

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.

The company has evaluated its principles of remuneration of executive management, including adaptation to "Retningslinjer for lønn og annen godtgjørelse til ledende ansatte i foretak og selskaper med statlig eierandel" (the Government's guidelines on remuneration of executive management in entities in which the Government has an ownership interest) issued by the Ministry of Trade, Industry and Fisheries amended with effect from 13.2.2015.

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 good industry standards in the country in question. Where appropriate this package should include, in addition to the base salary, also a performance-based incentive that overall shall reflect individual performance."* The guidelines will be evaluated in the coming year.

Process for determination of remuneration

The Board of Directors has appointed a separate compensation committee consisting of the board chairperson and two shareholder-elected board members, as well as 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 for the Board of Directors and the CEO and is responsible primarily 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.

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 2016. The Board of Directors proposes that the principles set forth below shall apply for 2016 and up until the Annual General Meeting in 2017.

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.

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 his or her annual base salary. The maximum annual performance-based bonus payable to the other members of the Corporate Management Board on Norwegian terms of employment is equal to 40 percent of his or her 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 reflect (a) achievement of pre-defined financial targets, (b) achievement of strategic, operational and organizational key performance indicators (KPIs) including targets relating to safety and environment (HSE) and corporate social responsibility (CSR), (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 30 percent and 25 percent of annual base salary, respectively. LTI payments are dependent on Hydro achieving positive underlying earnings before interest and tax (EBIT) for the previous financial year. Recipients of LTI payments are required to invest the after-tax net amount 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. The LTI plan is subject to annual evaluation and decision by the Board of Directors. 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 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

There are two pension plans in Hydro in Norway, defined benefit and defined contribution. The defined contribution plan was established on 1 March 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 1 January 2016, approximately 77 percent of the permanent employees in Norway, including five 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 a payment into the plan of amounts equal to 5 percent of the salary between 1 and 6 G and 8 percent of the salary between 6 and 12 G, where "G" is the Norwegian National Insurance basic amount. Following

changes to the Norwegian National Insurance Scheme and the Act on Defined Contribution Occupational Pension, the company is working on an adjustment of its defined contribution plan. The defined benefit plan implies a pension right of approximately 65 percent of pensionable salary subject to full service period (minimum 30 years).

The company has an arrangement funded through operations for earning pension on the portion of any salary exceeding 12G (12G plan). For employees with a defined contribution plan, 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 portion of salary exceeding 12G is included in the final salary that forms the basis for calculating pension. The CEO and the other Norwegian members of the Corporate Management Board were part of the 12G plan at the beginning of 2015. The company has initiated a process to close this plan during 2016. New members of the Corporate Management Board will not be offered the possibility to earn pension on the portion of salary exceeding 12G.

The company is in the process of adapting to the new rules on age limits in the Working Environment Act, and this will be completed by the deadline of 1 July 2016. Until this work is completed, the normal retirement age in Hydro in Norway is 67 years. From this age, the normal pension rules apply (defined contribution or defined benefit). The company has no early retirement plan, except for the two closed schemes mentioned below.

Until 2011, Hydro had an early retirement scheme for employees on certain levels offering a right to retire at the age of 65 with an entitlement to 65 percent of pensionable salary until the age of 67. All current Norwegian members of the Corporate Management Board were members of the scheme when it closed and are, thus, still covered by it.

In addition, the CEO has a right to retire, and the Board of Directors may require him to do so, after the age of 62 with an entitlement to 60 percent of pensionable salary until the age of 65. From the age of 65, the entitlement is 65 percent of pensionable salary (in accordance with the scheme described in the foregoing paragraph). Two members of the Corporate Management Board belong to an early retirement scheme that gives them the right to retire at the age of 62 with an entitlement to 60 percent of pensionable salary until the age of 65, subject to at least five years of service on the Corporate Management Board between the ages of 50 and 60. This scheme was discontinued in 2012.

The pensionable salaries of the CEO and of two 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 2016, the pensionable salaries are capped at NOK 7,050,985 for the CEO and NOK 4,325,380 for the two members of the Corporate Management Board.

Insurance

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

Termination agreement

In the event the CEO's employment is terminated before age 62 unilaterally by Hydro, the CEO has a contractual right to a notice period of six months, plus severance pay and other remuneration (excluding bonus and LTI payments) for 12 months but not beyond the age of 62. Two members of the Corporate Management Board have a similar arrangement as the CEO, but without the limitation of 62 years. Other Norwegian members of the Corporate Management Board have, as of the beginning of 2015, a contractual right to a notice period of six months, plus six months' severance pay.

The CEO's contract and the contracts of the two members of the Corporate Management Board referred to above give the company the right to reduce severance pay in the event of new regular income.

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 for gross breach of duty or other material breach, and subsequent termination of employment on such grounds. None of the contracts gives the right to severance pay if the employee has initiated the termination of employment.

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.

One member of the Corporate Management Board, Alberto Fabrini, has variable compensation schemes deviating from the description above. He is employed by Norsk Hydro Brasil Ltda in Brazil. These schemes entail a framework for variable compensation of up to 8.8 months' base salary for each of the elements (short-term incentive and long-term incentive). Both incentive schemes are performance-based as described above. The Board of Directors' overall assessment is that Fabrini's total remuneration framework is in accordance with market practice in Brazil.

Fabrini is covered by the share-based long-term incentive (LTI) plan described above on the same terms as the Norwegian 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 2015 was based on the guidelines presented at the Annual General Meeting in 2015.

In July 2015, the Board of Directors decided to increase the CEO's base salary by 3.1 percent, from NOK 5,883,000 to NOK 6,065,000 with effect from January 1, 2015.

Bonus payments for 2014 were determined and paid in 2015 on the basis of the principles described above (see also note 9 Management remuneration). Bonus payments for 2015 were determined in March 2016 on the basis of the principles described above and will be paid during 2016.



APPENDIX TO AGENDA ITEMS 7 - 9 RECOMMENDATION FROM THE NOMINATION COMMITTEE

The Nomination Committee consists of the following members:

Terje Venold (chair)
Mette I. Wikborg
Susanne Munch Thore
Berit Ledel Henriksen

Terje Venold was elected chair of the Nomination Committee at the Annual General Meeting 2015. Venold was before that acting chair, following Leif Teksum's resignation from the committee on 18 September 2014. Berit Ledel Henriksen was at the Annual General Meeting 2015 elected as a new member of the Nomination Committee.

The Nomination Committee makes its recommendation to the General Meeting regarding the shareholders' election of members and deputy members to the Corporate Assembly and regarding remuneration to the members of the Corporate Assembly. The Nomination Committee makes its recommendation to the General Meeting regarding the election of the members to and the chairperson of the Nomination Committee and regarding remuneration to the members of the Nomination Committee. The Nomination Committee makes its recommendation to the Corporate Assembly regarding the election of the shareholders' representatives to the Board of Directors and regarding remuneration to the members of the Board of Directors.

Guidelines for the Nomination Committee was adopted by the General Meeting in 2011. The Guidelines are available on www.hydro.com

The Nomination Committee has since the last Annual General Meeting held 24 meetings, which include meetings which the Chairperson, the members of the Board of Directors and the Chief Executive Officer (CEO). The Nomination Committee has been presented with and has evaluated the findings of the Board of Directors' review of own performance. The Nomination Committee has gathered information from the administration and other persons, which it has considered relevant to its work. The Nomination Committee has undertaken a review of its own performance and its Guidelines.

Ordinary election of members and deputy members to the Corporate Assembly, as well as election of members to the Nomination Committee, will take place at the Annual General Meeting on 2 May 2016. The composition of the Corporate Assembly and Nomination Committee has been discussed in four meetings of the Nomination Committee.

The Nomination Committee has in preparing the criteria for selection of candidates for the Corporate Assembly and the Nomination Committee, taken steps to ensure that due attention is paid to the interests of the shareholder community and the Company's requirements for competence, capacity and diversity, including a balanced gender representation. The Nomination Committee has taken into account the need for balancing continuity against renewal in respect of these governing bodies. Contact with the shareholder community has been actively maintained and the Nomination Committee has ensured that its recommendations are anchored with major

shareholders. Information on how shareholders and others can make recommendations to the Nomination Committee is available on the Company's website.

The candidates proposed as members of the Corporate Assembly and the Nomination Committee are independent of the Board of Directors and senior management, ref. the Norwegian Code of Practice for Corporate Governance, section 8. Information on members of the Corporate Assembly and the Nomination Committee is available on www.hydro.com.

The Nomination Committee will at the Annual General Meeting on 2 May 2015 recommend the following:

1. Ordinary election of members and deputies to the Corporate Assembly 2016

The company's Corporate Assembly consists of 18 members, elected for a period of up to two years. 12 of the members and 4 alternates for these members are elected by the General Meeting, whilst 6 of the members and alternates for those members are elected by and from the employees in the company. The Corporate Assembly elects its own chairperson and deputy chair for a term of up to two years. Pursuant to the Articles of Association, the members of the Corporate Assembly, the chairperson and deputy chair are elected for a term up to two years.

The following 12 members and 4 alternates were by the company's Annual General Meeting in 2014 elected members of the Corporate Assembly for a term of up to two years:

Members	Elected from:	Alternate member from:
Leif Teksum (chairperson)	2008	-
Terje Venold (deputy chairperson)*	2006	2002-2006
Idar Kreutzer	2002	2001-2002
Sten-Arthur Sælør	2004	2002-2004
Anne-Margrethe Firing	2006	2002-2006
Unni Steinsmo	2008	2006-2008
Tove Wangensten	2010	2008-2010
Anne Kverneland Bogsnes	2010	2008-2010
Birger Solberg	2012	2010-2012
Susanne Munch Thore	2014	2012-2014
Nils Bastiansen	2014	-
Shahzad Abid	2014	2012-2014

* Chair from 18 September 2014

Alternate Members	Elected from:
Jan Fredrik Meling	2012 -
Ylva Lindberg	2014 -
Berit Ledel Henriksen	2014 -
Jorunn Sætre	2014 -

Leif Teksum resigned as member and chairperson on 18 September 2014. On the same day, Terje Venold was elected chairperson. Berit Ledel Henriksen was at the Annual General Meeting 2015 elected member of the Corporate Assembly, for a period up until the Annual General Meeting 2016.

The Corporate Assembly consists thus of 12 members and 3 alternate members elected by the General Meeting, with functional period up to the Annual General Meeting 2016.

Idar Kreutzer, Tove Wangensteen and Jan Fredrik Meling (deputy) are not up for re-election.

The Nomination Committee unanimously recommends the following:

a) The following are re-elected as members of the Corporate Assembly:

Terje Venold
Susanne Munch Thore
Sten-Arthur Sælør
Anne-Margrethe Firing
Unni Steinsmo
Anne Kverneland Bogsnes
Birger Solberg
Nils Bastiansen
Shahzad Abid
Berit Ledel Henriksen

b) The following are elected as new members of the Corporate Assembly:

Odd Arild Grefstad
Jorunn Sætre (deputy from 2014)

Information on Grefstad and Sætre is attached.

c) The following is re-elected as alternate to the members of the Corporate Assembly:

Ylva Lindberg

b) The following are elected as new alternates to the members of the Corporate Assembly:

Hilde Christiane Bjørnland
Nils Morten Huseby

Information on Bjørnland and Huseby is attached.

The Nomination Committee considers three alternate members, elected by the General Meeting, to be adequate for the Corporate Assembly to carry out its duties and obligations in a satisfactory manner.

All elections to the Corporate Assembly are for a term of up to two years, ref. Articles of Association Section 7.

2. Election of member to and chairperson of the Nominating Committee

Pursuant to Section 5A of the Articles of Association, the Nomination Committee consists of minimum three and maximum four members who are shareholders or representatives of shareholders. The members of the Nomination Committee, including its chairperson, are elected by the General Meeting. The chairperson of the Nomination Committee and at least one other member shall be elected among the shareholder-elected members of the Corporate Assembly. The members of the Nomination Committee are elected for a term of up to two years.

At the Annual General Meeting in 2014, the following persons were elected as members of the Nomination Committee:

Member	Member of the Nomination Committee from:
Leif Teksum	2008
Terje Venold	2012
Mette I. Wikborg	2008
Susanne Munch Thore	2014

Leif Teksum resigned from the Nomination Committee on 18 September 2014. Terje Venold was by a decision of the Nomination Committee on 18 September elected acting chairperson and on the Annual General Meeting 2015 elected as chairperson, for an electoral period up until the Annual General Meeting 2016.

Berit Ledel Henriksen was at the Annual General Meeting 2015 elected as new member of the Nomination Committee, for an electoral period up until the Annual General Meeting 2016.

The term is expiring for all members of the Nomination Committee. All members have agreed to be nominated for re-election.

The Nomination Committee recommends election of the following:

Terje Venold
Mette I. Wikborg
Susanne Munch Thore
Berit Ledel Henriksen

All elections to the Nomination Committee are for a term of up to two years, ref. Articles of Association Section 5A.

The Nomination Committee recommends the following as chairperson of the Nomination Committee:

Terje Venold

It is recommended that Terje Venold is elected chairperson for a period of up to two years, ref. Articles of Association Section 5A.

(Venold, Wikborg, Munch Thore and Ledel Henriksen excused themselves respectively from the Nomination Committee's discussion on the chairperson and each member position)

3. Recommendations on remuneration

The Nomination Committee has based its recommendation for increases in remunerations to the members of the Corporate Assembly and the Nomination Committee on information on the levels of remunerations to elected members in comparable companies, the scope of work and commitment that the elected members are expected to devote to the Company in the coming period and the general increase in the level of earnings of employees in 2015. The Nomination Committee recommends an increase in the remuneration for the chair and the members of the Corporate Assembly and the chair and members of the Nomination Committee of approximately 2,5%.

Based on the above, the Nomination Committee unanimously recommends the following:

	To:	From:
<i>Corporate Assembly</i>		
Chair: *	106 600	104 000
Deputy Chair/member /alternate (per meeting):	7 700	7 500
<i>Nomination Committee</i>		
Chair (per meeting):	7 700	7 500
Member (per meeting):	6 100	6 000

(*in addition to remuneration per meeting attended)

30 March 2016

Terje Venold

Mette I. Wikborg

Susanne Munch Thore

Berit Ledel Henriksen

APPENDIX TO THE NOMINATION COMMITTEE'S RECOMMENDATION

Information on recommended new members of the Corporate Assembly:

Odd Arild Grefstad (1965) holds a degree as state authorized public accountant (CPA) and as certified financial analyst (AFA) from the Norwegian School of Economics, Bergen. He was appointed CEO of the Storebrand Group in 2012, after having held a number of different positions in Storebrand after joining the company in 1994. He was before that employed with Arthur Andersen & Co from 1989. Grefstad has extensive experience as controller and accountant, both as an external accountant and as Group Controller and later Head of Business Control within Storebrand. Grefstad further has experience from the role as EVP, CFO and Legal before becoming the CEO. He has over the past years been member of Board of Directors of several larger companies.

Jorunn Sætre (1956) has an engineering degree from Bergen University College. She has extensive technology experience from the European Research Centre in the Netherlands, Tananger and from the position as VP for Applied Technology in Houston, USA. During the period from 1981 – 1990 Sætre held engineering positions with Halliburton Norway. From 1990 -2013, Sætre served in various management positions in Halliburton, including ten years abroad, most recently as Vice President of Global Production Enhancement, based in Houston. Since 2013 she has worked in AGR where she currently holds the position as manager for Business Development in Norway.

Information on recommended new deputy members to the Corporate Assembly:

Hilde C. Bjørnland (1966) is a Professor of Economics, as well as Director at the Centre of Applied Macro- and Petroleum economics (CAMP) at the BI Norwegian Business School. Bjørnland is also Scientific advisor to the Research Department, Norges Bank, in addition to being a member of the Swedish Fiscal Policy Council. She holds a Ph.D. in Economics from the University of Oslo and a MSc degree from London School of Economics. She has been affiliated with a number of international recognized research foundations, and has worked for the International Monetary Fund. Bjørnland has had numerous publications in referred international journals. She has been in the board for the Financial Supervisory Authority and the Petroleum Price Board and she has been member of several government commissions.

Nils Morten Huseby (1966) holds a degree as civil engineer from NTNU in Trondheim and has extensive experience within energy from commercial positions at, inter alia, Shell and SN Power and later as CEO of Rainpower from 2013 to 2016. Huseby started in April 2016 as President of the Institute for Energy Technology (IFE). From 1998 until 2000 Huseby was an associate with McKinsey & Co. He is Chair of the board of NHO Oslo and Akershus and a member of NHO's Executive Council.

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