The Hydro Integrity Program Handbook on corruption and human rights
Dear Hydro colleagues,

Hydro’s mission is to create a more viable society by developing natural resources and products in innovative and efficient ways. We strive to act responsibly and with due consideration for the impact of our activities – because it is the right thing to do, because a viable society depends on it and because it reduces risk for Hydro.

This updated Integrity Program is a tool for you as Hydro employees and leaders globally to increase awareness of human rights and integrity. We depend on each and every employee to be aware of and remain alert to issues and dilemmas that arise in your daily work.

Experience has shown that a culture of openness and transparency is important to protect the integrity of the individual and the company. Therefore, I urge you to address and discuss dilemmas with superiors and colleagues, to ensure care and consideration when issues arise and in order to learn from each other.

Svein Richard Brandtzæg
President and CEO
1. Introduction

1.1 THE HYDRO INTEGRITY PROGRAM “HIP”

The Hydro Integrity Program is designed to increase focus on anti-corruption and human rights. This Handbook provides practical guidance and tools for acting in accordance with the Hydro values, corporate directives, applicable law, and voluntary initiatives supported by Hydro. Integrity, and avoidance of illegal and unethical behavior, concerns everyone in Hydro. The Hydro Integrity Program Handbook addresses how various integrity and social responsibility risks should be handled. Although Hydro’s Corporate Directives set one single standard, there is no “one-size-fits-all” recipe to ethical and socially responsible behavior and each business unit must find the best way to deal with its specific challenges.

In this updated version, dilemmas have been included as Q&As, to spur reflection and discussion. Throughout the Handbook, you will also find suggested actions that should be considered for instance for future business plans. Certain supporting documents are described in chapter 5.

The implementation of the HIP into our work processes is essential. Managers at all levels are responsible for appropriate familiarization and implementation within their respective organizations. Implementation will be monitored through various activities such as performance reviews, self assessments and audits.

1.2 THE BASIS FOR HIP IN HYDRO’S GOVERNANCE SYSTEM

The Hydro Integrity Program is formally classified as a guideline under Hydro’s Code of Conduct (CD05). It is also rooted in Hydro’s Social Responsibility Directive (CD12)

Hydro’s Social Responsibility Directive calls on Hydro as a company, but also on each and every person who works in Hydro, to follow the basic principles laid out in the directive, in order for Hydro to live up to its corporate social responsibilities.

Hydro’s Compliance System consists of a number of measures aimed at reducing the risk of non-compliance (breach of laws and corporate steering documents). The measures are set out in Hydro’s Guideline for non-financial compliance. The Guideline defines anti-corruption as one of three main compliance areas. The HIP provides detailed guidelines to the business units and individual employees aimed at reducing the risk of non-compliance within the anti-corruption area and, thus, the HIP is a key instrument in Hydro’s Compliance System.

The latest versions of all corporate steering documents referred to in this Handbook can be found on the corporate intranet.

1.3 HYDRO WHISTLEBLOWER CHANNEL

The Whistleblower Channel can be found on the Hydro intranet start page. It allows employees to anonymously file complaints or concerns with Internal Audit Corporate in the event there are particular reasons not to address the local organization or appropriate superior.

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2 Combatting corruption and improper payments

2.1 LEGISLATION, CONVENTIONS AND VOLUNTARY COMMITMENTS ON CORRUPTION

As a Norwegian company, Hydro is subject to the corruption provisions in the Norwegian Penal Code regardless of where in the world the relevant activities take place and regardless of the nationality of the employee(s) involved. Hydro is also subject to the anti-corruption legislation in the countries where we do business, and in addition the legislation and judicial process of other countries may apply. For example, the U.S. Department of Justice exercises far-reaching jurisdiction for the U.S. Foreign Corrupt Practices Act.

Hydro’s Code of Conduct states: “You shall comply with all applicable laws and regulations when conducting business on behalf of the Company.”

Consequences of non-compliance could be severe, both for the company and for individual employees on all levels in the organization. It is the business units’ responsibility to be sufficiently acquainted with applicable laws, including local laws, and to seek local legal advice as needed.

The United Nations Convention Against Corruption 2003 (UNCAC) is the first truly global anti-corruption convention. UNCAC obliges the ratifying countries to implement a wide and detailed range of anti-corruption measures. These measures aim to promote the prevention, detection and sanctioning of corruption, as well as the international cooperation between ratifying countries on these matters. Other conventions ratified by Norway are: OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997), Council of Europe Criminal Law Convention on Corruption (1999), and Council of Europe Civil Law Convention on Corruption (1999). These conventions are binding on countries having ratified them and the countries have an obligation to implement the principles in their local legislation.

The OECD Guidelines for multinational enterprises are recommendations addressed by governments, including the Norwegian government, to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in a variety of areas including combating bribery.

Hydro has endorsed several international initiatives as voluntary commitments. With regard to the HIP, the most important initiative is Transparency International’s Business Principles for Countering Bribery. These principles state:

• The enterprise shall prohibit bribery in any form whether direct or indirect
• The enterprise shall commit to implementation of a program to counter bribery.

Other voluntary commitments are the principles of the UN Global Compact, which includes anti-corruption, human rights and labor standards, the World Economic Forum’s Partnering Against Corruption Initiative and the Extractive Industries Transparency Initiative (EITI).

ACTIONS TO BE CONSIDERED: 
• Consider the need for:
  • Basic knowledge of Norway’s Penal Code (on corruption)
  • Basic knowledge of the U.S. Foreign Corrupt Practices Act
  • Basic knowledge of local corruption law

2.2 CORRUPTION

2.2.1 What is it?
Corruption includes a wide variety of activities. Corruption is often about money, but also includes other forms of favors, such as nepotism, favoring friendship and trading in influence. The most common form of corruption is bribery, which is illegal in Norway and most other countries.

Bribery can be defined as an offer or receipt of any gift, loan, fee, reward or other undue advantage to or from any person as an inducement to do something that is dishonest, illegal or a breach of trust, in the conduct of the company’s business.
Corruption is not tolerated in Hydro and violations will lead to disciplinary actions.

Hydro’s Code of Conduct article 6.2 reads: “You shall not, in order to obtain or retain business or other improper advantage in the conduct of business, offer, promise or give any undue advantage to a public official (or a third party) to make the official act or refrain from acting in relation to the performance of his/her official duties. This applies regardless whether the advantage is offered directly or through an intermediary.”

The Social Responsibility Directive article 2.5 reads: "Hydro shall maintain high standards of integrity. This means that we shall be honest and fair in all our dealings. We shall not permit or tolerate engagement in bribery or other forms of corruption."

In addition to its legal implications, corruption has negative impact on society and undermines the rule of law. It negatively impacts economic growth and increases the cost of doing business and distorts the playing field. It introduces uncertainty into commercial transactions, fosters a permissive atmosphere for other business crimes, undermines employee confidence in management and puts a company’s value and reputation at risk.

**2.3 FACILITATION PAYMENTS**

**2.3.1 What are they?**
Facilitation payments, also called “speed” or “grease” payments, are payments made to secure the performance of a routine or necessary action to which the payer has a legal or other entitlement. Such payments are most often small but can also be substantial.

Typical examples experienced by business include paying a small amount to officials to secure the return of a passport at an airport, to get goods through customs, or to unload a shipment within reasonable time. Facilitation payments are normally cash payments, but could also involve other favors. The payment demanded may seem modest to the company, while the consequences of not paying can be significant.

Information about facilitation payments may not be readily available, since they may amount to small payments from the point of view of the payer and nearly always are in cash. The transactions may be hard to observe or to prove even as they take place. Payments may be hidden within expense statements or petty cash.

Under the Norwegian Penal Code, facilitation payments may be illegal if the payments imply an undue advantage for the recipient.

Hydro employees should never initiate nor encourage facilitation payments. Facilitation payments can only be made in exceptional circumstances, as in cases of extortion where demands for facilitation payments are associated with expressed or perceived threats to life or health.

**2.3.2 Identifying facilitation payments**

As a first step, business units should determine risks related to facilitation payments.

Examples of transactions and activities where risks are present are:
- Immigration
- Customs clearance
- Official approvals and permits
- Work permits
- Visas
- Other official approvals and permits
- Traffic incidents.

**2.3.3 Eliminating facilitation payments**

In Hydro the general rule is that facilitation payments should be resisted – simply refusing to pay may work.

Dilemmas may arise when being confronted with demands for facilitation payments even if a mitigation plan is in place and the policy and attitudes are clear. Employees facing demands for payment may, in critical situations where no alternatives seem possible, decide to pay. Such decisions must be based on their best judgment under the circumstances with due regard to applicable legislation. Employees involved in such situations should, if at all possible, consult with their superior or any other available supervisor or colleague before making any commitment to pay. Any facilitation payments must be reported to your superior and properly recorded in the accounts. Off-the-books payments are strictly forbidden.

If risk of facilitation payments has been identified, the business unit should prepare a local action plan to reduce the exposure to an appropriate level. The plan may, depending on the circumstances, change of intermediaries or other business relations, cooperation with other companies facing similar exposure, and measures such as training (of own employees and/or business relations), change of intermediaries or other business relations, cooperation with other companies facing similar exposure, and initiatives towards authorities.

**Q & A**

**Q:** Can facilitation payments be justified?

**A:** Facilitation payments may be illegal according to local or other applicable laws and could also constitute a breach of the Norwegian Penal Code if the payment constitutes an undue advantage. Even if the facilitation payment demanded may be legal under applicable law, by acquiescing, you may encourage similar or increased demands next time you want to bring in goods. Facilitation payments should only be made in exceptional circumstances, as in case of extortion where demands for facilitation payments are associated with expressed or perceived threats to life or health. In such events, make sure that the payment you are making is justified by law and in accordance with Hydro’s Code of Conduct.”

**Q:** A customs officer claims that some key information is missing and he cannot release parts you critically need to get your plant back to normal operations, even if you are convinced everything is in order. How would you handle the situation?

**A:** This is a request for a facilitation payment. You should resist paying. Depending on the circumstances, it may be useful to ask for the legal basis for his claim. You may also consider to consult your superior or legal counsel and/or to speak to the superior of the customs officer.

**Q:** What can be done to avoid such situations in the future?

**A:** Custom clearance poses a risk in certain countries. The risk should be identified in the risk assessment. In your planning, allow time for customs clearance. You may consider how to deal with this type of risk in the contract with your supplier/customer. You may also address the issues in other meetings with local officials. Hydro is probably not the only company facing these challenges. It may be advantageous to seek a local industry or business alliance, for example with the local business chamber of commerce, to establish common standards. Companies and individuals can anonymously report bribe demands to www.bribeline.org, a multi-lingual website. You can also find country reports containing information on what to expect in various countries.

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**2 ACTIONS TO BE CONSIDERED**

- Ensure appropriate knowledge about the Code of Conduct and the Social Responsibility Directive
- Perform risk assessment related to bribery as a basis for further actions to be considered.

**2 ACTIONS TO BE CONSIDERED**

- Identify risk of facilitation payments
- Prepare a local action plan to reduce risk if relevant.
expense is booked correctly and, and report the incident to your superior.

2.4 POLITICAL CONTRIBUTIONS

Political contributions are any contribution, made in cash or in kind, to support a political cause or party.

Hydro’s Code of Conduct states:
Neither Hydro nor any Hydro employee or Board member shall make financial contributions to political parties on behalf of the Company. This does not preclude Hydro from supporting political views in the interest of the Company.

Q: When notified of Hydro’s policy the candidate says he is also an a:

A: Appropriate training amongst relevant employees.

Q: a local candidate asks Hydro to support his campaign with a

the Company.

Neither Hydro nor any Hydro employee or Board member shall make political contributions.
Political contributions are any contribution, made in cash or in kind, to associate its name with an activity or an organization, and receives rights and benefits in return, such as to promote its name, products and services. Criteria used in Hydro are that sponsorships should reflect our values, quality, profile Hydro positively, contribute to a strengthened brand, and create pride among employees. You may also wish to consult the Hydro Sponsorship Principles for further guidance.

The risk associated with charitable contributions and sponsorships is that they may prompt allegations of bribery. Charitable contributions and sponsorships are illegal if used as a disguise for bribery.

2.5 CHARITABLE DONATIONS AND SPONSORSHIPS

2.5.1 What are they?
Charitable donations are payments made for the benefit of society. Typical areas for such donations are education, health, sports, culture, support to non-governmental organizations and other social welfare causes. Payments are made without demand or expectation of a business return, but may result in goodwill among certain stakeholders.

A sponsorship is a transaction where the company makes a payment, in cash or in kind, to associate its name with an activity or an organization, and receives rights and benefits in return, such as to promote its name, products and services. Criteria used in Hydro are that sponsorships should reflect our values, quality, profile Hydro positively, contribute to a strengthened brand, and create pride among employees. You may also wish to consult the Hydro Sponsorship Principles for further guidance.

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2.5.2 How to reduce the risk related to charitable donations and sponsorships

• Ensure that charitable donations and sponsorships are not being used as a disguise for bribery
• Perform due diligence of new receivers or partners
• Be aware of potential conflict of interest
• Avoid donations and sponsorships that may be perceived as political contributions
• Decisions to give a charitable donation or sponsorship should be approved at management level
• Ensure that all payments are properly recorded in the accounts
• Publicly disclose all charitable donations and sponsorships (confidentiality clauses in sponsorship agreements should be avoided).

Subject to judgment based on the value of the charitable donation or sponsorship and the risk of corrupt practices, different requirements should be imposed by Hydro on the receiver, such as written contract, definition of scope/plan/budget, access to financial statements, possibility of auditing, and interim and final reports. Organizational units involved in charitable donations and sponsorships should establish criteria and records for these purposes, and report according to the Accounting Manual. This will in turn be disclosed in Hydro’s annual report.

2.6 COMMUNITY INVESTMENTS

2.6.1 What are they?
Community investments are made in a community to contribute to its viability through building local capacity, supporting economic development, and promoting human rights, transparency and anti-corruption. Community investments shall be based on a business case and should aim at benefiting both the society and Hydro, as described in the Community Investment Guidelines. Typical community investments include developments of infrastructure and local supplies to Hydro’s projects or operations, but may also be directed at education, health services, or initiatives that support good governance in the relevant country.

The risk associated with community investments is that they may prompt allegations of bribery. Community investments are illegal if used as a disguise for bribery.

2.6.2 How to reduce the risk related to community investments?
Community investments,
• should not be entered into on an ad-hoc basis
• should be based on the overall business strategy
• should be based on needs and impact assessments and stakeholder dialogue
• must be safeguarded against misuse
• must not be used as a disguise for corruption or political contributions.

When supporting activities aimed at profit generation, such as development of local industry, the ultimate beneficiary or owner of the enterprise should be identified and evaluated with a view towards avoiding conflict of interest and nepotism. It may be necessary to conduct due diligence of the community investment partners, beneficiaries and suppliers.

Written contracts should be entered into for all community investment projects. Project objectives, schedule and milestones, budget, partners’ responsibilities, and Hydro’s contribution and exit strategy should be clearly defined. Regular progress reports are recommended. Depending on size and criticality, participation by Hydro in the management committee for the project, with veto rights, control with release of funds and audit right, should be considered.

Q: A local politician asks Hydro to use Hydro’s facilities to celebrate the birthday of a prominent member of the party. Is that OK?

A: This request should be turned down politely as it may be regarded as support to the political party or politician.

Q: During the severe cold in the winter of 2008, many families in Tajikistan suffered badly. Being a major buyer of primary aluminium from Tajikistan, Hydro personnel felt the company should offer relief support. How could we do this with minimum risk?

A: Channel support through renowned aid organizations and consider performing due diligence of potential aid organizations. Ensure that the NGOs follow principles of transparency and that financial accounts are made public. In Tajikistan, Hydro channelled its support through a UN organization with a proven record.

Q & A

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ACTIONS TO BE CONSIDERED:
- Appropriate training amongst relevant employees.

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ACTIONS TO BE CONSIDERED:
- Appropriate training amongst relevant employees.
Q: In connection with a project, Hydro has introduced an education program to increase the qualifications of employees and build competence in the local community. A top official in a ministry that has a strong influence on Hydro’s business in the country wants his son to be included in the program. The boy is qualified, but the number of more qualified candidates is larger than what can be accommodated in the program. How could this be solved?

A: A relative of a minister may apply like anybody else and should not be excluded from the selection process on this account. However, including the relative in the program outside the criteria would be favoritism, and could under certain conditions be regarded as a bribe.

If you launch a program like this, make the criteria and the selection process public and consider bringing these criteria to the attention of the minister.

2.7 GIFTS, HOSPITALITY AND EXPENSES

2.7.1 What are they?
Gifts are goods or services given as a mark of friendship or appreciation without expectation of advantage or value in return. Gifts should have no role in the business process other than that of marking and enhancing relations or promoting the giver’s enterprise by incorporating a logo or message on a promotional item.

Hospitality includes entertaining, meals, receptions, tickets to entertainment, social or sports events and participation in sporting events. Such activities are given or received to initiate or develop a relationship with business partners. The distinction between hospitality and gifts may be unclear: when the giver of the hospitality does not attend and act as a host, the event should be regarded as a gift.

Expenses are the provision or reimbursement by a company of travel and related expenses incurred by a prospective client, customer or business partner, such reimbursement not being part of a contractual arrangement. Typically, these are costs of travel to visit a plant.

2.7.2 General guidelines

Hydro’s Code of Conduct states that:

- Gifts or other favors to business associates shall comply with locally accepted good practice. Gifts and other favors can only be given or granted provided that they are modest, both with respect to value and frequency, and provided that the time and place are appropriate. You are not permitted to accept from business associates monetary or other favors that may affect or appear to affect your integrity or independence. Gifts and other favors can only be accepted to the extent they are modest, both with respect to value and frequency, and provided the time and place are appropriate.

Gifts, hospitality and expenses should always be given and received in a transparent manner and must never place the recipient under any obligation. The same principles apply to both giving and receiving.

If an employee believes that the favor offered or received will not stand the test of public exposure, then it should not be given or received. When in doubt about whether or not a favor is acceptable, employees should consult their superior. Gifts, hospitality and expenses shall never be accepted or offered in situations of contract bidding, evaluation or award.

Special attention should be given to suppliers, contractors and customers and to the ethical behavior of agents and other intermediaries concerning gifts, hospitality and expenses. Guidelines for selection and use of agents and other intermediaries are included in a later chapter.

Q: A supplier sends you a gift for Christmas. The value can be estimated at USD 250. Should you accept this gift?

A: Extending gifts to partners and business associates is a waning custom. Several companies send letters to their business associates informing that gifts are not welcomed. The recommended limit set by Hydro is NOK 500 or equivalent in other currencies. You should consider returning the gift, and explain why.

Q: What if it will be seen as a gross insult if the gift is returned?

A: Try – it may not be as difficult as you think. If it still cannot be returned, then the gift should be considered as a gift to the company, and not to an individual. You should report the gift to your superior and discuss how to hand it over to the company.

Hospitality

All hospitality must be connected with Hydro’s business. As a general rule, hospitality involves business associates. Spouses may sometimes be invited if appropriate, but once spouses are invited, the arrangement is less likely to be business related. Hospitality shall normally not include other family members or friends.

Generally, the cost of hospitality events should be kept modest. Tommy hospitality events hosted by Hydro, such as receptions, concerts, sports events, golf tournaments, fishing trips and hunting trips, shall always be approved in advance at Executive Vice President level or above. Hospitality in the form of meals in connection with business meetings is considered normal business conduct unless exceptionally frequent or lavish.

If a Hydro employee is invited to an expensive hospitality event, approval is required from the superior, who may choose to seek approval from higher management levels, depending on the circumstances. Accepting invitations to expensive events can involve the risk of compromising professional integrity and the expectation of a return favor.
Combating corruption and improper payments

Hydro employees hosting, or accepting participation in, hospitality events, should in each case make their own judgment on whether it could be perceived as improper. Exposure is reduced if cost is shared between the participating companies or if participation is as part of a group with several companies represented.

Participation in hospitality events by spouse, family or friends may be subject to taxation. The same may apply to Hydro employees if there is no or limited business content.

Q: A business associate you are seeking to improve your relationship with invites you and your spouse to Dubai for a golf tournament. Travel and hotel expenses even by Dubai standards, are to be paid by the host. A top pro will be available to help you improve your swing. Can you go ahead and accept this?

A: The business agenda seems to be absent in this program. The fact that you are invited with your spouse makes it less likely that there is a business program. Regardless of the business element, the arrangement can hardly be described as modest. You should politely decline the invitation.

However, if it turns out that there is a business content of value to Hydro you may, following advance approval from your superior, accept the invitation provided Hydro pays for your travel, expenses and accommodation. Travel and expenses for your spouse as a general rule will have to be paid by you.

Expenses

The general rule is that Hydro pays for travel, accommodation and other expenses for Hydro’s employees in accordance with internal regulations and that other parties pay for their employees. Exceptions should be approved by your superior. Any expenses paid by Hydro for others, or such favors received by Hydro employees, should only be for genuine business events.

Q: Customers are interested in a product or solution that can only be seen and demonstrated at one particular plant. Is it acceptable for you to pay for their trip to this Hydro facility?

A: Generally the customers should pay their own expenses. However, provided that the following principles are complied with, Hydro may cover the expenses. The site to be visited should be the closest site in relation to the customer’s place of business. The program for the site visit should only contain business related items. The program should be properly documented, for example by written invitation to the customer. The program should not include spouses or other family members and should be designed with a moderate frame. You should refrain from inviting a customer during tender processes.

2.8 CONFLICT OF INTEREST

Conflict of interest is addressed in the Code of Conduct: Hydro's employee and Board Members shall not seek to obtain advantages for themselves (or related persons) that are improper or in any other way may harm Hydro's interests, whether or not this constitutes criminal fraud. If you become aware of a potential conflict of interest you shall, without delay, notify your immediate superior.

A conflict of interest occurs when an individual has a personal interest that might compromise his or her professional duties, typically when an employee can influence a decision or the results of a process, and one or more of the following is true:

- The same employee has private interests in the outcome of the decision or the results of the process
- Someone close to the same employee has an interest in the outcome of the decision or the results of the process. See below for explanation of "close to"
- You are a part of a business affiliation outside Hydro in which someone might gain advantage of your role as a Hydro employee and/or involvement in the decision-making
- It might be perceived by others that your loyalty to Hydro is compromised due to your relationship to a person/company/organization

Examples of someone close to you are: a family member, friend, company in which you hold a significant interest, or a person to whom you owe an obligation. A business associate or close colleague may also be included in this category.

Hydro employees should be particularly aware of potential conflicts of interest when serving as board members in companies where Hydro has no ownership, or in companies where Hydro has an ownership but the employee has not been appointed by or does not represent Hydro.

When an employee is in one of these situations, it must be evaluated whether the relationship compromises his or her loyalty to Hydro. The employee alone should not evaluate this, because others might perceive the situation differently. To protect employees and Hydro, the employee’s superior should evaluate the situation further.

Conflicts of interest may not always be clear-cut, in which case the Legal Department or the CSR Department could be consulted.

ACtIONS TO BE CONSIDERED:
- Appropriate training for relevant employees
- Map and evaluate potential conflict of interest situations in the unit

2.9 FRAUD

The term “fraud” comprises an array of irregularities which have breaches of integrity as a common denominator. Typical examples of fraud are:

- Theft of physical assets or stock
- Information theft
- Management conflict of interest
- Internal financial fraud
- Corruption and bribery
- Insider trading
- Embezzlement and other forms of financial fraud
- Money laundering
- Tax evasion
- Competitor collaboration, such as collusive tendering

A “red flag” – a fact or circumstance out of the ordinary – may be an indication of fraud and should merit further investigation before proceeding. Typical red flags are:

- Activities based in a country with a low score on Transparency International’s Corruption Perception Index (CPI)
- A business relation that refuses to adhere to the principles set out in Hydro’s Integrity Program Handbook or does not itself have ethical guidelines
- A business relation who refuses to provide complete information or required disclosures
- A business relation with a needlessly complicated corporate structure; or who makes use of shell or holding companies or a blind trust
- A business relation who requires that payment be made to a third party or in a country which has no connection to the transaction or operations, including tax havens

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- A request for an unusually large commission, success fee, or irregular payment structure
- A request for reimbursement of poorly documented or questionable expenses
- A business relationship facing financial difficulties, and fraudulent behavior.

The various forms of fraud may constitute a criminal offense depending on applicable legislation. Hydro’s Compliance System consists of a number of measures designed to prevent and detect breaches of laws and regulations, thereby reducing the risk of fraud in the organization. Examples of such measures are:

- Sound corporate governance and organizational structure
- Internal controls including financial controls
- Periodic risk mapping
- Business planning process
- Appropriate training
- Compliance surveys and monitoring
- External financial audits
- IAC audits
- Whistleblower channel.

An anti-fraud (AF) program has been developed by Hydro to ensure that the most important risks related to financial statement fraud (improper revenue recognition, improper safeguarding of assets due to missing segregation of duties etc.) are identified on the basis of a top-down risk assessment process and that mandatory anti-fraud controls are implemented to mitigate these risks.

The Internal Control Handbook (ICH) includes controls designed to mitigate fraud risks. These controls have been marked "AF" in the Internal Control Handbook, and includes segregation of duties controls, general computer controls, authorization controls, etc. To ensure that the HFRR (Hydro Financial Reporting Risks) AF control objectives and controls reflect Hydro's requirements, an annual risk assessment and potentially required updates will be performed. The risk assessment process including identification of additionally required controls will be facilitated by the Corporate ICFR team (Internal Control over Financial Reporting) and the Sector ICFR managers.

3 Respecting human rights

3.1 BACKGROUND

The fundamental human rights principles are set out in conventions. The most important convention for the protection of human rights is the United Nations Universal Declaration of Human Rights (1948), which defines a number of fundamental principles on religious, political, cultural, economic and social rights. The International Labor Organization's (ILO) core conventions are fundamental to the rights of employees at work. These conventions are binding on countries having ratified them and the countries to a certain extent will have implemented the principles in their local legislation.

Hydro supports the principles set forth in the Universal Declaration of Human Rights. We shall make sure that all our activities worldwide are conducted in accordance with these basic human rights standards. (Corporate Social Responsibility Directive)

The most important human rights matters related to business are:

- Freedom of expression
- Freedom of association and collective bargaining
- Labor standards
- Forced labor
- Child Labor
- Minority rights
- Use of security forces.

Hydro has endorsed several international initiatives as voluntary commitments. With regard to human rights, the most important is the UN Global Compact. The idea behind the Global Compact is for companies to endorse and implement in their activities 10 fundamental principles comprising international human rights and central labor rights, environmental responsibility and corruption. The principles are based on the UN Universal Declaration of Human Rights, the ILO's core conventions, the Rio Principles on Environment and Development and the UN Convention Against Corruption.

3.2 HYDRO’S RESPONSIBILITY WITH RESPECT TO HUMAN RIGHTS

The human rights are formulated as obligations of a state towards its citizens. Thus the state's governments have the primary obligation to safeguard the human rights. According to the Universal Declaration of Human Rights, individuals and companies also have a responsibility to respect and observe human rights. Companies can fulfill this obligation by acting in a responsible manner, regardless of where they are operating.

Hydro is responsible for respecting human rights in the treatment of its own employees and employees working in subsidiaries where Hydro has ownership control or operating responsibility. We should also extend our human rights requirements to suppliers and contractors and influence others that we have contractual relationships with.

In cases of severe human rights abuses, the public in general and non-governmental organizations may expect actions from Hydro even if such cases are not connected with Hydro (outside Hydro's sphere of influence) in any other way than by occurring in a country where Hydro is present. If there are suitable opportunities, the issues may be brought up with government representatives of the host country, at the discretion of Hydro's local management or visiting management. Otherwise, Hydro should work through Norwegian authorities, other countries' authorities and international organizations and networks as appropriate to influence or assist in such cases. Hydro should protect own employees against human rights abuse and should also make efforts to assist employees with respect to their family members.
3 Respecting human rights

3.3 FREEDOM OF EXPRESSION

All Hydro employees have the right to express their views and concerns in good faith, for example with respect to their working conditions, without fear of reprisal. The Whistleblower Channel may serve as an instrument to raise concerns (see item 1.3 above).

Q: An employee is reportedly distributing pamphlets containing abusive language towards a minority. Is this acceptable by reference to the freedom of expression?
A: No, this would constitute discrimination and could be illegal depending on its form and content. Hence, it cannot be perceived to be expressed in good faith.

3.4 FREEDOM OF ASSOCIATION

All Hydro employees have the right to be, or refrain from being, union members and to be represented in collective bargaining agreements. In countries where these rights are restricted, we will seek other solutions to provide our employees with opportunities to influence their work situation.

Q: Hydro is considering establishing operations in a country where unions are prohibited by law. Is this a show stopper for the project?
A: No, this is not a show stopper. Hydro has to comply with local laws and must find other means of facilitating the dialogue with its employees.

Q: At a plant, a union representative complains that the management obstructs union activities by preventing use of the plant facilities for union meetings and not allowing meetings to be held within working hours. How would you deal with these allegations?
A: Unions should be allowed to use the plant meeting facilities and to hold meetings within working hours if practicable.

3.5 LABOR STANDARDS

Hydro is committed to respect the International Labor Organization’s (ILO) eight core conventions. Key issues are freedom of association, the right to collective bargaining, and the prohibition of forced labor. The conventions also address some basic requirements for wages, working hours, social benefits and the working environment, which must be considered in the context of legal requirements and best practices in the country in question.

Q: What are the requirements for working hours in Hydro?
A: According to Hydro’s People Policy (Corporate Directive 03), under normal circumstances, an employee should not work in excess of 48 hours and 12 hours overtime, and should be given a minimum of 24 hours continuous rest. This is in accordance with ILO conventions.

Q: What are the requirements for wages in Hydro?
A: According to Hydro’s People Policy (Corporate Directive 03), Hydro should offer employees a compensation package that is competitive and in accordance with good industry standards locally. Any local legislation on wages, including on minimum wages, shall be adhered to by Hydro.

According to the ILO Minimum wage fixing convention Article 3, the elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups, and (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

Q: Are there any issues related to migrant workers?
A: Migrant workers employed by Hydro have the same rights as other Hydro employees. When entering into contracts with contractors who employ migrant workers, the guidelines CSR in the supply chain (based on the CSR directive) should be observed. It should be considered whether it is necessary to monitor and follow up the conditions of such migrant workers.

Actions to be considered:
- Appropriate training in basic human rights and labor standards
- Incorporation of basic labor rights in contracts with contractors employing migrant workers
- Risk assessment relating to contractors employing migrant workers.
3.6 CHILD LABOR

Hydro does not accept child labor and does not employ children below the age of 16. If a child’s rights of education, play, rest and family life are secured, limited exceptions may be made if this is clearly in the best interests of the child (Hydro’s People Policy, CD 03).

Q: In some countries apprenticeship programs start before the age of 16. Does Hydro’s policy prohibit employment of such apprentices?

A: No. According to the ILO convention no 138 children between the ages of 13 and 15 years old may do light work, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training.

3.7 MINORITY RIGHTS

Hydro does not accept any form of harassment or discrimination on the basis of gender, religion, race, national or ethnic origin, cultural background, social group, disability, sexual orientation, marital status, age or political opinion (Hydro’s Code of Conduct CD 05).

Q: In some countries apprenticeship programs start before the age of 16. Does Hydro’s policy prohibit employment of such apprentices?

A: No. According to the ILO convention no 138 children between the ages of 13 and 15 years old may do light work, as long as it does not threaten their health and safety, or hinder their education or vocational orientation and training.

3.8 INDIGENOUS PEOPLES

As natural resources are often located in remote areas inhabited by indigenous peoples, ensuring that such peoples’ interests and needs are taken into consideration is an important challenge for industrial operations. Operating in such areas may be controversial. Indigenous peoples often represent the weakest group in society; they have limited rights and are at risk of discrimination. They frequently lack formal representation in governmental structures, so it is difficult for businesses to consult with them directly.

For more information please see the ILO convention no. 169 on indigenous and tribal peoples and the United Nations Declaration on the rights of indigenous peoples.

3.9 ARMED SECURITY FORCES

In some of its locations, Hydro may need to employ armed security forces to protect personnel, property or business activities. In line with the Voluntary Principles on Security and Human Rights, it is important to ensure that the employment of security forces is properly controlled and does not result in abuse of power or human rights violations.

Q: What if a Hydro operation is located in an industrial park where the security guards are armed?

A: Regardless of whether the guards are employed by Hydro or by a security firm, Hydro should make sure that they operate in line with the Principles on Security and Human Rights.

3.10 PERSONAL CONDUCT

It is important that Hydro employees do not deliberately or negligently abuse human rights principles, or contribute to human rights abuses.

Hydro is against the purchase of sexual services. Purchase of sexual services may support human trafficking, and human trafficking is a violation of human rights. According to the Norwegian penal code the purchase of sexual services in Norway or abroad is illegal for Norwegian citizens or persons domiciled in Norway.
4.1 GENERAL GUIDELINES

“Hydro’s CSR principles shall be promoted vis-à-vis partly owned companies and other business relationships.” (Hydro’s Social Responsibility directive CD 12).

The standards and actions of our business associates have an impact on our own business, and Hydro’s reputation may be at stake if we choose business associates or participate in companies that do not comply with basic standards for human rights or corruption. We must therefore exercise care in our selection and follow up of business associates. This means that affiliated companies, partners, agents, representatives, consultants, suppliers, contractors, customers and any other business associates should, at an early stage, be made aware of our principles and then be influenced or requested to apply them. It is recommended that clauses on anti-corruption and human rights be included in any contract with business associates.

**Actions to be considered:**
- Inform existing and potential business associates about Hydro’s CSR principles: Code of Conduct, CSR Directive and Integrity Program. Obtain similar information from the business associate. Evaluate whether there are serious discrepancies and prepare action plan if relevant.
- Implement anti-corruption and human rights language in contracts.

4.2 DUE DILIGENCE ON CORRUPTION AND HUMAN RIGHTS

Before we make significant commitments or enter into major projects with new business associates, we should ensure that we have sufficient information about such potential business associates to determine whether the business relationship may expose Hydro to corruption or human rights issues. This also includes acquisitions where the seller’s performance may reflect on Hydro at a later stage.

The closer the cooperation/relationship, the more important it is for Hydro to have detailed information of the business associate.

4.3 JOINT VENTURE PARTNERS

A shared set of basic values is a prerequisite for entering into joint ventures and other partnerships. The following guidelines focus on joint venture partners, which in this context means potential and existing co-owners of business enterprises, such as unincorporated joint ventures and jointly owned affiliated companies (hereafter referred to as Joint Ventures).

4.3.1 Existing Joint Ventures

When Hydro has a controlling interest (sufficient voting power to implement) or operating responsibility, the principles in Hydro’s directives and guidelines related to anti-corruption and human rights shall apply.

When Hydro has a minority interest, Hydro should endeavor to influence the Joint Venture to base its activities on the principles in Hydro’s directives and guidelines related to anti-corruption and human rights.

4.3.2 New partners

When dealing with unfamiliar partners in new or existing Joint Ventures and unfamiliar partners through acquisitions of assets or companies, we are in a better position to convey our requirements at an early stage in order to ensure alignment with our own standards, principles, and practices. Appropriate due diligence investigations in order to identify potential corruption and human rights issues shall be conducted before accepting any new partners in Joint Ventures or prior to completing acquisitions.

**Actions to be considered:**
- Appropriate anti-corruption and human rights training for employees handling Hydro’s joint venture interests and for the joint venture partners’ employees.
- Map corruption and human rights risks in joint ventures.
- Establish action plans for mitigation of potential risks.

4.4 AGENTS AND OTHER INTERMEDIARIES

4.4.1 Background

The three most common forms of intermediary arrangements are:

- **Agency** is an arrangement whereby the agent has authority from the principal/supplier to process orders from customers which normally includes entering into contracts on behalf of the principal.
- A **distributorship** arrangement exists when the distributor buys goods on his own account from a manufacturer or re-seller (the supplier) and resells them in its own name and for its own account to customers. In contrast to a sales agent, a distributor usually has no authority to enter into a contract on behalf of the supplier.
- A **consultancy** arrangement exists when a consultant (often self-employed) is providing advice and/or services in a particular area of expertise to the principal.

There are many legitimate reasons why a company would use an intermediary:
- To explore business opportunities in new countries and regions without the expense of hiring or relocating employees.
- To penetrate a market not easily accessible to outsiders.
- To comply with local law, which may require the use of a local resident.
- To facilitate operations.
- To gain access to particular skills, competence or key people.

The tasks of an intermediary usually involve some form of representing the principal’s interests, which means that the actions of the intermediary will reflect upon the principal. Where there is a risk that such actions could involve any unethical business conduct, the principal should establish appropriate controls to reduce the risk.

4.4.2 Selecting and managing intermediaries

When it is decided to use an intermediary, an appropriate process for the selection and management of the intermediary should be defined. The scope of such process will depend on the circumstances in each case, such as the importance of the relationship, the previous knowledge of the intermediary, the values involved, the term of the contract, and potential risks.
Business relations and value chain

Hydro is a member of TRACE, an organization working to reduce corruption in transactions involving business intermediaries. TRACE offers due diligence services adapted to the vetting of agents and other intermediaries.

The purpose of conducting due diligence on an agent or other intermediary is to identify circumstances ("red flags") that are signs of increased risk of unethical business conduct. The more red flags and the more serious they are, the greater the risk with the intermediary. A red flag means that you should investigate whether the existence of the red flag can be legitimately justified. Red flags do not necessarily result in an intermediary being rejected. But they do require additional investigation so that Hydro can clarify the facts and properly assess the risk before making its decision. Red flags include (but are not limited to) the following:

- The intermediary is located in a country with a low score on Transparency International’s Corruption Perception Index (CPI)
- An intermediary specifically recommended by a foreign official
- An intermediary who refuses to adhere to the principles set out in Hydro’s Integrity Program Handbook or does not itself have ethical guidelines
- An intermediary who refuses to provide complete information or required disclosures
- An intermediary who requires that payment be made to a third party or in a different country, including tax havens
- A request for an unusually large commission
- A request for reimbursement of poorly documented or questionable expenses
- An intermediary who makes large or frequent political contributions
- An intermediary who has family or business ties to relevant officials
- The use of a shell or holding company or blind trust
- Financial difficulties and
- Credible reports of previous or current corrupt behavior.

In addition to thorough due diligence, selection and follow up of intermediaries should include:

- Inform the intermediary about our Code of Conduct, the Hydro Integrity Program, and of what is expected of the intermediary
- Establish written contracts with the intermediary
- A contractual requirement for the intermediary to observe Hydro's Integrity Program or a program of equal standard, and also the right of termination in the event of violation
- Provide support and training, as required, to enable the intermediary to meet those expectations
- Regularly monitor the performance of the intermediary with respect to the contractual obligations, in particular anti-corruption and human rights requirements
- Audit of the intermediary from time to time.

Q: Hydro is about to enter into a metal purchase contract with a state-owned aluminium producer. The contract is long term and important for Hydro’s metal sourcing and supply strategy. The state company appoints an agent as a commercial intermediary between itself and Hydro. The agent’s company is registered in a tax haven. What are the risks with this set-up?

A: Hydro should seek explanation as to why the agent has been appointed, including the technical background and references of the agent. If there appears to be no reasonable explanation, there is every reason to be suspicious. Provided there are legitimate reasons to use the agent, the remuneration should be proportional to the services provided. Payment to tax havens or a third-party should be legitimately justified.

4.5 SUPPLIERS AND CONTRACTORS

Companies are increasingly being held responsible for the anti-corruption and human rights standards throughout their value chains.

The implementation of Hydro’s CSR principles towards suppliers and contractors requires a systematic approach through pre-qualification, bid evaluations, contractual requirements and follow-up of supplier performance. For this purpose Hydro has established a corporate procedure addressing CSR in the supply chain (NHC-C012-01). Line management and personnel in procurement functions are responsible for the implementation of Hydro’s CSR principles in the supply chain.

All procurement contracts
- with a total contract value above USD 3 million,
- under frame agreements with an estimated yearly value above USD 3 million,
- in high risk countries, irrespective of value, or
- of high strategic importance, irrespective of value
shall as a general rule include contractual commitments reflecting Hydro’s CSR principles. If this is not possible, a signed copy of the Supplier Declaration shall be obtained from the supplier. Hydro shall endeavor to ensure that all contracts include auditing rights also cover CSR issues.

If Hydro has reason to believe that a supplier does not comply with Hydro’s CSR principles, the objective should be to cooperate with and assist the supplier in becoming compliant. Hydro should challenge the supplier to establish an action plan to address non-compliance issues, mitigating actions and follow up. If after a reasonable amount of time the supplier shows no willingness to improve, Hydro should evaluate contractual actions including termination.

Q: Besides Hydro’s direct suppliers, how far into the supply chain (our suppliers’ suppliers) are we expected to check compliance with Hydro’s CSR principles?

A: According to the procedure CSR in the supply chain, suppliers shall be required to implement the CSR principles in their own contractual relations with sub-contractors and sub-sub-contractors in construction contracts and contracts in high-risk countries.

Q & A
4.6 CUSTOMERS
Companies are increasingly being identified with the anti-corruption and human rights standards of their customers. Therefore, Hydro should systematically evaluate whether it is appropriate to promote its principles on anti-corruption and human rights to its customers. This will be especially relevant for customers who:
- Are repeat or long term
- Purchase large volumes
- Are strategically important
- Are located in countries with a bad track record on human rights and transparency.

In certain instances it may be appropriate to conduct due diligence of the customer before entering into a contract.

Hydro should be prepared that in its role as supplier it may be requested to include commitments reflecting the customers’ ethical principles, for example by inclusion of anti-corruption and human rights language as well as auditing rights in the contracts. Hydro’s views on such a request will depend on whether the commitments go beyond Hydro’s own CSR principles or not.

**ACTIONS TO BE CONSIDERED:**
- Map anti-corruption and human rights risks associated with customers
- If relevant, establish action plan to mitigate risks.

Q: How do we know that we are in countries with a bad track record on human rights and anti-corruption?
A: There are some basic tools that can be used such as Transparency International’s Corruption Perception Index and Maplecroft’s human rights risk index. Corporate CSR can advise you on these tools.

The responsibility for compliance with laws and regulations and Hydro’s steering documents lies with the line management from the President and CEO via the Executive Vice Presidents for the Business Areas and the Sector Presidents to the head of each business unit. This is clearly established in our steering documents.

The guidelines in the Hydro Integrity Program should be embedded into work processes and practices and corruption and human rights should regularly be on the management agenda. Performing a risk assessment is a prerequisite in order to address risk and establish plans for mitigating actions. A CSR risk mapping tool is available on the intranet. Such plans may be comprised in the yearly business plan, which leaders at all levels must be prepared to discuss in regular performance reviews as well as in specific audits by Internal Audit Corporate.

Throughout the Handbook you will find “Actions to be considered,” which are suggested actions you can take to meet various challenges in your daily work.

**Compliance activities on management level**

Performance review

Compliance related activities implemented in business processes

Legislation

Hydro steering documents

Yearly risk assessment

Self-assessment

Business plan
6 Reporting

External reporting of performance relating to anti-corruption and human rights will be on a yearly basis in connection with Hydro’s Annual Report:
• All payments (tax, signature bonus, and the like) to governments in connection with mining
• Charitable donations
• Sponsorships
• Community investments.

Other information should be reported to your superior when occurring:
• Corruption and human rights incidents
• Deviations from Hydro’s directives concerning human rights or working conditions
• Use of armed security forces (employment, monitoring, etc.).

Dilemmas and cases that can be used for learning across the organization should be reported to the CSR department.

7 Sources of information

Business Principles for Countering Bribery and Guidance Document
www.transparency.org

UN Global Compact
www.unglobalcompact.org

TRACE
www.traceinternational.org

Extractive Industries Transparency Initiative (EITI)
www.eitransparency.org/

Voluntary Principles on Security and Human Rights
www.voluntaryprinciples.org

Amnesty International
www.amnesty.org/

Internal Hydro:
CSR Department
intra.hydro.com/en/Organization/Central-staffs/Corporate-Social-Responsibility

Legal Department
intra.hydro.com/en/Organization/Central-staffs/Legal-dept

Additional information, documents and links are available at intra.hydro.com/en/Cross-unit/The-Hydro-Integrity-Program/ and at www.hydro.com

For questions and comments, please email to: csr@hydro.com

No rights created. This Hydro Integrity Program Handbook is a statement of certain fundamental Hydro principles, policies and procedures that govern the Company’s employees and Board Members. It does not create any rights for any customer, supplier, competitor, shareholder or any other person or entity.
Hydro is a global supplier of aluminium and aluminium products. Based in Norway, the company employs 21,000 people in 40 countries and has activities on all continents. Rooted in a century of experience in renewable energy production, technology development and progressive partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.