

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.

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 2019, with the exception on the share based Long Term Incentive, which will be presented for a binding vote. The Board of Directors proposes that the principles set forth below shall apply for 2019 and up until the annual general meeting in 2020.

Key principles for determination of remuneration in the coming financial year

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

The company has two plans for variable compensation for members of the Corporate Management Board: a bonus plan and a share-based long-term incentive (LTI) plan. Both plans are evaluated and determined annually by the Board of Directors. Payments under both plans are dependent on Hydro achieving positive underlying earnings before interest and tax (EBIT) for the previous financial year. Payments are not taken into account when determining the basis for pensionable salary.

Annual bonus

The maximum potential payment under the plan is 50 percent of annual base salary for the CEO and 40 percent of annual base salary for other members of the Corporate Management Board.

The annual bonus parameters are established on the basis of overall achievement of the following elements, where (a) and (b) are established in the annual business-planning process with the aim of having parameters that are ambitious and balanced, and objective and measurable, and which reflect the varied nature of Hydro's operations.

(a) Targets related to the company's consolidated underlying EBIT for the CEO and executive vice presidents responsible for the company's staff areas. Executive vice presidents responsible for the company's business areas will have a two-part EBIT target, where 50 percent relates to the company's consolidated, underlying EBIT and 50 percent to their respective business area's underlying EBIT.

(b) Strategic, operational, financial and organizational goals; "key performance indicators" (KPIs). Depending on the business area, these goals can include

- productivity and improvements including optimizing of production and margins
- resource allocation and availability
- cost reduction and control
- investment projects
- technology
- quality control
- environment and climate
- safety and the work environment
- corporate social responsibility
- compliance
- customer relations
- organizational development.

(c) Contributions to the company's development, as well as compliance with and promotion of Hydro's core values (The Hydro Way) and achievement of individual targets.

(d) The Board of Directors' overall, discretionary assessment of the CEO. The CEO's overall, discretionary assessment of other members of the Corporate Management Board.

The combined weighting of (a) and (b) is 60 percent, while (c) and (d) combined are weighted 40 percent.

Long-term incentive (LTI)

The maximum potential payment under the LTI plan is 30 percent of annual base salary (the same for the CEO and other members of the Corporate Management Board). Payment is determined on the basis of overall achievement of the following elements:

(a) Average of the past three years' return on capital employed, measured against the company's internal return target.

(b) The Company's total shareholder return (TSR) measured against a weighted average of TSR for comparable companies.

With effect from 2019, the return element in (b) has been changed from return on capital employed to TSR.

Recipients of LTI payments are required to invest the net payment amount (after tax) in Hydro shares with a lock-in period of three years. Any holder of such shares who voluntarily terminates their 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.

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 18 Employee remuneration).

Pensions*Company pension plans*

Hydro has two pension plans in Norway: defined benefit (closed to new members in 2010) and defined contribution. As of January 1, 2019, 695 employees in Norway, including the CEO and two members of the Corporate Management Board, are members of the defined benefit plan. Other employees in Norway, including seven members of the Corporate Management Board, are members of the defined contribution plan.

The defined contribution plan stipulates a contribution to the plan of amounts equal to 6 percent of salary between 0 and 7.1G (G = the Norwegian National Insurance basic amount) and 20 percent of salary between 7.1G and 12G. The defined benefit plan implies a pension right of approximately 65 percent of pensionable salary subject to full service period (minimum 30 years). A compensation plan 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.

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

12G plan

Hydro closed the 12G plan funded through operations for earning pension on the portion of any salary exceeding 12G effective December 31, 2016. Employees with a salary above 12G on that date, including the CEO and six other members of the Corporate Management Board, remain in the plan.

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. New employees after December 31, 2016, including new members of the Corporate Management Board (recruited internally or externally), have not been included in the 12G plan. As of January 1, 2019, the Corporate Management Board has three members who came from Sapa AS (now Hydro Extruded Solutions AS). These members earned pension on the portion of salary above 12G in Sapa, and an agreement has been entered into with each of them regarding an annual cash amount to be paid as compensation 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 are closed to new members. Employees who were included in the plans at the time of closing, including members of the Corporate Management Board, are still covered by the plans (see below).

The CEO and two members of the Corporate Management Board have the right to retire with pension after the age of 62. In the case of the CEO, the Board may request him to retire. From the age of 62, the pension will make up 60 percent of pensionable salary. From the age of 65, the entitlement is 65 percent of pensionable salary up until the age of 67. Four other members of the Corporate Management Board have the same right to retire at the age of 65.

The pensionable salaries of the CEO and the two abovementioned members of the Corporate Management Board have been capped. Following the adjustment of the National Insurance Scheme's basic amount, they are capped as of 1 January, 2019 at NOK 7 584 498 and 4 652 660, respectively. These caps currently have no real effect as pensionable income is below these levels.

Age limit

The upper age limit for employment with Hydro in Norway is 70 years.

Insurance

The CEO and other members of the Corporate Management Board are covered by insurance arrangements applicable to Hydro employees with the 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 have a right to severance pay for six months.

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

Loss of severance pay

The CEO's severance pay is forfeited if there are grounds for summary dismissal. For other members of the Corporate Management Board, severance pay is forfeited in the event of gross breach of duty and/or other material breaches.

Reduction of severance pay

The CEO and five members of the Corporate Management Board will have their severance pay reduced in whole or in part by other income. The other four members of the Corporate Management Board have contracts that include clauses stating that other income will not reduce severance pay.

Notice period

All members of the Corporate Management Board have a six-month notice period.

General

The company has no specific guidelines for severance packages, but when recruiting to corporate management in recent times, it has followed a practice whereby the total of salary during the notice period and severance pay shall 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 resigned as head of Hydro's business area Bauxite & Alumina on March 5, 2018. He was temporarily replaced by Hydro's CFO, Eivind Kallevik, until John Thuestad took over as new head of Bauxite & Alumina on June 1, 2018. Kallevik and Thuestad are covered by the preceding sections of this statement. Thuestad also has a retention bonus related to the position in Bauxite & Alumina.

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 financial year 2018 was based on the guidelines presented at the annual general meeting in 2018.

In September 2018, the Board of Directors decided to adjust the CEO's base salary from NOK 6 391 000 to NOK 6 710 000 with effect from January 1, 2018, to reflect the expanded scope of the business following the acquisition of Sapa in October 2017.

Bonus and LTI payments to the Corporate Management Board for 2017 were determined and paid in 2018. Bonuses for 2018 were determined and paid in March 2019, while LTI for 2018 will first be determined and paid during the first half of 2019. All bonus and LTI payments are determined according to the principles stated above. See also Note 9 – Management remuneration.