixed fees, which in 2022 increased by DKK 7.7 million or 1.4%. 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 "Public and private services, churches, religious community groups," and "homes, summer homes, and boathouses". See Table 2 below. The income from the connection fees for 2022 is lower than the previous year, DKK 16.0 million in 2022, compared to DKK 23.5 million in 2021, but at a high level. Altogether, income is at the same level as the previous year.

DISTRIBUTION OF SALES TO PRIVATE CUSTOMERS BY ISLAND

Table 3 shows the consumption of private customers distributed by island.

As Table 3 shows, the private customers on Koltur have the highest average consumption, while the customers on Streymoy have an average consumption of some 3,426 kWh. The average consumption for all islands is 3,518 kWh in 2022, compared to 3,659 kWh in 2021. A small decline.

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

EXPENSES

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

Expenses in 2022 were DKK 577.8 million, of which DKK 464.5 million were related to the purchase of electricity and ancillary services.

EXPENSES RELATED TO THE MANAGEMENT OF THE ELECTRICITY GRID AND ANCILLARY SERVICES

The total expenses incurred by the power plants reflect not only the cost of electricity production, but also a portion of the cost related to the management of the electricity grid and ancillary services.

These expenses can be subdivided into the expenses for managing the available generating capacity, rolling reserve, reactive power, voltage and frequency regulation and management. The electricity production plants sell their production of electric power to the Grid Division. This payment from the Grid Division includes the price of electricity and the portion of the ancillary services attributed to the production plants.

The Company is presently working on the revision of the costs associated with management of the grid and ancillary services. The final result is linked to the fact that these costs are higher than the costs included in the budget and from 2023 the Company will include these costs as calculated in due course.

COSTS ASSOCIATED WITH MANAGEMENT OF THE ELECTRICITY GRID

Management of the electricity grid on Suðuroy takes place at the Vágur power production plant, while management of the grid in the central region of the country occurs at the control room located on Landavegur in Tórshavn.

The total expense for the management of the grid in the central region of the country is DKK 8.4 million and is calculated thusly: goods and services, wages and depreciation of the control room in the central region. The cost for management of the grid in Suðuroy is DKK 2.3 million.

COSTS ASSOCIATED WITH ANCILLARY SERVICES

In collaboration with the advisory company, Deloitte, based in Denmark, SEV has calculated the cost of the ancillary services in April 2021. The analysis basis was the numbers from 2019 and 2020. The conclusion was that the cost of ancillary services was around DKK 0.26 per sold kWh. This cost will change as the costs and the amount of sold kWh changes, but SEV has elected to incorporate the cost of the ancillary services calculated in April 2021 into its planning.

For the previous year, the cost of the ancillary services was calculated to be 5% of the total operational expenses, including part of the depreciation of the Sund and Vágur power plants. If the old manner of calculating the cost of the

universal service obligation is used so will the cost for 2022 be respectively, DKK 14.2 million and DKK 4.8 million or in total DKK 19.0 million. This reflects a "best estimate" calculation.

The cost of the ancillary services for the remainder of the country is based on SEV's operational cost for its smaller power plants around the country that are deemed to be extra power plants or power reserves. For 2022, this reflects a cost of some DKK 6.7 million, if this is calculated based on the data from the year before. The smaller plants receive a reimbursement for employee expenses and supplies relative to operations in return for a supply guarantee. The remaining costs are recovered via a purchase of production for resale agreement. The Strond power plant receives reimbursement for its operational related employee expenses and supplies relative to the thermal production of electricity in return for a supply guarantee. The remaining costs are recovered via a purchase of production for resale agreement.

TOTAL COSTS FOR MANAGEMENT OF THE ELECTRICITY GRID AND ANCILLARY SERVICES

The total cost for managing the country-wide grid is DKK 10.7 million, while the cost of ancillary services from the thermal and hydro power plants is DKK 87.8 million. The cost to guarantee supply, etc. from the other power plants is DKK 6.7 million. The total costs for management of the electricity grid and the ancillary services is DKK 105.2 million in 2022, and in 2021 the corresponding cost was DKK 107.7 million

WAGE EXPENSES DKK 2.1 MILLION LOWER

SEV relies on a variety of technical expertise and complies with the various public wage agreements specific to these areas of expertise. In 2022, total employee expenses were DKK 44.5 million, against DKK 46.5 million in 2021, including administration, corresponding to a reduction in expense of DKK 2.1 million.

Employee expenses for power grid activities in 2022 were DKK 32.3 million, compared to DKK 30.0 million in 2021, representing an increase of DKK 2.3 million, while employee expenses for administration were DKK 12.2 million in 2022, against DKK 16.5 million in 2021, corresponding to

Table 4
INVESTMENTS, DKK MILLION

	2022	2021
Sub-stations	79.4	64.7
Grid	81.2	67.7
Administration building, tools, and IT equipment	11.2	13.4
Total	171.9	145.8

Table 5
INVESTMENTS, DKK MILLION

	2022	2021
Investment booked as work-in-progress	152.4	119.7
Investment booked directly as transition	19.5	26.1
Investments at year-end	171.9	145.8

Table 6
WORK-IN-PROGRESS, DKK MILLION

	2022	2021
Opening balance	132.2	165.0
Investment booked to work-in-progress	152.4	119.7
Work transferred to fixed assets	-86.3	-152.5
Closing balance	198.3	132.2
Changes to work-in-progress	66.1	-32.8

Table 7
TRANSFER TO FIXED ASSETS, DKK MILLION

	2022	2021
Work transferred to fixed assets	86.3	152.5
Investments booked directly to fixed assets	19.5	26.1
Transfers at year-end	105.7	178.7

a reduction of DKK 4.3 million. Included in this figure is the adjustment of the pensions liability reserve of negative DKK 7.6 million.

If the effect of the pensions liability adjustment is excluded, employee expenses for administration in 2022 were DKK 19.8 million, compared to DKK 17.2 million for 2021, which is DKK 2.6 million higher than the previous year.

GOODS AND SERVICES DKK 4.2 MILLION HIGHER

In 2022, total expenses for supplies and services were DKK 37.5 million, compared to DKK 33.3 million in 2021, and thus are DKK 4.2 million higher in 2022 than in 2021. The expenses can be subdivided into grid activities and administration.

Table 8
LARGEST INVESTMENTS IN SUB-STATIONS AND GRID, DKK MILLION

	2022
Synchronous compensator and battery Sund	35.3
60 and 20 kV cable Sandoy sub-sea tunnel	16.3
60 and 20 kV cable Gamlarætt	13.6
Battery system Porkerishálsur	13.3
60 and 20 kV cable Sund - Skarðshjalli	6.8
Sub-station Sandur	6.7
Sub-station Húsareyn, expansion	5.3
Synchronous compensator Porkerishálsur	5.1
Sub-station Skarðshjalli	4.8
10 and 20 kV cable Vágur - Tvøroyri	4.5
Total	111.8

Table 9
LARGEST TRANSFERS TO FIXED ASSETS, DKK MILLION

	2022
Synchronous compensator Porkerishálsur	26.5
Sub-station Porkerishálsur	22.4
Sub-station Húsareyn, expansion	12.3
Sub-station Skarðshjalli	5.1
Sub-station Sund, update relays	4.8
Total	71.0

GRID ACTIVITIES

In 2022, expenses for supplies and services related to power grid activities were DKK 15.6 million, compared to DKK 14.6 million in 2021, corresponding to an increase of DKK 1.0 million.

ADMINISTRATION

Expenses for goods and services for administration in 2022 were DKK 21.9 million, compared to DKK 18.7 million in 2021, which reflects an increase of DKK 3.2 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 in 2022 was DKK -20.2 million, compared to DKK 16.2 million in 2021, corresponding to a lower financial cost of some DKK 36.4 million. This figure includes DKK 2.4 million interest income from the subsidiaries.

At present, the Company has a total long-term gross debt of DKK 1,951 million with fixed interest based on loan agreements with fixed interest rates and fixed interest rates for bank debt. Further information about financial costs can be found in the Consolidated Group Accounts of SEV at www.sev.fo.

DEPRECIATION

In 2022, depreciation was DKK 61.4 million, compared to DKK 57.7 million in 2021, of which DKK 52.4 million is derived from power grid activities and DKK 9.0 million from administration.

INVESTMENT

Investment in sub-stations and the grid was in total DKK 171.9 million in 2022, compared to DKK 145.8 million in 2021, as shown in Table 4.

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 8 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 2022, 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 2022 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 79.4 million, while investment in the grid equalled DKK 92.4 million.

The sub-station with housing for batteries and synchronous compensator at Porkeri is finished and entered into service this year. To date, the experience has been good with the system and Suðuroy, in the main, has become “green”. At present, work is underway to construct housing for batteries and the synchronous compensator at Sund. This endeavour will support the goal that most of the energy from the wind farms at Hoyvíkshagi, Flatnahagi and at Húsahagi will be utilised. In addition to the investment in the sub-stations, major investment is being made in cable laying, especially in connection with the upgrading of the tunnels.

Please refer to the various detailed financial analyses regarding investments in SEV's Consolidated Group 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 zero, 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 wind farm subsidiaries, which are also financed by payments from the Grid Division.

SEV's cash-on-hand at year end was DKK 367.3 million, compared to DKK 144.2 million in 2021. In addition, the Company has available unused drawing rights and lines of credit at the financial institutions equalling DKK 850.0 million.

Thus, cash-on-hand, the credit facilities, and the unused drawing rights equalled DKK 1,217.3 million in 2022, compared to DKK 564.2 million in 2021. 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 Group Accounts available on the Company's website, www.sev.fo.

PROSPECTS FOR OPERATIONAL YEAR 2023

The result before taxes for 2023 is a budgeted profit of around DKK 32 million, based on the submitted budget for 2023 and after an evaluation of the distribution of the result compared to the requirements of return on equity.

It is projected that the Company's private customers will realize an increase in demand of some 1% in 2023, with the exception of the “green meters” where growth is expected to be 30%. The other customer groups will experience an increase of between 0.5% and 2%. However, for 2023, it is

budgeted that there will not be an increase in demand from the customer group, “street lights”.

Based on sales in 2021 and partially on sales in 2022, sales in 2023 are budgeted to be around 395.6 GWh, yielding a net revenue of DKK 690.6 million, compared to DKK 587.8. This suggests an increase in revenue of around DKK 102.8 million.

SEV established independent subsidiaries to operate the wind farms at, respectively, Neshagi, Porkeri, 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. In addition, SEV purchases electricity from other providers.

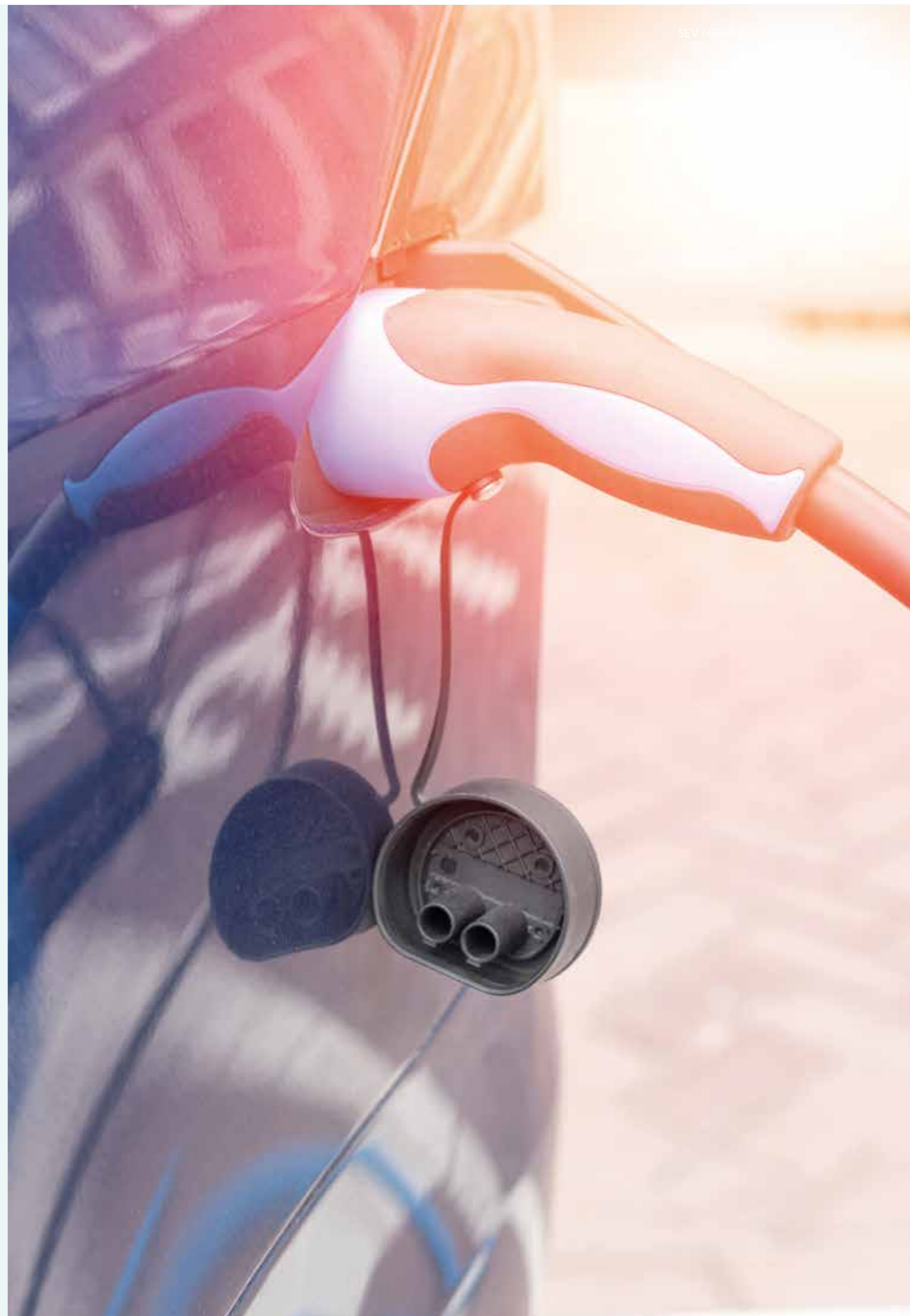
Operational expenses are estimated to be DKK 90.3 million in 2023, compared to DKK 82.0 million in 2022, corresponding to a higher expenditure of DKK 10.3 million. Budgeted depreciation is set at DKK 71 million and interest expense is budgeted at DKK 26 million. Depreciation and interest expenses reflect the increased investment undertaken by the Company and the loan facilities to finance this investment.

With an estimated profit in 2023 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 2023 can be found in the Operations, Financial and Investment Budget for 2023 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 Eifelagði 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.

ANCILLARY SERVICES

The cost of electricity production can be divided into actual production cost, and the cost of ancillary services. Ancillary services include the planning and control of available generating power, spinning reserve, reactive reserve, regulating power and regulating frequency.

The income of the smaller power plants is equal to their total cost, and in addition they receive as income a percentage of their equity at the beginning of the year.

GRID CONTROL

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

DISTRIBUTION OF INCOME

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

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

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

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

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

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

EMPLOYEE EXPENSES

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

DEPRECIATION AND WRITE-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	2022	2021	
1	Net turnover	587,753	590,385
	Electricity purchased	-350,472	-316,145
2	Wind and biogas power purchased	-17,284	-10,191
	Power sold to Production Division (own consumption)	12,779	8,795
	Grid control	-2,300	-2,300
	Ancillary services	-94,462	-98,958
3	Cost of oil	-157	0
4	Materials and services	-37,517	-33,270
	Gross earnings	98,339	138,316
5	Wages	-44,464	-46,541
	EBITDA	53,875	91,775
	Depreciation and amortisation of fixed assets	-61,387	-57,731
	Result before financials	-7,512	34,044
9	Result from subsidiary companies	2,972	-1,849
6	Financial expenses	17,258	-14,322
	Result before tax	12,718	17,873
7	Tax on annual result	-2,752	-10,452
	Annual result	9,966	7,421
	Proposed distribution of results:		
	Result brought forward	6,994	9,271
	Reserve for net revaluation as per the equity method	2,972	-1,849
	Total distribution	9,966	7,421

Balance Sheet 31 December

ASSETS in 1,000 DKK

Note	2022	2021
Tangible fixed assets		
8, 20 Transmission and distribution grid	940,457	896,144
Buidlings and land	86,124	84,346
Operating equipment	48,741	49,419
Investment work-in-progress	198,306	132,171
Total tangible fixed assets	1,273,627	1,162,081
9 Investment in subsidiary companies	39,372	25,931
10 Investment in associated company	17,750	2,750
11 Loans to subsidiary companies	51,991	60,998
12 Derivatives	116,630	49,279
Total financial assets	225,743	138,959
Total fixed assets	1,499,370	1,301,039
Current assets		
Inventory	36,721	25,399
Total inventory	36,721	25,399
13 Materials and services debtors	125,945	121,927
Inter-company account	56,494	61,648
Prepayments	10,266	11,517
Total receivables	192,705	195,092
Cash-on-hand	367,271	144,182
Total current assets	596,697	364,673
Total assets	2,096,067	1,665,712

Balance Sheet 31 December

LIABILITIES in 1,000 DKK

Note	2022	2021
Equity		
14 Deposits	4,140	4,140
Hedge reserve	29,415	13,358
Reserve for revaluation as per the equity method	10,372	0
Results carried forward	611,802	612,657
Total equity	655,729	630,155
Provisions		
Provisions for pensions and equivalent liabilities	11,803	19,406
Other provisions	46,694	30,217
Total provisions	58,497	49,623
Debt		
15 Long-term debt	837,589	816,783
Total long-term debt	837,589	816,783
15 Current portion of long-term debt	177,055	982
Bank debt	0	649
Prepayments received from customers	408	175
Trade creditors	15,592	26,148
Inter-company account	295,500	84,873
12 Derivatives	23,944	32,839
Other creditors	31,755	23,485
Total short-term debt	544,253	169,151
Total debt	1,381,842	985,934
Total liabilities	2,096,067	1,665,712
16 Grid result by area		
17 Grid overview		
18 Mortgages and other liabilities		

Cash Flow Statement

Note	Amounts in 1,000 DKK	2022	2021
	Annual result	9,966	7,421
19	Adjustments	43,909	84,354
Changes in working capital:			
	Inventory	-11,321	-8,312
	Receivables	-4,210	23,333
	Trade creditors	-10,557	-21,267
	Inter-company account - Production	229,218	188,995
	Other operating debt	2,344	-30,087
	Operations cash flow before financials	259,348	244,437
	Interest expense paid and equivalent expenses	17,258	-14,322
	Adjustment for non-cash items in interest expense	-44,928	-4,802
	Cash flow from operations	231,679	225,313
	Purchase of tangible fixed assets	-106,799	-178,656
	Changes to work-in-progress	-66,135	32,809
	Cash flow from investment	-201,374	-141,528
	Net loan facilities	183,219	-173,027
	Interest accrual	558	760
	Repayments of long-term debt	9,007	8,811
	Increased draw on credit facility	0	0
	Cash flow from financing	192,783	-163,456
	Total cash flow during the year	223,089	-79,672
	Opening cash-on-hand	144,182	223,854
	Closing cash-on-hand	367,271	144,182



Grid Accounts 2022

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Note 1

1. NET SALES

Amounts in 1,000 DKK	2022	2021
kWh charges etc.	553,399	546,036
Fixed charges	18,207	17,956
Connection fees	16,015	23,472
Other charges, past due charges and other sales	132	2,922
Total	587,753	590,385

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 2022 was DKK 43.5 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 9.7 million.

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

When infrastructure investment is needed, a portion of the investment required shall be self-funded, thus negating that the entire investment be financed by a loan facility. SEV has determined that self-financing of some 25% is sufficient and the Production and Grid accounts for 2016-2022 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 2022 budget projects investment for 2022-2026 for the Production Division to be DKK 1,426 million, equalling on average some DKK 285 million annually. The self-financing projected for 2022 is budgeted to be DKK 71 million. For the Grid Division, projected investment is set at DKK 670 million, of which self-financing equals DKK 34 million for 2022. 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. ELECTRICITY PURCHASE BY GENERATION TYPE

Amounts in 1,000 DKK	2022	2021
Wind	8,691	2,361
Biogas	8,593	7,830
Tidal	0	0
Total	17,284	10,191

3. OIL EXPENSES

Amounts in 1,000 DKK	2022	2021
Gas oil	157	0
Total	157	0

4. MATERIALS AND SERVICES

Amounts in 1,000 DKK	2022	2021
Cables and lines	4,280	4,101
Tanks and environment	72	86
Electric and technical	265	19
Buildings and land	2,355	1,793
Annual Meeting and Board *	398	192
Studies and consultancy	2,317	4,827
IT *	12,153	7,427
Management and office expenses *	535	874
Loss on receivables	148	344
Other operating expenses	5,701	2,612
Other administrative expenses	9,292	10,995
Total	37,517	33,270

* Expenses in these categories are grouped differently in 2022 compared to 2021, and a direct comparison is not possible between the two years.

5. EMPLOYEE EXPENSES

Amounts in 1,000 DKK	2022	2021
Wages	35,512	38,770
Pensions	6,612	5,582
Contributions	2,340	2,188
Total	44,464	46,541
Full-time equivalent	113	108

Notes 6–7

6. FINANCIAL EXPENSES

Amounts in 1,000 DKK	2022	2021
Interest income on loans to subsidiary companies	-2,433	-3,320
Interest, loans and bank loans etc.	36,677	21,110
Establishment fees, commissions	8,557	2,184
Unrealised exchange rate gains and losses	12,454	15,108
Unrealised adjustments on derivatives	-60,333	-22,862
Other interest expenses	-12,180	2,103
Total	-17,258	14,322

6. TAXES ON ANNUAL RESULT

Amounts in 1,000 DKK	2022	2021
Adjustment of deferred tax	-2,752	-10,452
Tax for the year according to P&L	-2,752	-10,452
Deferred tax liability 1 January	-30,217	-2,734
Adjustment to deferred tax from P&L	-2,752	-10,452
Adjustment of deferred tax on derivatives direct in equity	-13,724	-17,031
Deferred tax liability 31 December	-46,694	-30,217

Notes 8–9

8. TANGIBLE FIXED ASSETS

Amounts in 1,000 DKK	Grid	Buildings	Equipment	Total 2022	2021
Acquisition value, opening balance	1,526,729	126,292	237,403	1,890,425	1,713,122
Additions during the year	86,304	4,960	15,534	106,799	178,656
Disposals during the year	0	0	-1,072	-1,072	-1,353
Acquisition value year-end	1,613,033	131,253	251,866	1,996,152	1,890,425
Depreciation opening balance	-630,585	-41,946	-187,984	-860,515	-804,138
Depreciation during the year	-41,992	-3,182	-16,212	-61,387	-57,731
Depreciation reversed on disposals	0	0	1,072	1,072	1,353
Depreciation closing balance	-672,577	-45,129	-203,125	-920,830	-860,515
Book value year-end	940,457	86,124	48,741	1,075,321	1,029,910
Book value year-end 2021	896,144	84,346	49,419	1,029,910	
Work-in-progress					
Work-in-progress opening balance	108,217	16,296	7,658	132,171	164,980
Investment booked to work-in-progress	146,535	2,547	3,324	152,406	119,707
Completed work transferred to depreciation	-84,480	-411	-1,380	-86,271	-152,516
Closing balance	170,272	18,433	9,601	198,306	132,171
Balance at year-end 2021	108,217	16,296	7,658	132,171	
Fixed assets at year-end	1,110,729	104,556	58,342	1,273,627	1,162,081
Fixed assets at year-end 2021	1,004,361	100,642	57,077	1,162,081	

9. INVESTMENTS IN SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	31.12.22	31.12.21
Acquisition value opening balance	29,000	29,000
Acquisition value closing balance	29,000	29,000
Subsidiary companies' result opening balance	-3,069	1,250
Result from subsidiary companies	2,972	-1,849
Adjustment to prior years' result	0	-5,066
Adjustment derivatives in equity	10,469	2,597
Subsidiary companies' result closing balance	10,372	-3,069
Carrying amount year-end	39,372	25,931

SUBSIDIARY COMPANIES:

Amounts in 1,000 DKK	Share	Equity	Annual result	Book value
P/F Vindfelagið í Húshaga	100%	14,231	-86	14,231
P/F Vindfelagið í Neshaga	100%	25,141	3,058	25,141

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10. INVESTMENT IN ASSOCIATED COMPANY

Amounts in 1,000 DKK	31.12.22	31.12.21
Carrying amount start-of-year	2,750	2,750
Carrying amount year-end	17,750	2,750

ASSOCIATED COMPANY:

Amounts in 1,000 DKK	Share	Equity	Annual result	Book value
P/F Fjarhitafelagið, Tórshavn	50%	58,645	-2,354	17,750

The financial statement for P/F Fjarhitafelagið for the year 2022 is not available. The numbers shown are from 2021. In 2022, SEV has increased its share capital by DKK 15 million.

11. LOANS TO SUBSIDIARY COMPANIES

Amounts in 1,000 DKK	Maturity	Loan amount	Balance 31.12.22	Repayment next year	Balance in 5 years
P/F Vindfelagið í Húshaga	12 years	75,000	39,973	6,301	7,034
P/F Vindfelagið í Neshaga	10 years	28,175	12,019	2,906	0
Total		103,175	51,991	9,207	7,034

12. DERIVATIVES

Amounts in 1,000 DKK	Assets 31.12.22	Liabilities 31.12.22	Total 31.12.22	31.12.21
Oil-price hedge	9,216	0	9,216	40,438
Currency hedge	9,636	-4,025	5,612	-2,255
Interest rate hedge	97,777	-19,919	77,858	-21,743
Total	116,630	-23,944	92,686	16,440

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.

13. MATERIALS AND SERVICES DEBTORS

Amounts in 1,000 DKK	31.12.22	31.12.21
Goods and services debtors	123,589	121,358
Other debtors	5,998	4,165
Receivables write-down	-3,641	-3,596
Total	125,945	121,927

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14. EQUITY

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
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

Amounts in 1,000 DKK	Deposit	Derivatives reserve	Inner value adjustment reserve	Result carried over	Total
Equity statement 01.01.22 - 31.12.22					
Balance 01.01.22	4,140	13,358	0	612,657	630,155
Adjustment to prior years' result	0	450	0	-450	0
Adjustment to derivatives	0	29,331	10,469	-10,469	29,331
Deferred tax	0	-13,724	0	0	-13,724
Result from subsidiary companies	0	0	2,972	-2,972	0
Transfer adjustment reserve to result	0	0	-3,069	3,069	0
Annual result	0	0	0	9,966	9,966
Balance 31.12.22	4,140	29,415	10,372	611,802	655,729

15. LONG-TERM DEBT

Amounts in 1,000 DKK	Accrued interest	Repayments next year	Outstanding debt after 5 years	Total debt 31.12.22	Total debt 31.12.21
Debt to financial institutions	2,188	174,867	382,667	837,589	816,783
Total	2,188	174,867	382,667	837,589	816,783

In 2023, DKK 175 million are due on the loan agreement from 2016. The loan agreement from 2016 has an average maturity of 3.3 years.

There is no repayment in 2023 on the loan agreement from 2022, and this loan agreement has an average maturity of 9.3 years. The combined average maturity of the loan agreements is 6.1 years.

16. GRID RESULT BY DEPARTMENT

Amounts in 1,000 DKK	Revenue	Oil	Materials	Wages	Depreciation	Interest	Taxes	Total
Sub-stations	-2,829	-11	-1,240	-19	-16,308	-58	0	-20,466
Distribution grid	-1,763	-104	-10,181	-17,149	-28,635	-45	0	-57,879
Installations	6,454	0	-3,303	-7,562	-4,299	0	0	-8,710
Engineering	0	0	-279	-5,561	-3,017	-6	0	-8,863
Technical	0	0	-639	-1,992	-143	0	0	-2,774
Grid without administration	1,861	-115	-15,643	-32,283	-52,402	-111	0	-98,692
Administration	134,152	-42	-21,874	-12,181	-8,985	20,341	-2,752	108,658
Grid result	136,013	-157	-37,517	-44,464	-61,387	20,230	-2,752	9,966

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17. GRID ASSETS

	Fugloy	Svínoy	Víðoy	Borðoy	Kunoy	Kalsoy	Eysturoy	Vágoy	Streymoy	Mykines	Nólsoy	Koltur	Hestoy	Sandoy	Skúvoy	Stóra Dímun	Suburoy	Total	
TRANSFORMER STATIONS																			
6kV	1			1														2 pcs	
10kV		1	9	45	4	8			92		1			21			59	240 pcs	
20kV				3			144	38	113				1	4			18	321 pcs	
60kV				2			4		6									12 pcs	
Total	1	1	9	51	4	8	148	38	211	0	1	0	1	25	0	0	77	575 pcs	
TRANSFORMERS																			
6kV	2			2														4 pcs	
10kV		1	13	66	4	8			110		1			23			85	311 pcs	
20kV				4			197	61	159				1	7			25	454 pcs	
60kV				8			7		21									36 pcs	
Total	2	1	13	80	4	8	204	61	290	0	1	0	1	30	0	0	110	805 pcs	
CABLE CABINETS																			
0,4kV	15	26	87	536	32	34	1,701	566	2,543	7	41		10	235	11	1	902	6,747 pcs	
AERIAL LINES AND CABLE																			
60kV line				1.1			37.8		37.8									76.7 km	
60kV cable				20.2			42.2		69.3								11.3	142.9 km	
20kV line							32.2	0.6	46.7								9.6	89.1 km	
20kV cable				9.9			257.7	59.3	216.2				0.6	5.1			63.4	612.1 km	
10kV line		3.1	10.0	10.6	5.4	0.3			1.1								12.5	43.0 km	
10kV cable		0.6	21.6	49.1	6.4	17.9			103.2	1.6				48.3			89.7	338.3 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	1.0	4.3	11.9	67.5	3.5	3.9	228.8	70.9	328.9	0.5	3.7	0.4	0.9	32.6	0.9	0.1	109.6	869.2 km	
METERS																			
Digital meters	64	85	313	2,842	101	140	6,216	1,864	12,994	56	184	4	43	903	54	6	3,079	28,948 pcs	
Manual meters	0	0	0	4	0	0	0	0	8	0	0	0	0	0	0	0	0	6	18 pcs
Total	64	85	313	2,846	101	140	6,216	1,864	13,002	56	184	4	43	903	54	6	3,085	28,966 pcs	
Change 2022	0	2	12	115	2	1	245	73	681	-1	3	0	0	24	0	0	74	1,231 pcs	

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18. MORTGAGES AND OTHER OBLIGATIONS

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

19. ADJUSTMENTS

Amounts in 1,000 DKK	2022	2021
Result from subsidiary companies	-2,972	1,849
Interest expenses and equivalent expenses	27,669	19,125
Unrealized interest expenses	-44,928	-4,802
Depreciation	61,387	57,731
Tax	2,752	10,452
Total	43,909	84,354

20. SPECIFICATION OF FIXED ASSETS INCLUDED IN GRID

Amounts in 1,000 DKK	2022	2021
Sub-stations	410,121	354,308
Transmission and distribution grid	530,336	541,837
Total	940,457	896,144



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