



Landsvirkjun

National Power Company of Iceland

UN Global Compact

Communication on Progress



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

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Letter from the CEO

I am pleased to confirm Landsvirkjun's continued support for the 10 principles of the UN Global Compact. This is our second Communication on Progress (COP) report. During 2015 we have worked on further integrating the UN GC principles into our own operations as well as into our value chain.

The year 2015 was marked by strong economic results for Landsvirkjun despite a demanding business environment. We are optimistic that in 2-3 years dividend payments can start increasing with continuing improvements in operations. The aim is to increase dividend payments from ISK 1.5 billion to 10-20 billion per year. Landsvirkjun's strong economic position is one of the core pillars of our corporate social responsibility.

The urgent challenge of climate change took centre stage on the global agenda during 2015. As part of our efforts in addressing this urgent challenge, we became a supporter of the Caring for Climate initiative during the Paris COP-21 conference in December 2015. As part of the commitment to Caring for Climate, Landsvirkjun committed to becoming carbon neutral by 2030. We see this commitment as an extension of our support of the UN GC principles and will be extending our annual GC COP reporting to include reporting on our progress in addressing climate change. Work is currently in progress to identify the relevant performance indicators we will need to monitor in order to achieve our carbon neutrality goal.

This year we have aligned the timing of the publication of the COP report to our annual corporate reporting cycle, i.e. the publication of our annual report and environmental report. In this COP report we highlight the key events of 2015. During 2016 we will be working further on identifying the key indicators that we will be reporting on and monitoring in coming years. This will facilitate comparison between years and help us identify the areas where we need to put in more effort to achieve optimal results for Landsvirkjun and its stakeholders.

Yours sincerely,

Dr. Hördur Arnarson, CEO

About Landsvirkjun

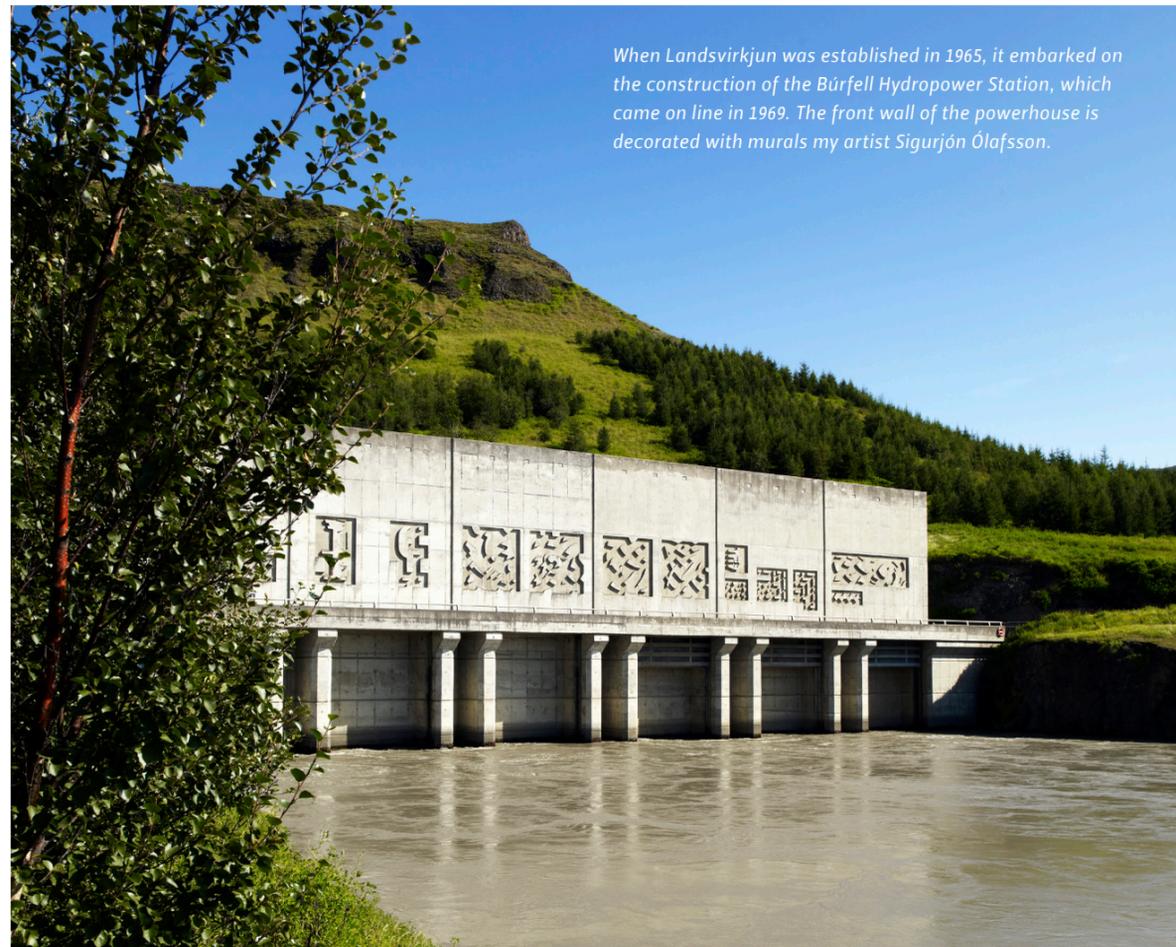
Landsvirkjun, a state-owned partnership company, is Iceland's largest electricity generator. The Company processes 73% of all electricity used in Iceland. The energy generated by Landsvirkjun is generated from 100% renewable sources with a key focus on hydroelectric and geothermal power. The Company is also exploring the feasibility of wind power through two wind turbines.

In addition to serving the Icelandic market, Landsvirkjun is committed to offering competitive contracts to international clients with favourable prices and unprecedented security of supply. Landsvirkjun aspires to become a leader in the sustainable use of renewable energy sources. The Company's values, prudence, progressiveness and reliability are key elements in the development of new projects and in the operations of existing power stations.

Landsvirkjun consistently strives to maximize the potential yield and value of the natural resources it has been entrusted with, in a sustainable, responsible and efficient manner.

Landsvirkjun's operations are certified according to the following standards:

- > ISO 9001 (Quality Management System)
- > ISO 14001 (Environmental Management System)
- > ISO 27001 (Information Security Management System)
- > OHSAS 18001 (Occupational Health and Safety)



When Landsvirkjun was established in 1965, it embarked on the construction of the Búrfell Hydropower Station, which came on line in 1969. The front wall of the powerhouse is decorated with murals by artist Sigurjón Ólafsson.

Landsvirkjun's CSR Policy

Landsvirkjun's approach to CSR

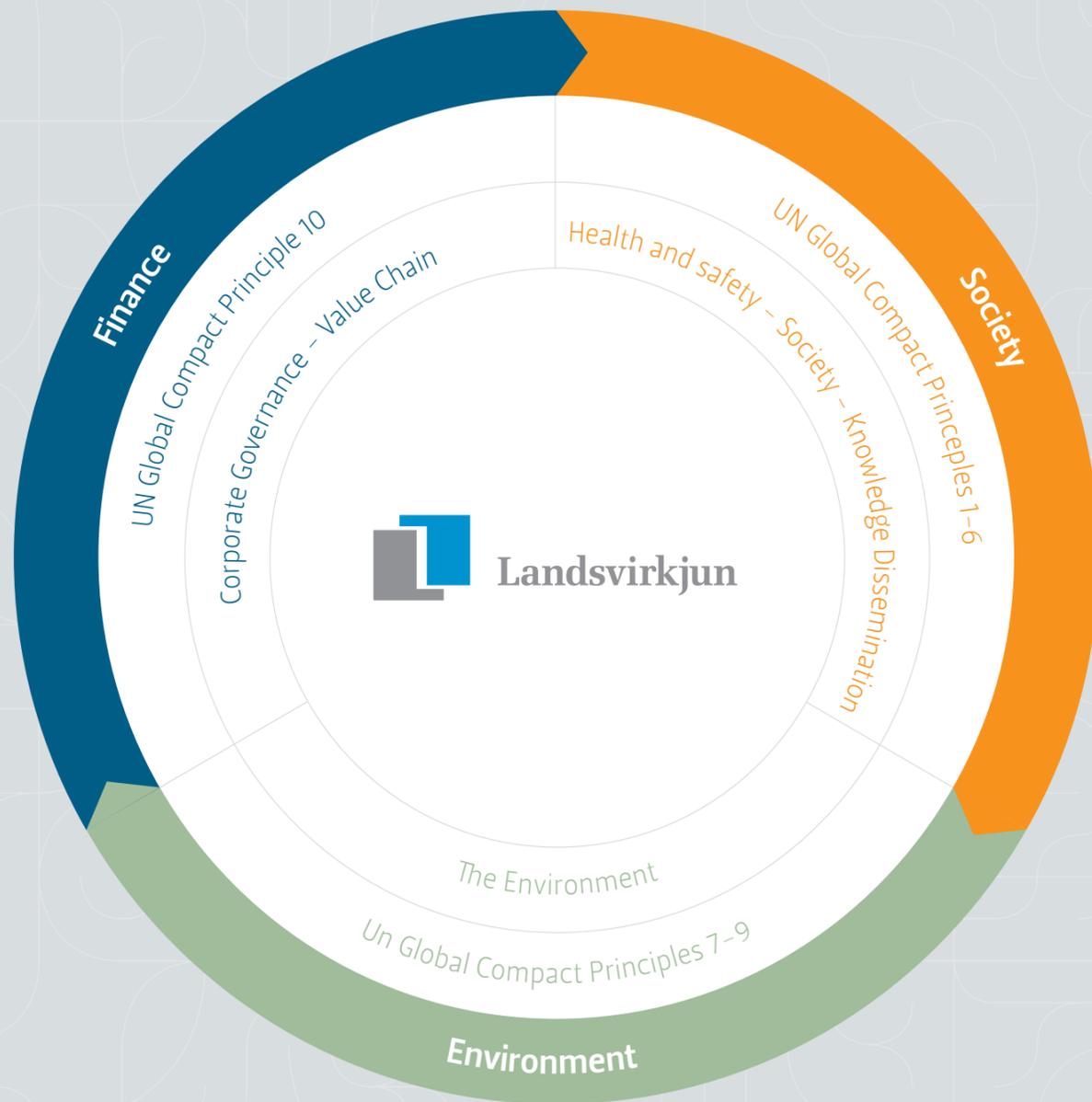
Landsvirkjun generates electricity through renewable energy sources and strives to create economic value in harmony with the environment and society. The advancement of Landsvirkjun's CSR Policy is organized through six key focus areas. For each of the areas specific goals are established on an annual basis.¹

The 10 Principles of the UN Global Compact are embedded in Landsvirkjun's CSR work, including the annual CSR goals. The Principles encompass the CSR strategy and focus areas. Progress is demonstrated through the annual Communication on Progress report.

The image on the following page demonstrates how the UN Global Compact Principles feed into Landsvirkjun's CSR Policy.



Every year Landsvirkjun collaborates with local councils and service providers to provide employment and opportunity for the younger generation.



Landsvirkjun's CSR Policy

- Health and safety**
 We operate in accordance with responsible policy on health and safety and employee issues, ensuring the wellbeing, safety and equality of our employees.
- Society**
 We place an emphasis on building a strong collaborative relationship with society by promoting transparency and effective knowledge dissemination in our working methods and by creating shared value for the economy and for society.
- Knowledge Dissemination**
 We create shared value for the economy and for society via knowledge dissemination and by advocating innovation.
- The Environment**
 We place an emphasis on the sustainable utilisation of natural resources, operate in accordance with approved international procedures and minimise the environmental impact of our operations.
- Corporate Governance**
 We operate in accordance with responsible corporate governance standards and follow the Company's Code of Conduct in all our operations.
- Value Chain**
 Landsvirkjun requires of its customers and suppliers that they show responsible management practices and take the environment and society into account in their operations.

The Ten Principles of the UN Global Compact

- Human Rights**
 Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
 Principle 2: make sure that they are not complicit in human rights abuses.
- Labour**
 Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
 Principle 4: the elimination of all forms of forced and compulsory labour;
 Principle 5: the effective abolition of child labour; and
 Principle 6: the elimination of discrimination in respect of employment and occupation.
- Environment**
 Principle 7: Businesses should support a precautionary approach to environmental challenges;
 Principle 8: undertake initiatives to promote greater environmental responsibility; and
 Principle 9: encourage the development and diffusion of environmentally friendly technologies.
- Anti-Corruption**
 Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

COP 21 / Caring for Climate

At the 2015 UN Climate Change Conference in Paris Landsvirkjun joined the Caring for Climate initiative of the UN Global Compact, the UN Environment Programme and the secretariat of the UN Framework Convention on Climate Change.

By signing the Caring for Climate Leadership Statement Landsvirkjun commits to the following:

1. Taking further practical actions to improve continuously the efficiency of energy usage and to reduce the carbon footprint of our products, services and processes, to set voluntary targets for doing so, and to report publicly and annually on the achievement of those targets in our Communication on Progress-Climate.
2. Building significant capacity within our organizations to understand fully the implications of climate change for our business and to develop a coherent business strategy for minimizing risks and identifying opportunities.
3. Engaging more actively with our own national governments, inter-governmental organizations and civil society to develop policies and measures to provide an enabling framework for business to contribute effectively to building a low-carbon and climate-resilient economy.

4. Continuing to work collaboratively with other enterprises both nationally and sectorally, and along our value-chains, to set standards and take joint initiatives aimed at reducing climate risks, assisting with adaptation to climate change and enhancing climate-related opportunities.
5. Becoming an active business champion for rapid and extensive climate action, working with our peers, employees, customers, investors and the broader public.

In line with the above commitments, Landsvirkjun has set the objective of becoming carbon neutral by 2030. See chapter on the environment for further information on commitments that Landsvirkjun has made in relation to the carbon neutrality goal.



At the time of the COP21 in November, a wind turbine was installed on the Champs Elysee to provide electricity for Christmas illuminations.

Human and Labour Rights

Relevant UN Global Compact Principles Businesses should:

1. Support and respect the protection of internationally proclaimed Human Rights.
2. Make sure that they are not complicit in Human Rights abuses.
3. Uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Uphold the elimination of all forms of forced and compulsory labour.
5. Uphold the effective abolition of child labour.
6. Uphold the elimination of discrimination in respect of employment and occupation.

Labour Rights

In light of the nature of Landsvirkjun's operation, which involves major industrial developments, labour protection is of crucial concern. Landsvirkjun strives to apply strict standards when it comes to ensuring the rights of its employees and service providers, notably in terms of working conditions, health and safety, and appropriate compensation and benefits. In order to ensure strict standards in these areas Landsvirkjun has inserted dedicated protection clauses in its contracts with service providers. These clauses were defined in 2007 through discussions between the Icelandic Confederation of Labour and the organization SA-Business Iceland (of which Landsvirkjun is a member).

Landsvirkjun Obtains the PwC Gold Standard for Salary Gender Equality

In 2015, for the second year in a row, Landsvirkjun was awarded the PwC Gold Standard for its efforts in ensuring equal salaries of men and women. The difference in salaries of men and women at Landsvirkjun was measured at 0.1% which is the smallest difference that PwC has measured at Icelandic companies. In the last three years the gender salary difference of base salaries has decreased from 1.5% to 0.1%.

Gender Equality and Employee Development

Gender Equality Policy

Landsvirkjun supports gender equality and works in accordance with the following gender equality policy and action plan. The gender equality policy and action plan are developed in line with the Act No.10/2008 on the equal rights of women and men.

A gender equality committee, appointed by the CEO for two years at a time, is responsible for the implementation of the Gender Equality Policy within Landsvirkjun. The committee oversees an annual revision of the Policy and associated action plan. The implementation of the action plan falls under the responsibility of managers and human resources. They receive support from the gender equality committee in the implementation of the action plan.

The Gender Equality Policy is composed of the following areas:

1. Women and men working at Landsvirkjun get the same salary and benefits for the same job.
2. Everyone has an equal opportunity to work at Landsvirkjun, regardless of gender.
3. Landsvirkjun's managers work continuously towards increasing the share of women in management positions and adjusting the gender balance within the company.
4. All employees, regardless of the position they occupy at Landsvirkjun, have equal opportunities for the training and development needed to increase their competencies. All employees have the opportunity for promotion where there are vacancies.
5. Managers should organize jobs and projects in such a way that employees can maximise the balance between their professional and personal lives.
6. Bullying, prejudice and gender specific or sexual harassment are not tolerated within Landsvirkjun.
7. Managers and employees of Landsvirkjun work towards eliminating gender specific positions within the company. No jobs should be categorized as a man's or woman's job.

A part of the Gender Equality action plan is demonstrated on the following page.

Environment

Relevant UN Global Compact Principles Businesses should:

7. Support a precautionary approach to environmental challenges
8. Undertake initiatives to promote greater environmental responsibility.
9. Encourage the development and diffusion of environmentally friendly technologies.

Landsvirkjun publishes a comprehensive environmental report on an annual basis. The report provides an overview of performance on key environmental indicators and provides an overview of the main focus areas of each year.

This chapter outlines some of the key environmental initiatives in 2015. Readers can consult the environmental report for 2015 for further and more in-depth information on Landsvirkjun's environmental performance.

Caring for Climate

During the UN Climate Change Conference in Paris in December 2015 Landsvirkjun joined the Caring for Climate initiative of the UN Global Compact, the UN Environment Programme and the secretariat of the UN Framework Convention on Climate Change. Through joining the initiative, Landsvirkjun commits to a number of goals for fighting climate change. The goals can be consulted in the chapter 'COP 21 / Caring for Climate'.

NAZCA / CDP

Landsvirkjun has registered its commitment to reducing its carbon footprint through NAZCA (Non-State Actor Zone for Climate Action), which is an initiative where companies, cities, regions, organizations and investors can register their goals in the fight against climate change.



1. Women and men at Landsvirkjun get the same salary and benefits for the same job				
Goal	Action	Measurement	Status update	Responsibility
Maintain the PwC Gold standard for efforts in reducing the gender pay gap.	If goal is not met, the relevant actions should be taken including adjustment of salaries.	Salary gender gap should be under 3.5%.	September 2016	HR Manager
Ensure that men and women receive the same salary and benefits for the same job.	Adjust salaries in case of unjustified salary gender gap.	Salary gender gap should be under 2%.	September 2016	HR Manager
2. Increased share of women in management roles				
Goal	Action	Measurement	Status update	Responsibility
Adjustment of share of women in management roles from 24% to 30%.	Ensure appropriate management training for women in the company. Put emphasis on hiring women for new and vacant management positions.	Share of women in management roles at Landsvirkjun.	September 2016	CEO
Adjustment of share of women in management roles at Landsvirkjun's subsidiaries.	If the share of women in management positions is not equal, appropriate measures should immediately be taken.	Share of women in management roles at Landsvirkjun's subsidiaries.	September 2016	CEO
3. All employees, regardless of the position they hold at Landsvirkjun, have the same opportunity to obtain the training and development needed to increase their competency. All employees have the opportunity for promotion where there are vacancies				
Goal	Action	Measurement	Status update	Responsibility
Women and men have an equal opportunity for training and development.	Management encourages women to the same extent as men to receive trainings and developing new skills.	Number of training sessions attended by employees, analysed by gender and results of employee surveys.	September 2016	HR Manager

Responsible Value Chain

In November 2015 Landsvirkjun established a code of conduct for its suppliers and service providers. The code is being implemented in contracts, tender specifications and supplier and performance evaluations. The following text has been added to all requests for proposals:

“With its adherence to the UN Global Compact Landsvirkjun is committed to respect and implement 10 principles on human and labor rights, environmental protection and anti-corruption. In light of this commitment Landsvirkjun has published on its website its rules of ethics for suppliers, based on the 10 UN Global Compact principles. Landsvirkjun expects its suppliers to adhere to these rules when conducting business with Landsvirkjun.”

In a similar vein, the following text has been added to new contracts with service providers/ contractors, and included in an annex to contract renewals:

“The contractor has read and understood Landsvirkjun's rules of ethics for suppliers which are published on Landsvirkjun's website and commits to adopt and follow those rules in its business operations with Landsvirkjun.”

Health and Safety

In 2015 employees of Landsvirkjun worked 1 million working hours without accidents leading to absence. This is a noteworthy achievement, which was not achieved without effort. Despite this achievement the year 2015 saw a notable increase in accidents among permanent staff or 13 compared to 6 in 2014. However, thankfully no serious accidents occurred in 2015.

In addition to the goal of becoming carbon neutral by 2030, Landsvirkjun has registered the following goals with NAZCA:

Carbon capture, use and storage

- > Hydropower reservoirs: Reduce direct GHG emissions by 100% from 2014 to 2020 through carbon sequestration with land reclamation and re-forestation.
- > Geothermal power plants: Reduce direct carbon emissions by 100% from 2008 to 2030 through carbon capture and sequestration with land reclamation, re-forestation and other measures.

Transport

- > Increase the number of electric vehicles to 25% of the vehicles fleet by 2020.

Investment

- > Invest USD 500 million in the development of renewable energy (hydro, geothermal and wind) by 2020 and an additional USD 350 million during 2020–2025.

Initiation of Energy Saving/Efficiency Programs

- > Reduce the impact of climate change through initiating nation-wide programs in the field of energy saving and energy efficiency.

In the interest of tracking progress and enhancing transparency, Landsvirkjun will report in line with the CDP during the course of 2016.

Landsvirkjun's Revised Environmental Policy

Landsvirkjun's management approved a new environmental policy in mid-2015. The essence of the policy is summarized as follows:

"Landsvirkjun is at the forefront of environmental management and sustainable development. The company puts emphasis on knowing the environmental impact of its operations and seeks to minimize it."

The environmental policy embeds five key goals :

- > Use Natural resources more efficiently
- > Carbon neutral operations
- > Operations in harmony with nature and the appearance of land
- > Stakeholder engagement
- > Operations without environmental incidents

Work is in progress to identify the relevant actions and associate measurable targets for each of these goals.

Green Procurement

In December 2014 Landsvirkjun became a founding member of 'Vistvæn Innkaup' (e. green procurement), which is a procurement network run by the Environment Agency of Iceland. In 2015 Landsvirkjun started implementing changes to its procurement processes with the goal of increasing the share of environmentally responsible products in the company's procurement. Thereby the first steps have been taken in rendering Landsvirkjun's procurement more sustainable in line with its Environmental and CSR Policies.

Assessment on the Production of Environmentally Friendly Fuels

The project has assessed the opportunities for increasing the efficiency of geothermal energy. The assessment revealed a number of exciting opportunities in utilising excess energy and carbon dioxide emissions from geothermal power plants to produce alternative fuels. A special emphasis was put on cleaning carbon dioxide from Landsvirkjun's power plants but that is a fundamental factor for the feasibility of further utilising the gas. Research showed that in terms of technology this is possible and at a competitive price. However, there are many open questions and Landsvirkjun will notably continue exploring business and technical issues related to this type of production.

The utilisation of unsecured energy for electrolysis is possible during years of water abundance and by using a new technology for electrolysis that came on the market around a year ago. Analysis showed that it is not feasible to use unsecured energy solely for such production as the feasibility of utilising electricity for such production is limited to a relatively few months a year. Research in this area will continue in collaboration with internal and external stakeholders.

Sustainable Development at Theistareykir

Work on land reclamation around Theistareykir Geothermal Power station was effectively continued in 2015. The responsibility of the project is in the hands of the Soil Conservation Service of Iceland and the manager of agriculture at Nordurthing municipality. The project is conducted in close collaboration with landowners.

Seeds were distributed by roads and in mines and reclamation areas. In addition lupines were planted in dedicated areas within land reclamation fences and by the roads of the town of Husavik. Around 48 tonnes of fertilizer was distributed and 3,000 kg of seeds were sown. In addition, 45,070 plants were planted, mostly birch and larch but also willow.



Electric cars presented to buyers from Landsvirkjun and other companies in the energy industry in Iceland.



At the Theistareykir Power Station, land that has been disrupted due to the construction, is vegetated parallel to the work in the area.

Good Governance / Anti-Corruption

A report on the project is in preparation covering operations in 2015 and the action plan for 2016. The project is led by a dedicated working group, which will be extended to include more members in 2016 to ensure appropriate stakeholder representation. Examples of members that have been added include a representative of Landsnet (operator of Iceland's electricity transmission grid) and a member from the tourist industry. Amongst priorities in 2016 is the development of a number of performance indicators for the environment, society and the economy as well as stakeholder engagement with the public sector in the area.

Reducing Emissions from Transportation

Landsvirkjun put a transportation policy in place in 2014 with emphasis on less fossil fuel consumption. In late 2015 Landsvirkjun started using biodiesel (rapeseed methyl ester) instead of fossil fuel for all vehicles operating in the area around the river Thjórsá. Landsvirkjun has a total of six hydropower stations in the area. The use of the biodiesel instead of fossil fuels results in a reduction of greenhouse gas emissions by at least 60%.

During 2015 Landsvirkjun started offering transportation agreements to its employees. The agreement offers monthly financial support to those employees who commute to

work through environmentally friendly transport means such as bicycles, public transport or walking (electric vehicles are not included in the agreement).

Another important part of the transportation policy implementation was the increase in the number of electric vehicles owned by Landsvirkjun to six during 2015 (from four) and the addition of two hybrids. Electric bicycles were also made available for employees in Reykjavik and Akureyri.

A number of employees now drive to work in their own electric vehicles. Landsvirkjun offers these employees free recharge during the day and priority parking.

Landsvirkjun is also involved in supporting energy conversion in transportation on a broader national scale. In addition to promoting multi-stakeholder discussions and organizing events on the topic, Landsvirkjun is collaborating on energy conversion projects with other companies including Icelandic New Energy, HS Orka and Reykjavik Energy. Landsvirkjun has also supported the production of relevant educational material and is a member of Eco Energy, a national initiative towards energy conversion in transportation involving both the public and private sectors.

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Revision of Main Processes

In 2015 Landsvirkjun's main processes were reviewed with the purpose of increasing their definition and transparency. Emphasis is put on continuous responsibility, increased flexibility and a simplification of the corporate governance system that Landsvirkjun adheres to. The process review has improved the company's ability to analyse all its operations based on objectives, value, risk and various other measurements. The review has also facilitated continuous improvements.

Good Governance in the Value Chain

As part of the implementation of Landsvirkjun's code of conduct for the company's suppliers, Landsvirkjun expects its suppliers to respect and implement the 10 principles of the UN Global Compact and to respect Landsvirkjun's rules of ethics for suppliers which are published on the company's website. Landsvirkjun's service providers are also expected to comply with the company's rules of ethics (see further details in the chapter 'Responsible Value Chain').



Other Important CSR Work

Meetings with Stakeholders

The year 2015 marked the 50 years anniversary of Landsvirkjun. Over the year 10 open stakeholder meetings were held on various topics concerning energy production and corporate social responsibility. For example, public events were held with the residents in the northeast of Iceland to discuss the Þeistareykir Geothermal Project and in the south of Iceland a meeting was held on the expansion of the Búrfell Hydropower Station. Landsvirkjun also held meetings on the needs of the Data Center industry as well as on innovation in the energy industry and the responsibility of companies in fighting climate change. The meetings can be accessed via Landsvirkjun's Youtube account: www.youtube.com/landsvirkjun.

Exhibition at Landsvirkjun's Ljosafoss Hydropower Station

In August 2015, at the occasion of Landsvirkjun's 50 years anniversary, Landsvirkjun opened the exhibition Powering the Future at its Ljosafoss hydropower station. Various companies and experts took part in organizing the exhibition. The exhibition is interactive with focus on play and experience of the audience, emphasising the role of electricity on individuals and the society as a whole. The exhibition is organized through a series of visual experiments that have played an important role in the history of electricity. The goal of the exhibition is to provide the public with an original and educational experience. The exhibition will also play a role in tourism, the educational system and the business world.

Continued Support for Innovation in the Energy Sector

Support to the investment program, Startup Energy Reykjavik (SER), founded in 2014, continued throughout 2015. Landsvirkjun supported innovative companies in the energy sector at seed stage both through direct investment and other means. A total of 14 companies have passed through SER with all but two companies in full operation. Since the start of the project in 2014 companies associated with SER have secured over half a billion ISK in the form of grants and investments. Landsvirkjun aims to continue its support to SER in 2016. Information on the project can be found on <http://www.startupenergyreykjavik.com/>.

In 2015 Landsvirkjun awarded 59.5 million ISK through the fund to support various research projects in the environmental and energy areas. Further information on the fund can be found on <http://www.landsvirkjun.com/researchdevelopment/energyresearchfund/>.

Landsvirkjun's Community Fund

Landsvirkjun operates a community fund which policy is to support projects with broad community relevance and the potential to positively impact Icelandic society. During 2015 a total of 7.6 million ISK was allocated to various projects. The grants included 1 million ISK support to the Icelandic Red Cross for emergency aid to Nepal.

Energy Research Fund

Landsvirkjun's Energy Research Fund's goal is to strengthen research in the environmental and energy areas. Each year the fund awards grants to students, university research projects, institutions, companies and individuals conducting research in these areas.



At the Ljosafoss energy exhibition, inquisitive guests of all ages are introduced to the renewable and sustainable energy generation methods, such as hydropower, geothermal energy and wind energy.



Hörður Arnarson CEO and grantees of Landsvirkjun's Energy Research Fund.



Landsvirkjun

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