

ANNUAL REPORT 2019

NOTE 9.1 – 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 determining 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 2020.



KEY PRINCIPLES FOR DETERMINATION OF REMUNERATION IN THE COMING FINANCIAL YEAR

The Board of Directors proposes that the principles set forth below shall apply for 2020 and up until the Annual General Meeting in 2021.

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 Board of Directors will continue to ensure moderation in executive management remuneration.

The total remuneration of the CEO and other members of the Corporate Management Board consists of a fixed compensation, variable compensation (short-term and long-term incentives), employee share plan, pension and insurance arrangements and, in certain cases, a severance agreement.

Fixed compensation

The fixed compensation provided to members of the Corporate Management Board includes a base salary and benefits in kind such as a car allowance, telephone, newspapers and other similar benefits. The company car plan was closed in 2019 and existing cars will not be replaced.

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 general salary trends in applicable markets. In the annual evaluation of the basic salary for the members of the Corporate Management Board, consideration is also given to the results of the wage negotiations between the company and its Norwegian employee organizations. In addition, the company's administration, at the request of the Board's compensation committee, carries out every two years a benchmarking of the remuneration of senior management in comparable Norwegian companies to ensure that the compensation offered by Hydro is market-adapted, but not market-leading.

Variable compensation

The Board's assessment is that target-based variable compensation helps to focus on elements that are important for promoting profitability and creating the basis for long-term value creation, both through the targets themselves and through a shared responsibility for achieving them.

The company has two plans for variable compensation for members of the Corporate Management Board: a short-term incentive (STI) and a share-based, long-term incentive (LTI). 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 (Underlying EBIT) for the previous financial year. Payments are not taken into account when determining the basis for pensionable salary.

Short-term Incentive (STI)

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

The compensation is determined based on overall achievement of the following components, where (a) and (b) are established in the annual business planning process, and must be ambitious and balanced, and objective and measurable, and must reflect the varied nature of Hydro's operations.

(a) Return on capital employed (RoaCE), measured against the company's internal return target (weighted 35 percent). All members of the Corporate Management Board are fully measured on this goal.

(b) Strategic, operational, financial and organizational goals (weighted 40 percent combined).

At the corporate level, the following 10 targets have been set for 2020 for all members of the Corporate Management Board. The aim is to create a greater degree of collectivity and shared responsibility for the overall corporate targets. In addition, specific targets have been set for the executive vice presidents responsible for the business areas, pertaining to their respective business areas.

Name of goal	Description
Hydro's improvement program	Meet identified improvement targets accumulated for 2020
Net operating capital	Net operating capital days within the set upper limit
Robust 100	Meet identified potential for improvement in Rolled Products
Customer satisfaction	Customer satisfaction index above the set lower limit
Safety	Zero fatalities, and meet goal of completing HRI actions
Compliance	Hydro Monitor Integrity index above the set lower limit
Climate	Emissions of CO ₂ equivalents per tonne of aluminium equivalent produced within the identified upper limit
Green products	Meet target for volume growth for external sales of CIRCAL
Corporate social responsibility	Meet the improvement target for Hydro's reputation in Pará (measured by external stakeholder surveys)
Employees	Hydro Monitor Employee Engagement Index above the set lower limit

The company has a goal that is expressed in the phrases "lifting profitability" and "driving sustainability." The first four goals in the table above are considered to support the profitability goal, while the remaining six are considered to support the sustainability target.

(c) Contribution to the company's development, compliance and promotion of Hydro's core values (The Hydro Way), achievement of individual goals, as well as a comprehensive, discretionary assessment based on individual and group-oriented attitude and behavior throughout the year (weighted 25 percent combined).



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 (RoACE), measured against the company's internal return target. This goal also supports the company's emphasis on profitability, though with a more long-term perspective than the RoACE goal in the STI plan.
- (b) The company's total shareholder return (TSR) measured against a weighted average of TSR for comparable companies. TSR is an alternative way of expressing profitability and here in combination with market positioning.

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. This approach helps create a long-term commonality of interest between the company's management and owners. 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.

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 9.3 Employee remuneration).

Pension

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, 2020, 608 employees in Norway, including the CEO and one member of the Corporate Management Board, are members of the defined benefit plan. Other employees in Norway, including eight 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 the 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.

With effect from January 1, 2020, the contribution rates in the defined contribution pension plan for Hydro Extruded Solutions AS (formerly Sapa AS) are coordinated with Hydro's contribution rates.

12G plan

Hydro closed the 12G plan funded through operations for earning pension on the portion of any salary exceeding 12G with effect from December 31, 2016. Employees with a salary above 12G on that date, including the CEO and four 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, 2020, there are five members of the Corporate Management Board who do not earn pension on the portion of salary exceeding 12G, and an agreement has been entered into with each of them regarding payment of an annual cash amount in compensation for the loss of such earnings.

With effect from January 1, 2020, Hydro Extruded Solutions AS coordinated its pension plan for the portion of salary over 12G funded through operations, with Hydro's corresponding plan, and also closed its 12G plan for new members on the same date.

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 one member of the Corporate Management Board have the right to retire at the age of 62, although the CEO's right is limited to medical reasons. 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 up until the age of 67. Five other members of the Corporate Management Board have the same right to retire at the age of 65. The Board may request the CEO to retire at the age of 65.

The pensionable salary for the CEO and two members of the Corporate Management Board (Moss and Kallevik) is limited (with annual adjustment on January 1 corresponding to the adjustment of the National Insurance basic amount).

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 holding the position of vice president or higher.

Termination agreement

Severance pay

Should Hydro terminate its employment relationship with the CEO or other members of the Corporate Management Board (with one exception), they have a right to six months of



severance pay. One member of the Corporate Management Board has a right to severance pay for 12 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

For all 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 seven members of the Corporate Management Board will have their severance pay reduced in whole or in part by other income, while two members of the Corporate Management Board have contracts which state that other income will not reduce their 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 the Corporate Management Board 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 will generally follow the remuneration principles applicable to the other members of the Corporate Management Board.

Currently, all members of the Corporate Management Board have Norwegian employment contracts that follow the principles stated above. The executive vice president of the Bauxite & Alumina business area in Brazil also has a "retention bonus" attached to the position.

EXECUTIVE REMUNERATION POLICY IN 2019

The remuneration policy has been implemented in accordance with the guidelines adopted in 2019, with the following additions and remarks:

The Corporate Management Board underwent extensive changes in the previous financial year:

- Chief Executive Officer: Hilde M. Aasheim succeeded Svein Richard Brandtzæg
- Chief Financial Officer: Pål Kildemo succeeded Eivind Kallevik
- Executive vice president Primary Metal: Eivind Kallevik succeeded Hilde M. Aasheim
- Executive vice president Rolled Products: Einar Glomnes succeeded Kjetil Ebbesberg
- Executive vice president People & HSE Hilde V. Nordh succeeded Katarina Nilsson
- New staff area: Corporate Development (until a new executive vice president is hired, Arvid Moss will serve in this role in addition to his duties as executive vice president Energy, and will receive special compensation for this additional responsibility).

Pål Kildemo, Einar Glomnes and Hilde V. Nordh all held previous positions in the group.

When Hilde M. Aasheim was hired as the new CEO and Eivind Kallevik as the new executive vice president for Primary Metal, they both retained the right to earn pension on the portion of the pensionable salary exceeding 12G. However, the basis for their pensionable income has been limited to the basis that applied on May 8, 2019 (based on previous salary). Aasheim and Kallevik have been executive vice presidents with agreements to earn pension on the full salary that were signed prior to the current "Guidelines on remuneration of executive management in entities in which the state has an ownership interest" entering into force. Removal of the plan for earning pension on the portion of a salary exceeding 12G through issuance of a paid-up policy in the defined benefit plan for Aasheim and a pension capital certificate in the defined contribution plan for Kallevik would in practice have made recruitment impossible and hindered the desired internal mobility.

Compensation for other members of the Corporate Management Board for the financial year 2019, including the new executive vice presidents, is in line with the guidelines adopted for 2019.

When the new CEO was hired with effect from May 8, 2019, the basic salary was set at NOK 6 710 000, the same as the previous CEO's basic salary. The salaries of the other members of the Corporate Management Board increased on average 2.15 percent from 2018 to 2019.

Bonus and LTI payments to the Corporate Management Board for 2018 were determined and paid in 2019. The annual bonuses for 2019 were determined and paid in March 2020. Annual bonuses and LTI payments are determined according to the principles stated above. See also Note 9.2 – Management remuneration.

