



Landsvirkjun

National Power Company of Iceland

Green Finance Framework

September 2020



Introduction

Company Profile:

Landsvirkjun is Iceland's largest electricity generator with about 70% market share. Landsvirkjun places great emphasis on producing energy in a sustainable way and generates all its electricity from 100% renewable energy sources, in harmony with the environment and society. In 2019 about 92% of the electricity Landsvirkjun generated was from hydropower, about 8% from geothermal and less than 1% from wind energy.

Landsvirkjun's responsibility towards Icelandic society is of the utmost importance. The company is state-owned and is entrusted with Iceland's precious natural resources. At Landsvirkjun, our role is to maximise the potential yield and value of the natural resources we have been entrusted with, in a sustainable, responsible and efficient manner. Landsvirkjun has set goals in the fight against climate change and committed to become a carbon neutral company by 2025.

Our Environmental Policy targets the following:

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

In line with our Environmental Policy, Landsvirkjun has identified three of the UN Sustainable Development Goals that reflect the company's focus areas particularly well. These SDG goals are 5: Gender Equality, 7: Affordable and Clean Energy and 13: Climate Action.

Alignment of Green Finance with Strategic Priorities

Landsvirkjun's social responsibility is to create value, respect nature and utilise natural resources in a responsible manner. The company also values knowledge dissemination and innovation. As such, Landsvirkjun considers Green Finance as key in supporting such efforts.



Landsvirkjun Green Finance Framework

Landsvirkjun's Green Finance Framework ("the Framework") is based on the Green Bond Principles (ICMA, 2018) and the Green Loan Principles (LMA/APLMA, 2020). These voluntary process guidelines are developed in multi-stakeholder processes involving issuers, investors, financial institutions and NGOs, with a view to promoting the development and integrity of the green finance market. The Framework takes into account the core components of the Green Bond Principles and the Green Loan Principles being:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External review

This Framework defines assets which are eligible for financing or refinancing by proceeds of Green Finance Instruments issued by Landsvirkjun including, but not limited to, bonds and loans. In addition, the Framework outlines the process used to select and report on eligible assets and the organization of the management of proceeds of Green Finance Instruments.

As both the Green Bond Principles, Green Loan Principles and the green financing market overall are evolving rapidly, this Green Finance Framework may be updated or expanded in the future. Any future updated versions of this Framework will either keep or improve the current levels of transparency and reporting disclosures.





Use of Proceeds

Within the ICMA Green Bond Principles 2018 categories, and the LMA Green Loan Principles 2020, Landsvirkjun’s business activities are focused on the Eligible Green category of “Renewable Energy”.

Use of Proceeds:

The proceeds from the issuance of each Green Finance Instrument will be used to finance or refinance Landsvirkjun’s Eligible Green Assets. Table 1 shows the Eligible Green Assets on the balance sheet of Landsvirkjun parent company.

Table 1: Eligible Green Assets on the balance sheet of Landsvirkjun parent company

GBP Project Category	Assets	Eligible?	Explanation	UN SDG	UN SDG Target
	Property, plant and equipment				
Renewable Energy	Power stations ¹	Yes	Hydro and geothermal stations, wind turbines		Target 7.2: By 2030, substantially increase the share of renewable energy in the global energy mix
	Other Assets ²	Partially	Office buildings, lease assets, equipment and vehicles		
	Projects under construction	Yes	Hydro and geothermal stations, wind turbines		
	Development Cost	Yes	Capitalized development costs		Target 13.2: Integrate climate change measures into national policies, strategies and planning
	Intangible assets	Yes	Water and geothermal rights, software		
	Financial assets ²	Partially	Shares in associated companies and subsidiaries		
	Current assets ^{2, 3}	Partially	Inventories, Receivables, Derivatives and Cash		

¹ Power stations are only eligible if lifecycle emissions are less than 100 g CO₂/ kWh (in case of hydropower stations and geothermal plants).

² Other assets, financial assets and current assets may be eligible if they are strongly associated with the Renewable Energy activities or if the assets are clearly green based on existing requirements. Examples of clearly green assets are buildings belonging to the top 15% of most energy efficient buildings in the country or green certified buildings (certified as BREEAM “Excellent” and above or LEED “Gold” and above) or zero-emission transportation.

³ Derivatives and cash not eligible.

Process for Project Evaluation and Selection

Every project at Landsvirkjun is directly or indirectly related to our primary activity, power generation from renewable sources of energy. As such, Landsvirkjun can be considered a pure-player, with the company's entire generation capacity based on renewable sources.

Evaluation and selection of Eligible Green Assets will be overseen by the Environmental and Treasury departments. All Eligible Green Assets are subject to robust environmental impact assessment processes.

As a member of the International Hydropower Association, Landsvirkjun was a co-developer and early adopter of the Hydropower Sustainability Assessment Protocol (HSAP). This assessment tool was developed through a multi-stakeholder process that included NGOs, such as Oxfam, The Nature Conservancy, World Wide Fund for Nature, and Transparency International. Landsvirkjun is

one of the main participants in the development of the Geothermal Sustainability Assessment Protocol (GSAP) which is led by the National Energy Authority in Iceland. Both protocols are used to assess the sustainability of projects and improve project preparation at Landsvirkjun.

Risk management at Landsvirkjun is based on best practice methods and processes and takes into account statutory requirements under Icelandic and EU legislation as well as the integrated pollution prevention and control framework defined by the European Economic Area (EEA). This enables Landsvirkjun to identify and assess risks and effectively mitigate or base actions on them. Landsvirkjun complies with official national and international environmental (ISO 14001) and social standards. Regular compliance audits are a fundamental part of risk management at Landsvirkjun.



Management of Proceeds

Landsvirkjun will allocate proceeds from Green Finance Instruments to finance Eligible Green Assets in accordance with the use of proceeds criteria and evaluation and selection process presented above.

Proceeds from Green Finance Instruments will be managed by Landsvirkjun's Treasury department, based on the values of Eligible Green Assets on the balance sheet.

Whilst any Green Finance Instrument proceeds remain unallocated, Landsvirkjun will hold and/or invest, at its own discretion, in its treasury liquidity portfolio, in cash or other short term and liquid instruments or to pay back a portion of its outstanding indebtedness, the balance of net proceeds not yet allocated to the Eligible Green Assets.



Reporting

In accordance with recommendations from the Green Bond Principles and Green Loan Principles, Landsvirkjun intends to make and keep readily available reporting on Eligible Green Assets and Green Finance Instruments outstanding. Reporting shall be renewed at least annually or until the maturity of all outstanding Green Finance Instruments. Landsvirkjun will report on the avoided CO² emissions in relation to proceeds of Green Finance Instruments.

In addition, the company's Climate Accounts are reviewed and confirmed by an external consulting company. The consulting company confirms that the report

contains information on significant environmental aspects in Landsvirkjun's operations and that the information is consistent with the company's monitoring of key aspects that can have a significant environmental impact.

Landsvirkjun intends to provide aggregated reporting for all of Landsvirkjun's Green Finance Instruments. Landsvirkjun will align, on a best effort basis, the reporting with the approach described in "Green Bonds working towards a Harmonized Framework for Impact Reporting (June 2019)".

Allocation Reporting

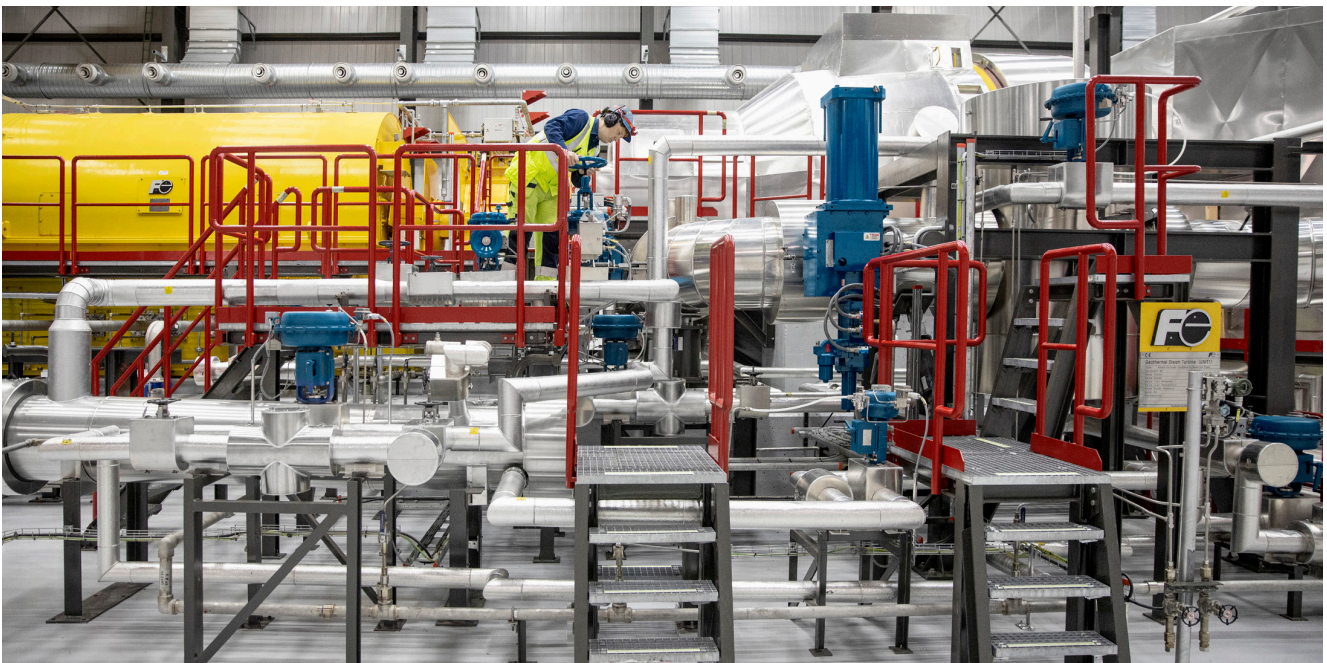
The allocation report will provide:

- > The amount of proceeds allocated to Eligible Green Assets
- > The remaining balance, if any, of unallocated proceeds at the end of the reporting period
- > For Eligible Green Assets, the amount of additions, amount of sold and disposed and amount of depreciation during the year.

Impact Reporting

Landsvirkjun may provide impact reporting on a balance sheet basis and pro-rata basis proportional to the amount of outstanding Green Finance Instruments for the following metrics:

- > The electricity generation capacity (in MW) from Eligible Green Assets;
- > The electricity output (in GWh);
- > The avoided CO² emissions (in tons of CO²) by generating electricity using green and renewable energy.



External Review

Second Party Opinion (pre issuance)

This Landsvirkjun Green Finance Framework has been reviewed by Sustainalytics who has issued a Second Party Opinion. The Second Party Opinion as well as the Green Finance Framework will be made available to the Green Bond investors on the company's website, www.landsvirkjun.com.

Verification (post issuance)

Landsvirkjun intends to request verification from a third party on Allocation Reporting provided under this Green Finance Framework. The external verification is expected to form an integral part of the verification process of the annual Green Finance reporting.

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