



Landsvirkjun

National Power Company of Iceland

UN Global Compact

Communication on Progress



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



Landsvirkjun's operations were successful in 2017. Revenues were higher than ever before and energy sales and generation were the highest ever recorded. Sales amounted to 14.3 TWh, an increase of more than 5% when compared with the previous year. Five power stations enjoyed a record year in production: Fljótsdalur, Sigalda, Búðarháls, Sultartangi and Steingrímsstöð.

External conditions were also advantageous to the Company. Aluminium prices increased by 23% between years and still have some effect on the Company's income. Most of our largest customers experienced a successful year of operations and the demand for electricity remained high.

All of these factors led to record profits before unrealised financial items. Landsvirkjun's finances are becoming stronger every year, which means that we will soon be able to increase dividend payments to the owner of the Company, the Icelandic people.

This strong cash flow has sustained major investments over the past few years. Two power stations were constructed concurrently for the first time in Company history and the Búðarháls Hydropower Station began operations

in 2014. The first phase of the geothermal power station at Þeistareykir also began operations in November. The second phase will begin operations in the spring of 2018. The expansion of the Búrfell Hydropower Station will soon reach completion and is scheduled to begin operations by the middle of 2018. A total of 1.6 TWh will be produced by these three new power stations, representing a 12% increase in capacity.

These projects, which will lay the foundation for stronger and safer revenue resources for the Company, have temporarily slowed down debt-repayment. In 2018, this extended construction period will end, and the Company will be even stronger than before and better prepared to deal with future projects.

Landsvirkjun is a participant in the UN Global Compact, which is a global criteria for social responsibility and Landsvirkjun's progress on those issues is outlined in the annual report.

Yours sincerely,

A handwritten signature in blue ink, which appears to read 'Hörður Arnarson'. The signature is fluid and cursive, written on a white background.

Hörður Arnarson, CEO

Open communication and knowledge dissemination



Landsvirkjun's social responsibility policy includes open and honest communication with any parties affected by company decisions and those who can influence company decisions.

Landsvirkjun is a state owned energy company and plays an important role within society. We are committed to providing information to the public and to creating a platform for the views and interests of those affected, by creating a forum for discussion. We want to help the public to familiarise themselves with our operations.

We are committed to achieving widespread consensus on the balance between environmental, social and profitability issues in our operations. The Company wants to contribute to the sustainable development of society; it is a leader in environmental matters and is committed to social responsibility. The Company fulfils external requirements, government, laws and regulations, and other requirements made with regard to its operations.

Communication policy

Our communication policy is to create support and consensus through open communication with stakeholders. We attach great importance to our communication policy and enforce it in all our Company projects.

Our communication policy is to create support and consensus through open communication with stakeholders

Open meetings

Landsvirkjun holds a number of open meetings every year to share information on its operations. The issues discussed are varied and call for open communication with stakeholders all over the country. Landsvirkjun held six, well attended, open meetings this year where the public were able to familiarise themselves with our operations.

Does the future need energy?

The question "Does the Future Need Energy?" was the main focus of Landsvirkjun's Annual Meeting, held at the Hilton Reykjavík Nordica, on the 26th of April, 2017. Benedikt Jóhannesson, Minister of Finance and Economic Affairs and Jónas Þór Guðmundsson, Chairman of the Landsvirkjun Board of Directors both addressed the audience. Hörður Arnarson, CEO of Landsvirkjun and Ragna Árnadóttir, Deputy CEO gave an overview of the year's results and

operations. They also discussed the future of energy matters in Iceland and elsewhere.

A report on “The Energy Market at a Crossroads”

A report on “The Energy Market at a Crossroads” was presented at an open meeting held at the Hilton Reykjavík Nordica. Over 300 people attended the meeting. The economists Helge Sigurds Næss-Schmidt and Martin Bo Westh Hansen addressed the audience. Þórdís Kolbrún R. Gylfadóttir, Minister of Tourism, Industry and Innovation and Hörður Arnarson, CEO of Landsvirkjun also gave presentations.

Renewable energy is more valuable

Landsvirkjun has produced renewable energy since it began operations. Global awareness on the environment and climate change has increased the value of renewable electricity. Our experts discussed the value of this commodity during our Autumn Meeting. The impact of climate change on energy production and utilisation within the Icelandic system was discussed. There was also a discussion on the worldwide, increased demand for renewable energy and how it can be used responsibly and sustainably.

North-eastern Sustainability Initiative

Landsvirkjun launched a Sustainability Initiative (SI) in Northeast Iceland in 2015. The aim of the project was to monitor the social, environmental and economic development of the area affected by the Þeistareykir Geothermal Power Station, tourism and by the build-up of industry at Bakki.

The first part of the year was spent validating the indicators for the project, that the data used to develop these indicators is accessible. A cost analysis was subsequently conducted and a plan was developed for data purchases in connection with the monitoring of the project. Initially, it was assumed that the scope of the data collection would only cover the years 2015 and 2016, but data will now be retrieved as far back as 2011 or as far as possible, without creating additional costs. Preparation work for the project’s website began in February and the steering committee suggested that the domain www.gaumur.is be used for the project. Data collection and data processing continued alongside preparation work for the website.

Sustainability initiative in East Iceland

Ten years have elapsed since monitoring began on sustainability indicators via the sustainability initiative in East Iceland. The Social Science Research Institute at the University of Iceland was contacted and asked to conduct an evaluation of the social indicators of the project to commemorate this milestone. These indicators were analysed with reference to the social indicators from Statistics Iceland. A report on the results of the audit was published in December 2017. Among the topics discussed were the project’s scope, the development and objectives of the sixteen social indicators of the project as well as the benefits and follow-up on these results. The outcome of the audit is intended as a guide for the project’s participants in the review and follow-up of the project.

The report and other information on the project indicators as well as its progress can be accessed on the project website: www.sjalfbaerni.is.



Successful cooperation between Landsvirkjun and the tourism industry in Iceland

The collaboration between the energy industry and tourism industry has been successful so far. The access and facilities provided by energy projects have often been positive for tourism. The construction of power stations and connected operations has often proved popular with tourists. Good examples of this include the Blue Lagoon, the Mývatn Nature Baths, the Hellisheiði Geothermal Power Plant, and the energy exhibition in Reykjanes and Landsvirkjun's visitor centres in Ljósafoss, Búrfell, Krafla and the Kárahnjúkar Dam.

These visits from foreign visitors provide revenue each year which is likely to increase in the years to come. The results of a survey conducted by the University of Iceland showed that almost half of the respondents would be likely to visit the visitor centres, at geothermal or hydropower stations, during their next visit.

Renewable energy sources are a large part of Iceland's image and there is a great opportunity for energy-based tourism for the country as a whole.

The power station structures in the Blanda area do not cause much disruption to the tourist experience

The University of Iceland conducted a study for Landsvirkjun this year with the aim of exploring the impact of manmade structures on the tourist experience of nature in Iceland. An operational power station was chosen for the study including both the reservoir and the station, which is in the vicinity of a popular tourist route in the highland area.

The survey results show that the majority of tourists in the Blanda area were pleased with their stay. The majority of tourists or 89% experience the area as a natural landscape. Approximately 92% considered the untouched wilderness to be part of the area's attractiveness, despite the presence of power station structures such as reservoirs, dams, canals, roads and power lines. It could therefore be said that the Blanda Hydropower station does not disturb the image of the highlands as an untouched

wilderness in the eyes of the tourists who go there.

The report states that the fact that the Blanda Hydropower Station does not disturb the tourist experience is a clear indication that the design of the station is successful and works well with the surrounding landscape.

“This is the first time such an extensive survey is conducted on the tourist experience of power stations in operation in Iceland. The power industry and tourism can clearly work well together if the design process of power stations is well thought out. It is important that new buildings and other structures outside the urban area in Iceland take the protection of nature into account and merge with the landscape.”

Hörður Arnarson, CEO of Landsvirkjun

Over 40,000 visitors this year

Landsvirkjun has over the years received visitors and educated them on renewable energy sources. Landsvirkjun opens its power stations to visitors who want to know more about the Company's operations and electricity generation from renewable energy sources every summer. Guests were welcomed at Ljósafoss Station and Krafla Station and a guide was made available at the Kárahnjúkar Dam. The energy exhibition at the Ljósafoss Station is open all year, where visitors can learn about electricity in an entertaining and educational way.

The number of visitors to Landsvirkjun's visitor centres has increased significantly between years, or by 39 per cent. Over 40,000 thousand people visited Landsvirkjun's visitor centres as well as the dam at Háslón. More than twenty thousand people made their way to Krafla and over nineteen thousand people visited the Ljósafoss Visitor Centre. Nearly nine hundred and fifty people enjoyed a guided tour of Kárahnjúkar.

More than half of the respondents who took part in the survey conducted by the University of Iceland stated that they were interested in visiting a visitor centre in a geothermal or hydropower station. There are therefore clear opportunities within the industry to build on energy-efficient tourism.

Get to know Landsvirkjun on the web

Landsvirkjun provides important information on the Company's website in both Icelandic and English. In 2017, approx. 97,000 visited the Company website. Facebook followers increased by 14% - to a total of 4,280. Landsvirkjun shared 70 entries on Facebook and received 4000 "likes". The Company is also on Twitter and Instagram.

Landsvirkjun has in recent years published both annual and environmental reports but these reports have only been published digitally since 2014. The goal is to increase public access to the annual accounts of the Company and to promote effective disclosure on its activities. In 2017, nearly 3000 readers viewed the Annual Report and page views were over 15,500.

The Annual Report is available to all interested parties, who can also acquaint themselves with the Company at Landsvirkjun.is or on our Facebook page, Twitter and Instagram.

UN's Sustainable Development Goals



Landsvirkjun is committed to three of the United Nation's Sustainable Development Goals



Landsvirkjun committed to upholding three of the UN's Sustainable Development Goals at the beginning of 2017: Goal 5 on Gender Equality, Goal 13 on Climate Action and Goal 7 on Affordable and Clean Energy.

Landsvirkjun hosted an open meeting on social responsibility at Hotel Nattura. Hörður Arnarson, CEO of Landsvirkjun gave a presentation on Goal 13 on Climate Action and the Company's objectives. Ragnhildur Arnljótsdóttir, Permanent Secretary at the Prime Minister's Office, gave a presentation on all of the UN Sustainable Development Goals and Sigurður Ingi Friðleifsson, Manager of the Energy Agency at the National Energy Authority gave a presentation on Goal 7, on Affordable and Clean Energy.

Landsvirkjun attaches great importance to the sustainable development of energy in harmony with the environment and society. Support for the Global Goals is in line with Landsvirkjun's focus on corporate social responsibility and support for the UN Global Compact.

Gender equality

Sustainable Development Goal 5

Success was achieved on gender equality issues with regard to employee wages. Landsvirkjun was also awarded the Gold Standard for Wage Equality by PWC for the third time. Landsvirkjun achieved one of its main goals and the proportion of female managers exceeded 30% this year during the year.

A group of female Landsvirkjun employees began discussing the status of women within the Company at the beginning of 2017. Efforts have been made to balance the gender gap but these changes have been much slower than initially hoped. The issue of gender equality was therefore discussed in a variety of ways and the CEO of Landsvirkjun subsequently announced that he would accept the position of Chairman on the gender equality committee, until satisfactory results were achieved.

A report on the status of women in the Icelandic energy sector was published in May by the Women in Energy Association. The report showed that women have less influence within the field than men.

Preparation of action plan

The debate on gender equality called for action. External advisors were asked to assess the situation and to implement any relevant changes to ensure more gender equality within Landsvirkjun. The company Capacent was consulted to assess Landsvirkjun's corporate culture with regard to gender equality. Visits were made to all operational areas and factors relating to culture, processes, facilities, housing, etc. were assessed. Various interviews were also conducted with managers and employees. The results of the assessment were presented to the Executive Board in August, 2017

Employees from all Company areas were invited to Reykjavik to attend Landsvirkjun's Autumn Meeting in early November. All employees participated in working groups, focusing on gender equality and discussing the many aspects of the issue. The results of Capacent's analysis were introduced to employees and integrated into the discussion. A representative from each group subsequently gave an overview of what had been discussed and ideas for relevant projects were put forward. An action plan was subsequently further developed as a follow-up measure.

Implementation of the action plan

The implementation of the action plan will be carried out in the beginning of 2018 using Capacent's Equality Indicators as a guideline.

These indicators emphasise the need for progress on gender equality in the following categories: Culture, communication and working environment, policy and organization, organizational chart, wages and role models. Gender equality goals will be set according to the Equality indicators in all Landsvirkjun's operational areas and managers will be responsible for the development of gender equality within their own area.

Affordable and Clean Energy

Sustainable Development Goal 7

A conference was held in New York in May 2017 by SEforALL (Sustainable Energy for All) which is a United Nations organization established after the December 2015 climate summit in Paris. The aim of the Association is to ensure access to energy, to double the share of renewable energy in energy production worldwide and to double the progress of energy efficiency by 2030. Ragna Árnadóttir, deputy CEO of Landsvirkjun, participated in the panel discussions, where she introduced renewable energy production in Iceland, energy exchange during the last few decades and the challenges faced by Icelanders in energy and climate issues.

A People-Centred Accelerator was subsequently designed to support gender equality, community participation and the promotion of women within the global energy sector. Landsvirkjun is one of the founders of the Accelerator and the Company hosted a workshop at Krafla Station (as part of the development of the accelerator), in June, where 40 participants gathered from around the world. Among the guests was Rachel Kyte, CEO of SEforALL.

More Information on the SEforAll initiative and the Accelerator can be accessed on the organisation's website: <http://www.se4all.org/>

Climate Action

Sustainable Development Goal 13

Landsvirkjun published its climate targets publicly before the climate summit in Paris, in 2015. The main target is carbon-free operations, before 2030. The action plan for this target

is being systematically followed to ensure success. Further carbon binding measures will be introduced including the increased use of electric vehicles and reduction of unrecyclable waste. Landsvirkjun is working alongside the Soil Conservation Service of Iceland (SCSI) and the Icelandic Forest Service on carbon offset projects. Landsvirkjun is also working in cooperation with Kolviður to offset employee travel, equipment, waste, etc.

Landsvirkjun submitted a report on the Company's climate action, for the second time, to the CDP.

Climate matters are energy matters

The temperature on Earth in 2017 was the highest ever recorded or 1.1 ° C higher than it was in the last decades of the 19th century.

The sea level has risen during the same period and the sea has continued to acidify. An unusually high number of natural disasters occurred in 2017, some of which can be attributed to climate change.

Climate change is occurring at a much faster rate than expected and the serious consequences of these developments have received increased attention at the international level. Nations, cities, companies, associations of companies, non-governmental organizations and the public have outlined and promised action, aimed at reaching the Paris Summit goal which aims to keep the increase in temperature below 2 degrees.

Iceland is an active participant in this initiative and plans to be carbon neutral by 2040. Various municipalities and companies in Iceland have participated in the debate and set ambitious targets to reduce their carbon footprint.

Landsvirkjun is at the forefront of this campaign and intends to be carbon neutral by 2030. This is further explained in our Green Accounts

Landsvirkjun subsequently registered these intentions in Nazca (Non-State Actor Zone for Climate Action).

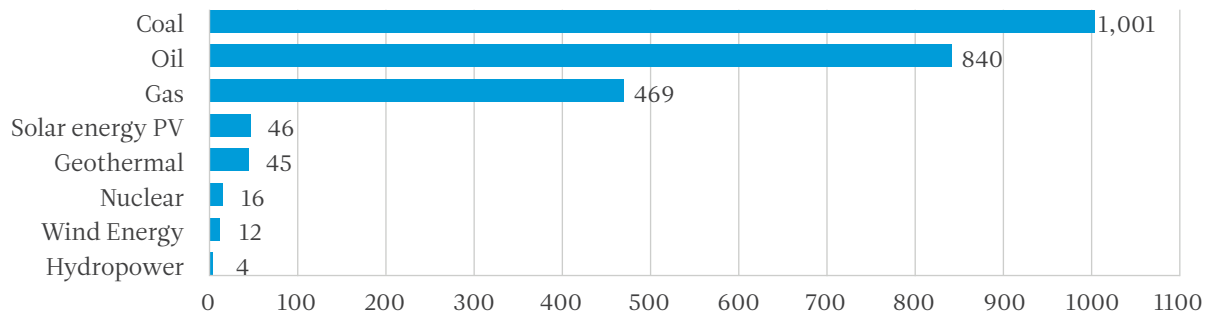
Landsvirkjun's NAZCA goals are:

- To be a carbon neutral company by 2030
- To invest in renewable energy: geothermal, hydropower and wind power
- To ensure that 25% of the Company's vehicles are powered by electricity by 2020
- To introduce various measures to reduce the impact on the climate including the initiative to create action plans on energy efficiency at the national level

**Climate issues are energy issues.
We must reduce global energy consumption and accelerate the development of renewable energy production to achieve the objectives of the Paris agreement and to keep global warming below 2 ° C**

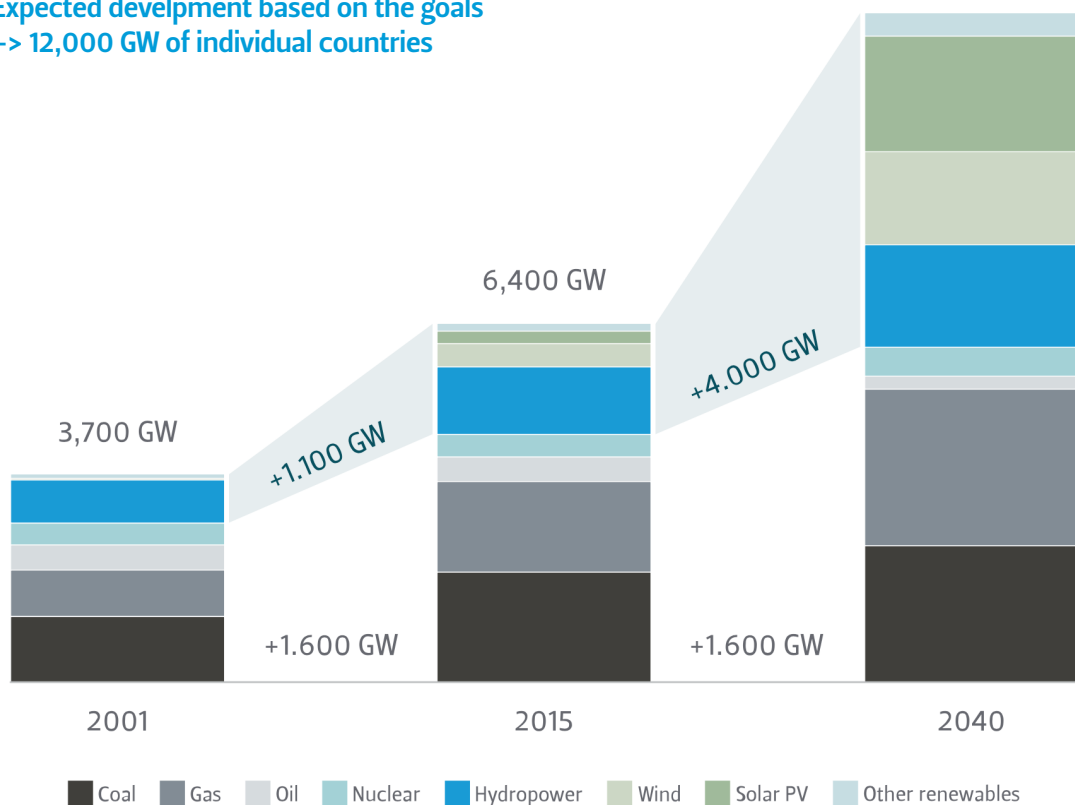
Energy generation is the largest producer of greenhouse gases (GHG) and more than 80% of global energy production is still based on fossil fuels. This type of power generation creates an enormous carbon footprint or high GHG emissions per energy unit. The Carbon footprint of renewable energy production, such as hydropower, wind power, geothermal energy and solar energy is generally much less.

Carbon Footprint of Various Energy Sources

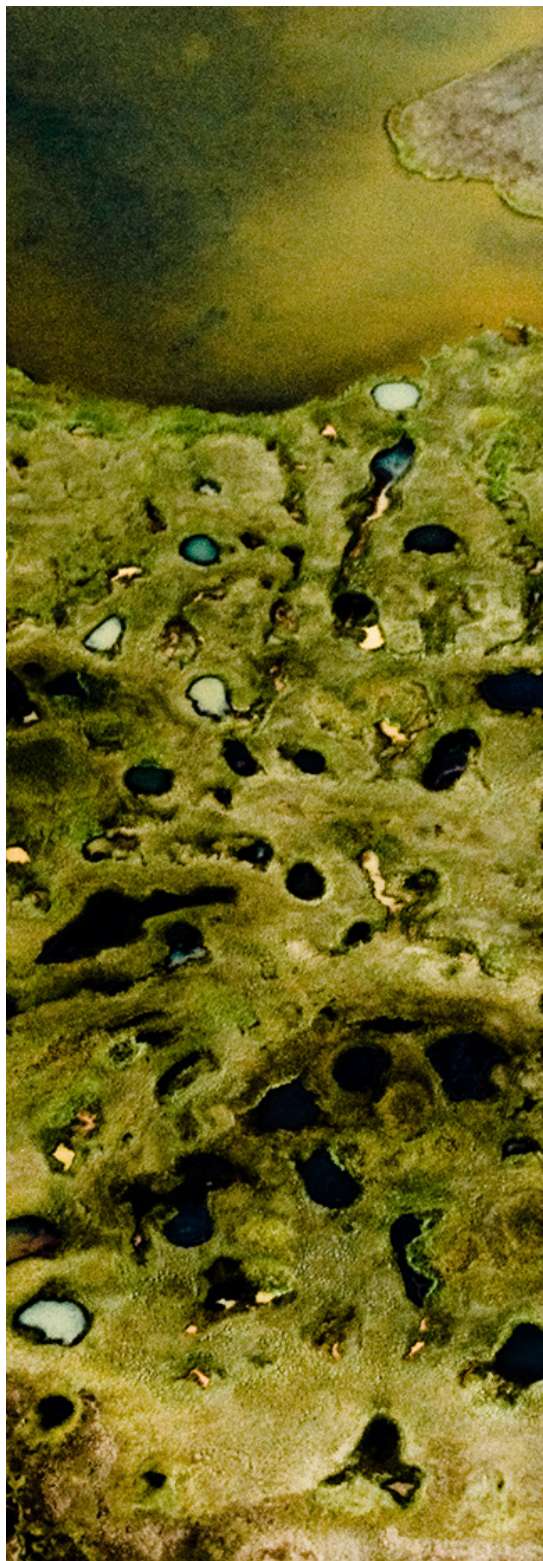


Source: * Intergovernmental Panel of Climate Change 2012: renewable Energy Sources and Climate Change Mitigation. Special Report of the Intergovernmental Panel of Climate Change (page 982). ** Umhverfisstofnun 2017: National Inventory Report. Emissions of Greenhouse Gases in Iceland 1990 to 2015

Expected development based on the goals → 12,000 GW of individual countries



Guiding principles



Landsvirkjun sets out key objectives in six areas regarding social responsibility every year. The objectives for 2017 can be seen below as well as action and outcomes.

Objectives 2017

Every year, we develop an annual action plan defining one or more targets for each main category for that particular year. This enables the Company to increase any positive impact on the environment and minimise the negative. The objectives are introduced on the Company website at the beginning of each year and their progress is monitored. They are assessed and re-evaluated as the next New Year begins when new objectives are set.

Some of the objectives and the projects associated with them are supported by policies or regulations that Landsvirkjun has deemed necessary. This offers stakeholders more transparency with regard to our operations and gives them the opportunity to communicate their expectations. These measures also ensure a common understanding of certain topics at a cross-divisional level.

1 Corporate governance

Policy on human rights

The increased demand for non-financial disclosure, which specifically encourages a discussion on policy with regard to human rights, is outlined in the new Act on Annual Accounts. Landsvirkjun will either review its equality policy in 2017, using human rights issues as a basis, or it will develop a policy on human rights.

Status at year-end 2017

Preparatory work for Landsvirkjun's policy on human rights was carried out in 2017 but has not been completed. The human rights policy is due to be published in 2018.

2 Value Chain

Green steps

Green steps are about systematically promoting ecological operations. The activities are primarily focused on ordinary office activities and have a positive impact on the environment, improving the working environment of employees and reducing operating costs.

Status at year-end 2017

We completed Green Steps two and three in Akureyri and Reykjavik this year. The procedure for step four was also adopted, but has yet to be assessed by the Environment Agency. Green step procedures have been part of the environmental audit system in all Landsvirkjun's operational areas since 2017.

Mapping the value chain

The Code of Conduct provided for suppliers and service providers are a requirement and a part of the Company's daily operations. Efforts will be made to create an improved overview of the social impact of suppliers. These include climate action and fossil fuel consumption.

Status at year-end 2017

Proposals were introduced, in cooperation with a number of consultants, as to appropriate requirements for contracts with contractors, with regard to reducing fossil fuel consumption during the construction period. One of the Company's policies is to minimise the use of fossil fuels in its operations and to assist others in doing the same. Potential measures to minimise the use of fossil fuels on-site (with a particular emphasis on heavy equipment) were assessed.



3 Environmental Matters

Information for the CDP

Landsvirkjun signed the “Caring for Climate” declaration at the Paris Summit in December, 2015. The declaration commits Landsvirkjun to publishing the results of its success in the fight against climate change. Landsvirkjun submitted its first report to the Carbon Disclosure Project (CDP), in accordance with the requirements of membership outlined for the Carbon Disclosure Project (CDP) in 2016.

Status at year-end 2017

Landsvirkjun submitted a report on its carbon emissions and action on climate action to the CDP for the second time in 2017.

According to the CDP’s feedback, Landsvirkjun has made a good start on its work on climate change awareness. The CDP mentioned the following actions to strengthen work and improve Landsvirkjun’s performance with regard to action on climate change:

- Use the SBTI (Science Based Targets initiative) guidelines when setting carbon emission objectives
- Implementation of internal carbon prices
- Improve access to information by using CDSB (Climate Disclosure Standards Board) guidelines.

Landsvirkjun will use the CDP feedback in its continuing work on climate issues.

Review of the policy on energy exchange in transport

In 2012, Landsvirkjun adopted a policy on energy exchange in transport and a transport policy was approved in 2013. Both of these policies outline support for reducing the impact of transport on the environment and atmosphere by reducing the use of fossil fuels and by using energy exchange in transport.

Support for energy exchange has increased within Icelandic society and dialogue on the issue has increased. The policies therefore need to be reviewed and proposals that target these new opportunities need to be developed. Landsvirkjun will continue to endeavour to promote energy exchange in transport, both in its own activities and in cooperative projects.

Status at year-end 2017

A proposal was put forward for Landsvirkjun’s Clean Energy Policy, which combines two previous company policies regarding energy exchange in transport and a transport policy, which was subsequently approved by Landsvirkjun’s executive committee. One of the projects undertaken in 2017 was the increase of electric car use in the Þjórsá area (instead of the rental of diesel cars), during the summer months, to coincide with the recruitment of summer employees. The experience revealed the following:

- Carbon dioxide emissions decreased by 7.9 tonnes CO₂ compared to the same period in 2016
- 3,000 litres of fuel were saved in 2017
- The increased use of electric cars in Landsvirkjun’s operations is a viable option

Forestation measures in the Skálholtshraun Lava Field

Skálholtshraun í Flóa is owned by Landsvirkjun and forestation measures for the area have been under preparation for some time. Land usage has changed in the area and the Master Plan will need to be reviewed for the project to go ahead. The change would imply that the land would be classified as ‘fit for agricultural purposes’. An extensive part of the land is suitable for forestry.

Status at year-end 2017

The review of the Master Plan for Flóahreppur has not been completed but most of the land in Skálholtshraun is already classified as land fit for agricultural purposes. Preparation work for forestation projects was carried out in 2017. Potential partners for the forestation project will be considered and the project is expected to begin in 2018.

4 Society

Dividends paid to owners

Our role is to consistently endeavour to maximise the potential yield and value of the natural resources we have been entrusted with, in a sustainable, responsible and efficient manner. One of the ways to fulfil this role is by paying dividends. Landsvirkjun pays annual dividends to its owner, the Icelandic state. The amount differs between years and is decided by the Board at their Annual General Meeting.

Status at year-end 2017

The amount of dividend payments is determined by the Board of Directors at Landsvirkjun's Annual General Meeting. Dividend payments for 2016 amounted to 1.5 billion ISK.

North-eastern Sustainability Initiative

Landsvirkjun launched a Sustainability Initiative (SI) in Northeast Iceland in cooperation with stakeholders in the area affected by the Peistareykir Geothermal Power Station construction area and the build-up of industry at Bakki. The Húsavík Academic Center (HAC) is responsible for overseeing the project. Sustainability indicators were developed, via a broad consultation process, to assess developments within the area.

Preparation work for the website will take place in 2017. Work on data collection for 2015 and 2016 is expected to be completed by the end of the year and the data will be published on the project's website.

Status at year-end 2017

Preparation work for the project's website began in February and the steering committee suggested that the domain www.gaumur.is be used for the project. Data collection and data processing continued alongside preparation work for the website. Initially, the scope of the data collection only covered the years 2015 and 2016, but data will now be retrieved as far back as 2011 or as far as possible without additional cost. See further discussion in the Annual Report.

Dialogue and consultation

Extensive work was initiated within Landsvirkjun in 2015, aimed at improving relations with stakeholders and to encourage consensus on important aspects of projects and Company activities. This will continue in 2017 when interdisciplinary consultative groups will be established within the Company and further efforts will be made to promote dialogue and consultation with stakeholders in various ways.

Status at year-end 2017

Nine consultative groups were identified within Landsvirkjun at the beginning of the year and each group received one focus project. The issues were diverse, including the protection of mid-highland areas, climate change and the future energy needs of the community. The work involved dialogue and consultation with stakeholders connected to these issues. An example of this is the future energy needs of the community group who consulted with professional development companies, municipalities and customers when the future energy needs of the community were assessed.



5 Human Resources

The proportion of female managers exceeds 30%

Landsvirkjun's policy is to ensure full gender equality. The Company has established a gender equality policy and a gender equality committee. A gender equality action plan with defined objectives is developed every two years.

Status at year-end 2017

Landsvirkjun achieved its goal and the proportion of female managers exceeded 30% this year.

Appraisal of accessibility

Landsvirkjun's management is aware of the need to increase diversity in its workforce. One of the objectives of 2017 is to assess the accessibility of disabled individuals and to assess the workplace in a broader context at the Company headquarters at Háaleitisbraut 68.

Status at year-end 2017

An assessment was conducted in all Landsvirkjun's operational areas in 2017 with regard to gender equality/accessibility, but no such assessment was carried out with regard to the accessibility of disabled individuals at Háaleitisbraut 68.

Accidents

Landsvirkjun's Health and Safety Policy outlines the fact that the Company is committed to following a zero accident policy in all its projects. This applies to the Company's own employees and any contractors working for the Company.

Status at year-end 2017

There were no absence related incidents this year.

6 Knowledge Dissemination

Knowledge dissemination on climate change

Contributions to the Energy Research fund were increased by 3.5%. Landsvirkjun wants to promote public awareness on the impact of climate change and Iceland's responsibility in a global context. This will be achieved through various types of knowledge dissemination, such as open meetings, published content, dialogue and encouragement of informed discussion on climate change.

Status at year-end 2017

Landsvirkjun hosted an open meeting in March to outline the Company's approach to the United Nations Sustainable Development Goals. Landsvirkjun is committed to Global Goal 5 on Gender Equality, Goal 13 on Climate Action and Goal 7 on Affordable and Clean Energy. The company's CEO also participated in a debate on climate issues held by the Association of Chartered Engineers in Iceland (VFÍ) and at a seminar held by Samorka in the spring. Landsvirkjun organised a seminar entitled "Adapting Power Production to a Changing Climate" at the Arctic Circle Assembly conference, held in Harpa on the 13th to 15th of October.

Landsvirkjun's Autumn Meeting, held on the 2nd of November, was well attended and the topic under discussion was the value of renewable energy. The speakers discussed the impact of climate change on energy production and the utilisation of the Icelandic system. They also explained how renewable energy has become more sought after worldwide and how it can be used responsibly and sustainably.

Energy research presented to the public (ORKA)

Work will be initiated on educational material related to energy matters in order to present energy research to the public and to address the sustainable use of energy resources. The focus will be on innovation and technology as well as diversity within the energy sector. The project is a cooperative venture between Landsvirkjun's Energy Research Fund and the NaNo Project at the School of Education at the University of Iceland.

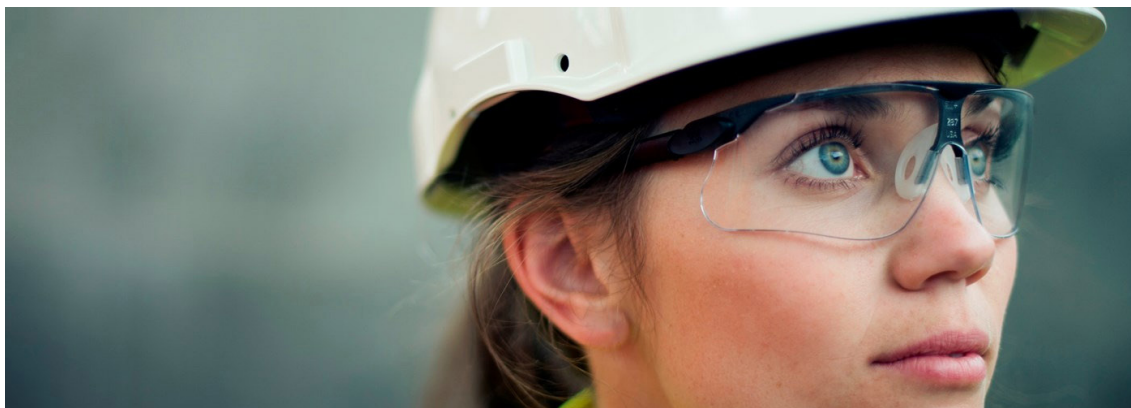
An emphasis will be placed on literacy, creativity and sustainability. The topics are mostly related to sustainability and will be easily accessible to students as well as the public, on the NaNO website, free of charge.

Status at year-end 2017

The NaNo database is set up by the School of Education at the University of Iceland but the project bank is for teachers in primary and secondary schools who teach the natural sciences. The content of the database is supplied by employed teachers (for employed teachers) and is completely free. A grant was applied for (via the Energy Research Fund) to fund the development of educational materials on energy issues and to promote energy research for the public. The project could not begin this year due to the changing circumstances of the project's members but it is expected to begin in 2018.



Universal sustainability principles



Landsvirkjun is a member of the UN Global Compact which is a global criterion for social responsibility.

This commits the Company to following the principles issued by the UN on human rights, labour rights, environmental issues, and anti-corruption guidelines.

Human rights and the work environment

A more diverse workforce

A pilot project was launched in the summer of 2017, giving young autistic individuals the opportunity to gain experience in the labour market. Eight individuals were invited to work in the environmental group at Landsvirkjun, in Reykjavík. The project was run in collaboration with the Secondary School in Kópavogur and Specialisterne in Iceland who offered their support during the completion of the project as well as any assistance required in the case of any unforeseen incidents. Landsvirkjun's employees were also offered information and education on autism.

The project was successful and valuable experience was gained by both the group and employees. The experience gained by each individual differed as did their continued journey

within the labour market. One individual was offered full-time employment in another field following their experience with Landsvirkjun.

Increased protection of the workforce – Value chain

Landsvirkjun implemented rules on chain reliability after they had been approved by Landsvirkjun's Board in August, 2016. The rules are intended to ensure that any counterparty working indirectly for Landsvirkjun (contractors, sub-contractors or temporary work agencies) enjoy rights and employment terms in accordance with the law and wage contracts.

Provisions for the value chain have been incorporated into all Landsvirkjun's procurement agreements (work contracts, contracts of sale and contracts for the purchase of services). According to the provisions, the contractor shall ensure that all employees, whether hired by contractors, subcontractors or temporary work agencies, receive salaries, terms of employment, sickness and accident insurance and other rights in accordance with the agreement, current collective agreements and laws at any given time.

The contractor must also be in possession of valid insurance for all contractor employees, covering

any accidents, sickness, illness, medical costs or deaths that occur during construction. The contractor is also responsible for ensuring that any sub-contractors, temporary work agencies and their employees also have valid insurance.

Penalties can and will be enforced in the case of any violations with regard to chain responsibility or if the counterparty does not provide the requested information. Landsvirkjun reserves the right to enforce these penalties to ensure compliance with the regulations.

Human Rights Policy

Preparation work for Landsvirkjun's Human Rights Policy was carried out in 2017 but has not been completed. The Human Rights Policy is due to be published in 2018.

Environmental issues

The environmental action plan and its objectives were successfully implemented in 2017. One of these objectives was the assessment of 40% of the Company hydropower stations using the Hydropower Sustainability Assessment Protocol (HSAP), which is assessed by independent external parties. This objective was achieved.

Targets have been set for decreased fuel consumption, reduced waste generation and increased waste classification. Landsvirkjun will be carbon-free by 2030 and has already achieved set goals for the increased percentage of electric cars in the Company's fleet, renewable energy investments and the multi-purpose use of geothermal energy, as well as the successful implementation of an action plan for carbon offsetting.

The set objectives for 'operations without environmental incident' were not achieved in 2017, but environmental incidents did decrease by 50% between years. Approximately half of Landsvirkjun's impact on the environment can be attributed to power generation construction projects undertaken by the Company.

Further information on Landsvirkjun's environmental performance can be found in the environmental chapter of the Annual Report and in the Company's Green Accounts.

Anti-corruption measures

Landsvirkjun's Code of Conduct for employees was published and implemented in December 2013. The code covers nine topics, including employee safety, the importance of integrity and respect, handling confidential information and conflicts of interest.

A Code of Conduct was subsequently implemented for suppliers and service providers, based on the principles set out by the UN Global Compact on human rights, labour rights, environmental issues and anti-corruption. The rules provide clear guidance on expectations with regard to healthy work and governance methods and were implemented in 2015, using the appropriate work procedures. There were no deviations from those procedures this year.

UN Global Compact

UN Global Compact	Relevant materials/content
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.	<ul style="list-style-type: none"> - Chapter in UN Global Compact / Human Rights and Labour- Landsvirkjun's Code of Conduct: https://www.landsvirkjun.is/Media/Sidareglur-landsvirkjun-des-2013.pdf - Landsvirkjun's Code of Conduct for Suppliers: https://www.landsvirkjun.is/Media/sidareglur-lv-isl1.pdf
Principle 2: Businesses should make sure that they are not complicit in human rights abuses.	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	
Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour.	
Principle 5: Businesses should uphold the effective abolition of child labour.	
Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.	
Principle 7: Businesses should support a precautionary approach to environmental challenges.	<ul style="list-style-type: none"> - Chapter in UN Global Compact / Environment - Green Accounts / Environment Chapter in Annual Report https://annualreport2017.landsvirkjun.com/environment/green-accounts#Dee-pre-injectionofseparatedwater - Environmental Policy https://www.landsvirkjun.is/samfelagogumhverfi/umhverfisstefna
Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.	
Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.	
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	<ul style="list-style-type: none"> - Chapter in UN Global Compact / Anti-Corruption - Landsvirkjun's Code of Conduct: https://www.landsvirkjun.is/Media/Sidareglur-landsvirkjun-des-2013.pdf - Landsvirkjun's Code of Conduct for Suppliers: https://www.landsvirkjun.is/Media/sidareglur-lv-isl1.pdf



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