

Item 19

The Board's proposed guidelines for remuneration and other employment terms for the Executive Management

For the senior executives of the Group the guidelines for remuneration approved by the 2013 Annual General Meeting were applied during 2013. In this context, "senior executives" refers to the CEO of ICA Gruppen and members of the ICA Management Team who report directly to him. From the evaluation by the Board it has emerged that the guidelines have been followed and have functioned well.

The Board proposes that the guidelines below are approved by the 2014 Annual General Meeting for the period until the conclusion of the 2015 Annual General Meeting.

Current terms of employment

The primary content of the current employment contracts with senior executives who were employed within ICA Gruppen during the 2013 financial year is reported in the corporate governance report for 2013 and in Note 4 (pages 124–125) of the company's Annual Report for 2013.

The Board's proposed guidelines

For the Company to be able to recruit, develop and retain senior executives with relevant experience and expert leadership qualities it is important to have a competitive remuneration package in line with market terms for senior executives in similar sectors.

The remuneration principles shall also motivate senior executives to enhance the Group's market position and earnings, and shall be linked to long-term growth in shareholder value. In addition, variable remuneration shall be linked to quantifiable criteria set in advance.

The levels of remuneration paid to senior executives in related industries and markets is continually researched and assessed. The total remuneration shall be comprised of the following components: basic salary, pension benefits, bonus, other remuneration and benefits, and severance pay.

Senior executives shall also be required to invest in shares.

Basic salary

The basic salary shall be on market terms and based on skills, responsibility and performance.

Pensions

For the CEO and other senior executives a defined contribution pension plan is to be applied, with pension premiums amounting to a maximum of 35% of pensionable salary. Premiums are to be paid as long as the person is employed in the Company.¹

Senior executives employed in countries other than Sweden have pension agreements in line with national practice and which abide by the above principles.²

Bonuses

The CEO and other senior executives in the Group are to be included in two variable remuneration schemes taking the form of a cash bonus, one of which runs for one year (annual bonus programme) and the other for three years (long-term bonus programme). The size of the combined bonus is maximised per person and year at the equivalent of 52% of annual salary (104% for the CEO).

The bonus is not pensionable.

The Board will determine annually whether new programmes are to be started and will determine thresholds, target groups and maximum costs.

More detailed terms of the annual bonus programme and long-term bonus programme are given in Appendix 1.

Notice of termination and terms of severance pay

A mutual notice period of six (6) months shall apply to senior executives. Severance pay to senior executives is to be paid at up to 18 months of basic cash salary if the Company terminates the employment. The severance pay shall be deductible.³

If it is the executive that terminates the employment and the Company decides to apply a non-competition clause which has been agreed in certain cases, the Company will provide compensation during the period the non-competition clause applies at a maximum amount of 60% of the basic salary. Severance pay and compensation paid during the non-competition period will not be pensionable.

¹ This guideline represents a departure from current agreements (entered into previously) for certain senior executives, which provide the right to retire at the age of 62 with a defined-benefit pension during the period until the normal retirement age of 65 years.

² The relevant pension terms for the company's current CEO and other senior executives are reported in Note 4 (pages 124–125) of the company's Annual Report for 2013.

³ This guideline represents a departure from current agreements (entered into previously) for certain senior executives, which provide entitlement to non-deductible severance pay. There are also exceptions from the provisions regarding notice period, severance pay and deduction in certain agreements entered into prior to the 2013 Annual General Meeting.

Other remuneration and benefits

Other remuneration and benefits are to be of limited value in relation to the total remuneration and shall correspond to the market norm.

Share investment etc.

For the purpose of increasing the senior executives' identification with and interest in the Company and its value growth, the Board will decide each year that senior executives are expected to invest a certain portion of their gross salary in shares in the Company.

During the period April–June 2014, the CEO and the senior executives are expected to acquire shares in the Company for a sum amounting to between 5% and 10% of their gross basic salary for the financial year. Shares already held cannot be counted towards this. Shares acquired are to be held for the period during which the senior executive is employed in the Group.

Twelve months after acquiring shares in the Company in accordance with the previous paragraph, the Company's executives will receive a net amount equal to 50% of their investment, provided that all of the following conditions are met:

- (i) the executive remains employed in the Group (the notice period shall not be considered employment for this purpose);
- (ii) the executive still holds all the shares acquired; and
- (iii) a threshold of at least 50% of target for the annual bonus programme has been reached in respect of the current year.

The cost of the compensation to senior executives for acquisitions of shares could provisionally involve a maximum cost including social security contributions of approximately SEK 5.8 million in total, of which approximately SEK 1.1 million relates to the CEO and approximately SEK 4.7 million relates to other senior executives.⁴

Particular reasons

The Board has the right to deviate from the guidelines proposed if there is particular reason to do so.⁵

⁴ The total cost is a cost estimated by the company which is based on certain assumptions. However, the calculation does not take into account any upward adjustment of holiday pay or any indexation for salary revision or inflation. The actual costs may therefore deviate from the provisionally estimated costs.

⁵ Due to extraordinary circumstances, this occurred on one occasion in 2013 when the CEO of ICA Norway was offered other remuneration in the form of a conditional bonus maximised at 30% of basic salary covering an 18-month period starting in 2013.

Appendix 1

Bonus programmes for 2014

STI (annual bonus programme)

A cash-based bonus programme linked to the budget for each financial year and maximised at 27% of annual salary (54% in the case of the CEO and 50% in the case of the current CEO of ICA Banken AB⁶).

The targets for the bonus programme are to be decided by the Board ahead of each financial year and individual bonus agreements are to be arranged with each participant, the content of which depends on the participant's position at the time the agreement is arranged. The targets shall be objectively quantifiable and related to budget. The targets shall consist of financial and operational key indicators such as:

- (i) operating profit (EBIT) excluding non-recurring items;⁷
- (ii) net sales;
- (iii) return on capital employed (ROCE) in the Group excluding ICA Bank;
- (iv) cost control targets;
- (v) operating working capital (number of days); and
- (v) individual targets.

In some cases ICA Banken and ICA Fastigheter have different targets that are better suited to their operations, such as return on equity (ROE), loan loss ratio, C/I ratio and operating expenses in relation to rental income.

The bonus will be determined annually in conjunction with publication of the year-end report for the respective financial year based on an evaluation of the participants' achievement of the targets as described in the bonus agreements. Payment of bonus will be conditional upon the participant remaining employed for the duration of the programme. The Board of Directors has the right to adjust the bonus system during the term of the programme in the case of, for example, extraordinary increases or decreases in the Group's earnings. In the event of maximum outcome, the cost of the 2014 annual bonus programme would provisionally involve a cost including social security contributions of approximately SEK 19.2 million in total, of which approximately SEK 5.8 million relates to the CEO and approximately SEK 13.4 million relates to other senior executives.

⁶ The current CEO of ICA Banken is not included in long-term bonus programmes, which is why his maximum bonus under the STI programme cannot be higher than 50% of annual salary. The current CEO of ICA Banken will retire in 2014 and will be replaced by a new CEO who will be included in the annual bonus programme and whose bonus will thus be maximised at 27% of annual salary.

⁷ EBIT is defined as operating profit (EBIT) before impairments and gains/losses on the sale of fixed assets as well as non-recurring costs approved by the Board and relating to the structural consequences of major programmes.

LTI (long-term bonus programme)

A cash-based three-year incentive programme linked to value creation in the Group and maximised at 25% of annual salary (50% in the case of the CEO).⁸

The targets for the bonus programme are to be objectively quantifiable and determined by the Board as well as being linked to both absolute and relative performance requirements. Fulfilment of the absolute performance criteria accounts for 60% of the maximum outcome of the long-term bonus programme and relates to:

- (i) operating margin (EBIT margin) excluding non-recurring items;
- (ii) return on capital employed (ROCE) in the Group excluding ICA Banken; and
- (iii) net sales increase.

The relative performance requirements account for the remaining 40% of the maximum outcome in the long-term bonus programme and relate to the Company's ranking in a benchmark group consisting of ten other companies in Europe conducting similar operations. The outcome is dependent on the Company's ranking in this benchmark group in terms of:

- (i) net sales increase; and
- (ii) EBIT margin.

In the event of a ranking of 11, no bonus will be paid in relation to the relative performance requirements.

Fulfilment of the relative performance requirements is evaluated annually and the average for the entire bonus period is determined by the average for each individual year. Payment of bonus will be conditional upon the participant remaining employed for the duration of the programme. The Board of Directors shall have the right to adjust the bonus system during the term of the programme in the case of, for example, extraordinary increases or decreases in the Group's earnings.

In the event of maximum outcome, the cost of the 2014 long-term bonus programme would provisionally involve a cost including social security contributions of approximately SEK 17.3 million in total, of which approximately SEK 5.4 million relates to the CEO and approximately SEK 11.9 million relates to other senior executives.

Previous programmes

Information on existing bonus programmes for senior executives can be found in [Appendix 2](#).

⁸ See footnote 6 above regarding the outgoing and incoming CEOs of ICA Banken. The incoming CEO of ICA Banken will be included in the long-term bonus programme.

Particular reasons

The Board has the right to deviate from the guidelines proposed above if there are particular reasons to do so.

Preparation

The proposals above concerning the annual and long-term bonus programmes were prepared by the Remuneration Committee within ICA Gruppen's Board and have been approved by the Board of ICA Gruppen in its entirety.

The total cost is a cost estimated by the Company based on certain assumptions. However, the calculation does not take into account any upward adjustment of holiday pay or any indexation for salary revision or inflation. The actual costs may therefore deviate from the provisionally estimated costs.

Appendix 2

Existing bonus programmes for senior executives appointed on 20 May 2013⁹

In 2011 ICA AB approved a cash-based three-year bonus programme (2011–2013) for the CEO and other senior executives (*i.e.*, in principle, senior executives of ICA Gruppen AB appointed on 20 May 2013) linked to value creation in the Group and maximised at 25% of annual salary (50% for the CEO). The targets for the bonus programme are objectively quantifiable and linked to both absolute and relative performance requirements. In the event of maximum outcome, the cost of the 2011 bonus programme¹⁰ would provisionally involve a cost including social security contributions of approximately SEK 3.8 million in total for 2013, of which approximately SEK 1.6 million relates to the CEO and approximately SEK 2.2 million relates to other senior executives.

In 2012 ICA AB approved a cash-based three-year bonus programme (2012–2014) for the CEO and other senior executives (*i.e.* in principle, senior executives of ICA Gruppen AB appointed on 20 May 2013) linked to value creation in the Group and maximised at 25% of annual salary (50% for the CEO). The targets for the bonus programme are objectively quantifiable and linked to both absolute and relative performance requirements. In the event of maximum outcome, the cost of the 2012 bonus programme¹¹ would provisionally involve a cost including social security contributions of approximately SEK 4.4 million in total for 2013, of which approximately SEK 1.8 million relates to the CEO and approximately SEK 2.6 million relates to other senior executives.

In 2013 the Company approved a cash-based three-year bonus programme (2013–2015) for the CEO and other senior executives linked to value creation in the Group and maximised at 25% of annual salary (50% for the CEO). The targets for the bonus programme are objectively quantifiable and linked to both absolute and relative performance requirements. In the event of maximum outcome, the cost of the 2013 bonus programme¹² would provisionally involve a cost including social security contributions of approximately SEK 5.1 million in total for 2013, of which approximately SEK 1.8 million relates to the CEO and approximately SEK 3.3 million relates to other senior executives.

The total cost is a cost estimated by the company which is based on certain assumptions. However, the calculation does not take into account any upward adjustment of holiday pay or any indexation for salary revision or inflation. The actual costs may therefore deviate from the provisionally estimated costs.

⁹ The total cost of the existing programmes is calculated based on the number of the then participants actually remaining in employment who will receive any bonus under the programmes. Since there have been changes among the senior executives since 2011 and certain individuals who participated in the programmes at the time are no longer employed, there is some fluctuation in the total costs of the various programmes. The CEO of ICA Banken is not included in these existing bonus programmes.

¹⁰ The cost relates to 1/3 of the three-year programme.

¹¹ The cost relates to 1/3 of the ongoing three-year programme.

¹² The cost relates to 1/3 of the ongoing three-year programme.