

Note 8 - Board of Directors' statement on executive management remuneration

Board of Directors' statement on executive management remuneration

The statement on the remuneration of the company's Chief Executive Officer (CEO) and other members of the Corporate Management Board has been prepared in accordance with the provisions of the Norwegian Public Limited Companies Act, the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

Guidelines for executive management remuneration

Hydro's guidelines for the remuneration of the company's CEO and other members of the Corporate Management Board reflect Hydro's global human resources policy, whereby *"Hydro shall offer its employees an overall compensation package that is competitive and in line with generally accepted industry standards in the country in question. Where appropriate this package should, in addition to the base salary, comprise a performance-based incentive, which combined, should reflect individual performance."*

Process for determination of remuneration

The Board of Directors has appointed a separate compensation committee. The committee currently includes the board chair, deputy chair and one employee-elected board member. The CEO normally participates in the committee's meetings unless the committee is considering issues regarding the CEO. Other representatives of senior management may attend meetings if requested to do so.

The committee functions as an advisory body to the Board of Directors and the CEO, and is primarily responsible for:

- Making recommendations to the Board of Directors based on the committee's evaluation of the principles and systems underlying the remuneration of the CEO and other members of the Corporate Management Board.
- Making recommendations to the Board of Directors based on the committee's evaluation of the overall remuneration of the CEO, including the annual basis for bonus payments and bonus payments actually made.
- Assisting the CEO by consulting on the remuneration of the other members of the Corporate Management Board.
- Advising the Board of Directors and the CEO in remuneration matters which the committee finds to be of material or principal importance for Hydro.
- Overseeing the company's process for succession planning.

Key principles for determination of remuneration in the coming financial year

The following statement regarding the remuneration of members of the Corporate Management Board will be presented for an indicative vote to the annual general meeting to be held in May 2018. The Board of Directors proposes that the principles set forth below shall apply for 2018 and up until the annual general meeting in 2019.

The remuneration of members of the Corporate Management Board shall reflect at all times the responsibility of the CEO and the other members of the Corporate Management Board for the management of Hydro, taking into account the complexity and breadth of the company's operations, as well as the growth and sustainability of the company. The total remuneration will be rooted in the company's objective of being competitive, but not a remuneration leader, within the relevant labor markets, while at the same time reflecting Hydro's international focus and presence.

Hydro attaches importance to transparency and to ensuring that remuneration arrangements are developed and implemented in accordance with principles for good corporate governance.

The total remuneration of the CEO and other members of the Corporate Management Board consists of a fixed compensation, performance-based bonus, share-based long-term incentive plan, employee share plan, pension and insurance arrangements and, in certain cases, a severance pay arrangement. The Board of Directors will continue to ensure moderation in executive management remuneration.

Fixed compensation

The fixed compensation provided to members of the Corporate Management Board includes a base salary (which is the main element of remuneration) and benefits in kind such as a company car or car allowance, a telephone, newspapers and other

similar benefits. The base salaries of individual members of the Corporate Management Board are evaluated annually in light of the complexity and responsibility of the relevant employee's role and his or her contribution, qualifications and experience, together with conditions in the labor market and general salary trends.

Variable compensation

Bonus

The maximum annual performance-based bonus payable to the CEO is equal to 50 percent of annual base salary. The maximum annual performance-based bonus payable to the other members of the Corporate Management Board appointed on Norwegian employment terms is equal to 40 percent of annual base salary. The Board of Directors evaluates and determines annually the bonus system for the CEO and members of the Corporate Management Board. Bonus payments to the CEO and the other members of the Corporate Management Board are dependent on Hydro achieving positive underlying earnings before interest and tax (EBIT). The bonus parameters are established as part of the annual business-planning process with the objective of having parameters that are ambitious and balanced, and objective and measurable, and which reflect the varied nature of Hydro's operations. The annual bonus shall be determined on the basis of overall achievement of the following elements:

- (a) achievement of one or more pre-defined financial targets for underlying EBIT,
- (b) achievement of strategic, operational, financial and organizational goals, referred to as "key performance indicators" (KPIs). Depending on the business area, these goals includes,
 - productivity and improvements including optimizing of production and margins,
 - resource allocation and availability,
 - cost reduction and control,
 - investment projects,
 - technology,
 - quality control,
 - health, safety, environment, corporate social responsibility and compliance,
 - customer relations,
 - organization development,
- (c) contribution to the company's development, as well as compliance with and the promotion of Hydro's core values (The Hydro Way) and achievement of individual targets, and
- (d) the Board of Directors' overall discretionary assessment.

Bonus payments are not taken into account when determining the basis for pensionable salary.

Long Term Incentive (LTI)

The company has a share-based long-term incentive plan for the CEO and the other members of the Corporate Management Board of up to 30 percent of annual base salary. The plan is evaluated and determined annually by the Board of Directors. LTI payments are dependent on Hydro achieving positive underlying earnings before interest and tax (EBIT) for the previous financial year.

Payments will be based partly on return on capital employed achieved in the company, and partly on return on capital employed achieved in proportion to a weighted average of return on capital employed achieved by a group of peer companies. Recipients of LTI payments are required to invest the net amount (after tax) in Hydro shares with a lock-in period of three years. Any holder of such shares who voluntarily terminates his or her employment during such a three-year period must pay to the company an amount equal to the after-tax value of the relevant shares at or around the last day of employment. LTI payments are not taken into account when determining the basis for pensionable salary.

The company does not offer options or other similar arrangements.

Other share-based compensation

The CEO and other members of the Corporate Management Board appointed on Norwegian employment terms are eligible to participate in Hydro's discounted employee share purchase plan on the same terms as all other eligible employees (as described in Note 17 Employee remuneration).

Pensions

Company pension plans

There are two pension plans in Hydro in Norway, defined benefit and defined contribution. The defined contribution plan was established on March 1, 2010 at the same time as the defined benefit plan was closed to new entrants. A cash compensation scheme has been established for employees who have been transferred from the defined benefit plan to the defined contribution plan and for whom a deficit in pension capital resulting from the transfer has been estimated.

As of January 1, 2018, approximately 81 percent of the permanent employees in Norway, including six members of the Corporate Management Board, are members of the defined contribution plan. The rest, including the CEO and two members of the Corporate Management Board, are members of the defined benefit plan.

The defined contribution plan stipulates payments into the plan equaling six percent of salary between 0G and 12G, where "G" is the Norwegian National Insurance basic amount, and an additional payment of 14 percent of salary between 7.1G and 12G (totaling 20 percent in this salary range). The defined benefit plan implies a pension right of approximately 65 percent of pensionable salary subject to full service period (minimum 30 years).

Hydro Extruded Solutions AS (formerly Sapa AS) has its own defined contribution pension plan with other contribution rates. This plan covers all of the company's employees appointed on Norwegian employment terms.

12G plan

The company has closed the plan funded through operations for earning pension on the portion of any salary exceeding 12G ("12G plan") such that employees with salaries exceeding 12G prior to the plan being closed remain in the plan, while employees with salaries below 12G on the date of closing will not be included in the plan even if their salary later exceeds 12G. New employees, including new members of the Corporate Management Board (recruited internally or externally), will not be offered the possibility to earn pension on the portion of salary exceeding 12G.

For employees with a defined contribution plan, the 12G plan stipulates that an amount equivalent to 20 percent of the portion of salary exceeding 12G is allocated as a vested (pension) right. For employees with a defined benefit plan, the 12G plan stipulates that the portion of salary exceeding 12G is included in the final salary that forms the basis for calculating pension.

The CEO and six members of the Corporate Management Board appointed on Norwegian employment terms are among those still covered by the 12G plan. In connection with Hydro acquiring 100 percent of the shares in Sapa AS (now Hydro Extruded Solutions AS) on October 2, 2017, the company acquired two new members on the Corporate Management Board. These two members earned pension on the portion of salary exceeding 12G in Sapa, but have not been included in Hydro's 12G plan. Instead, an agreement has been reached on an annual cash payment to compensate for the loss of such earnings.

Hydro Extruded Solutions AS has its own plan funded through operations for earning pension on the portion of any salary exceeding 12G.

Early retirement plans

The company's early retirement plans (discussed below) were closed for new members in 2011 and 2012 respectively. Members of the Corporate Management Board who were included in the plans at the time of closing are still covered by the plans.

The CEO and six members of the Corporate Management Board appointed on Norwegian employment terms have a right to retire at the age of 65 with an entitlement to 65 percent of pensionable salary until the age of 67.

The CEO and two members of the Corporate Management Board also have the right to retire after the age of 62. In the case of the CEO, the Board may request him to do so. From the age of 62, defined pension benefits consist of 60 percent of pensionable salary. From the age of 65, the entitlement is 65 percent of pensionable salary (in accordance with the scheme described in the foregoing paragraph).

The pensionable salaries of the CEO and the two abovementioned members of the Corporate Management Board have been capped. The pensionable salary caps are subject to annual adjustment in accordance with the adjustment of the Norwegian National Insurance basic amount. Following the adjustment as of 1 January, 2018, the pensionable salaries are capped at NOK 7,330,150 for the CEO and NOK 4,496,631 for the two members of the Corporate Management Board.

Retirement age

Implementation of a new internal company age limit (70), combined with new flexible rules for pension withdrawals, mean that Hydro in Norway no longer employs the concept of retirement age. In the company's defined benefit pension plan, employees will continue to earn pension up until 67 years of age.

Insurance

The CEO and other members of the Corporate Management Board appointed on Norwegian employment terms are covered by insurance arrangements applicable to Hydro employees with a rank of vice president or higher.

Termination agreement

Severance pay

In the event the CEO's employment is terminated unilaterally by Hydro, the CEO has a contractual right to severance pay for 12 months, but not beyond the age of 62.

Two members of the Corporate Management Board have a similar arrangement as the CEO, i.e. right to severance pay for 12 months, but without the limitation of 62 years. Other members of the Corporate Management Board appointed on Norwegian employment terms have a right to severance pay for six months

None of the Corporate Management Board's employment contracts gives the right to severance pay if the employee has initiated the termination of employment.

Loss of severance pay

The CEO's employment contract contains provisions on the loss of severance pay if there are grounds for summary dismissal. Other employment contracts include provisions on the loss of severance pay in the event of gross breach of duty and/or other material breach.

Reduction of severance pay

The CEO's employment contract and the contracts of five members of the Corporate Management Board appointed on Norwegian employment terms include provisions stating that other income shall reduce severance pay. The other four contracts based on Norwegian terms include clauses stating that other income shall not reduce severance pay.

Notice period

All members of the Corporate Management Board appointed on Norwegian employment terms have a six-month notice period.

General

The company has no specific guidelines for severance packages, but when recruiting for corporate management in recent times, it has followed a practice whereby the total of salary during the notice period and severance pay does not exceed 12 months' salary.

Members of the Corporate Management Board outside Norway

For members of the Corporate Management Board outside Norway, base salary and other employment conditions are determined in accordance with Hydro's global human resources policy and local industry standards, and accords generally with the remuneration principles applicable to the other members of the Corporate Management Board.

Silvio Porto, head of Hydro's business area Bauxite & Alumina, is employed by Norsk Hydro Brasil Ltda. and is covered by two local schemes for variable compensation: one short-term and one long-term incentive scheme, each with a potential of just over ten months of base salary. Both incentive schemes are performance-based as described under "Variable compensation / Bonus" above. The Board of Directors' overall assessment is that Porto's total remuneration framework is in accordance with market practice in Brazil.

Porto is also covered by the Corporate Management Board's share-based LTI plan on the same terms as the other members of the Corporate Management Board.

Key principles for determining compensation during the previous financial year

The compensation of the CEO and the other members of the Corporate Management Board for the financial year 2017 was based on the guidelines presented at the annual general meeting in 2017.

In July 2017, the Board of Directors decided to increase the CEO's base salary by 2.8 percent, from NOK 6,217,000 to NOK 6,391,000 effective 1 January, 2017.

Bonus payments for 2016 were determined and paid in 2017 on the basis of the principles described above. Bonus payments for 2017 were determined in March 2018 on the basis of the principles described above.

LTI for 2016 was determined and paid in 2017 based on previously applicable principles, while LTI for 2017 will be determined during the first half of 2018 based on the principles described above.

Bonus and LTI for 2017 will be paid during the first half of 2018. See also Note 9 – Management remuneration.