

Item 19

The Board's proposed resolution on the adoption of principles for remuneration and other terms of employment for the members of the Executive Management Team

The remuneration guidelines approved by the 2016 Annual General Meeting have been applied for senior executives of the Group in 2016. By senior executives is meant in this context the CEO of ICA Gruppen and the executives on the Executive Management Team who report directly to him. The evaluation performed by the Board has determined that the guidelines have worked well.

The Board of Directors proposes the following guidelines for approval by the 2017 Annual General Meeting, to apply until the end of the 2018 Annual General Meeting.

Current terms of employment

The main content of the current employment contracts with the senior executives who were employed by ICA Gruppen during the 2016 financial year is reported in the 2016 Corporate Governance Report and in Note 4 (pages 87–89) of the 2016 Annual Report.

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 that is in line with the going rate in the market for senior executives in similar sectors.

In addition, the remuneration principles shall motivate senior executives to strengthen the Group's market position and earnings, and shall be coupled to long-term growth in shareholder value. Further, variable remuneration shall be coupled to measurable criteria set in advance.

The levels of remuneration paid to senior executives in related sectors and markets are continuously monitored and assessed. The total remuneration shall comprise the following components: base salary, pension benefits, variable remuneration in the form of a cash bonus, other remuneration and benefits, and severance pay.

Base salary

The base salary shall be in line with the going rate in the market and be based on the individual's expertise, responsibilities and performance.

Pensions

For the CEO and other senior executives, a defined contribution pension plan shall be applied, with pension expenses amounting to a maximum of 35% of pensionable salary. Premiums are to be paid as long as the individual remains employed by the Company. Senior executives employed in a country other than Sweden have pension agreements in line with national practice and that follow the principles described above.

The normal retirement age is 65, but one senior executive has the right to retire at 62 years of age with a defined benefit pension until the executive reaches the age of 65.

Bonuses

The CEO and other senior executives in the Group, excluding the CEO of ICA Bank¹, are to be covered by two variable remuneration programmes 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). For the 2017 long-term bonus programme, the maximum bonus can amount to 60% for the CEO and 30% for other senior executives. For the annual bonus programme, the maximum bonus can amount to 55% for the CEO and 27.5% for other senior executives. The amount of the combined bonuses has a cap per person and year corresponding to 57.5% of annual salary (115% for the CEO).

Bonus payments are not pensionable.

The Board shall decide annually whether new programmes are to be started and set financial targets, and decide on eligible participants and the maximum cost.

¹ In view of stricter rules as of 1 January 2017 regarding variable remuneration systems in credit institutions, the Board of Directors has made the judgement that the proposed bonus programme for 2017 that is applicable to the CEO and other senior executives shall not apply to the CEO of ICA Bank. Assuming that the Annual General Meeting approves the proposal, the CEO of ICA Bank will be compensated for the loss of the bonus with a higher fixed salary in accordance with the criteria for base salaries (i.e. in line with the going rate in the market). The CEO of ICA Bank is still covered by the bonus programmes adopted in 2014, 2015 and 2016 (see Appendix 2).

Further details of the terms and conditions of the annual bonus programme and the long-term bonus programme are provided in Appendix 1.

Terms for notice of termination and severance pay

A mutual notice period of six (6) months shall apply for senior executives. Severance pay for senior executives may be paid at up to 12 months' cash base salary upon notice served by the Company. Such severance pay shall be deductible from earnings from future employment.

In the event the executive gives notice and the Company chooses to apply a non-compete clause that is included in the executive's contract in certain cases, the Company shall provide compensation during the time covered by the non-compete clause at a maximum amount of 60% of the executive's base salary. Severance pay and compensation paid during the non-compete period shall not be pensionable.

An exception to the terms concerning notice periods, severance pay and severance pay deduction clauses exists in the case of one senior executive.

Other remuneration and benefits

Other remuneration and benefits shall be of limited value in relation to the total remuneration and shall be in line with standard market practice.

Special circumstances

The Board has the right to depart from the proposed guidelines if special circumstances exist.

Appendix 1

Bonus programmes 2017

Annual bonus programme

This is a cash-based bonus programme coupled to targets per financial year; payment may amount to a maximum of 27.5% of the executive's annual salary (55% for the CEO of ICA Gruppen).

The targets for the annual bonus programme shall consist of financial and operational targets coupled to ICA Gruppen's strategic focus areas, and shall be objectively measurable. The financial targets for the bonus programme shall be set by the Board prior to each financial year. The Company shall reach individual bonus agreements with the respective participants, and the terms of such bonus agreements depend on the participant's position at the time the agreement was made. The bonus shall be set annually in connection with the publication of the year-end report for the respective financial years and shall be based on an assessment of the participants' achievement of the targets set out in the respective bonus agreements. Payment of bonuses shall be conditional upon the participant's continued employment during the term of the programme. The cost of the 2017 annual bonus programme, presuming a maximum outcome, including social security charges, will preliminarily amount to a total of approximately SEK 17.9 million, of which approximately SEK 6.6 million pertains to the CEO of ICA Gruppen and approximately SEK 11.3 million pertains to other senior executives.

Long-term bonus programme

Long-term bonus programme 2017

This is a long-term bonus programme coupled to value creation in the Group, which can amount to a maximum of 30% of the participant's annual salary (60% for the CEO).

The targets for the bonus programme shall be objectively measurable and set by the Board as well as being coupled to both absolute and relative performance requirements. Fulfilment of the absolute performance requirements accounts for 60% of the maximum outcome in the long-term bonus programme and pertains to:

- (i) the operating margin (EBIT margin) excluding non-recurring items,
- (ii) the return on capital employed (ROCE) in the Group excluding ICA Bank, and

(iii) the net sales increase.

The relative performance requirements account for the remaining 40% of the maximum outcome in the long-term bonus programme and pertain to the Company's ranking in a benchmark group consisting of ten peer companies that are based in Europe. The outcome is dependent on the Company's ranking in this benchmark group in terms of:

- (i) the net sales increase, and
- (ii) the operating margin (EBIT margin).

With a ranking of between nine and eleven, no bonus is payable for the relative performance requirements.

Fulfilment of the performance requirements is evaluated yearly, and the average for the entire bonus period is based on the average for each individual year. Payment of bonuses shall be conditional upon the participant's continued employment during the term of the programme.

The cost of the 2017 long-term bonus programme (3 years), presuming a maximum outcome, including social security charges, will preliminarily amount to a total of approximately SEK 19.5 million, of which approximately SEK 7.2 million pertains to the CEO and approximately SEK 12.3 million pertains to other senior executives.

Earlier programmes

Information on existing bonus programmes for senior executives is provided in [Appendix 2](#).

Special circumstances

The Board has the right to depart from the above proposed guidelines if special circumstances exist.

Drafting

The Remuneration Committee within ICA Gruppen's board has drafted the proposals described above for the annual bonus programme and long-term bonus programme, which have been adopted by the Board of Directors of ICA Gruppen in its entirety.

The total cost is an estimate that is based on certain assumptions. However, the calculations do not take into account any index-related increases for salary reviews or inflation, or currency movements. The actual costs may therefore deviate from the preliminarily calculated costs.

Appendix 2

Existing bonus programmes for senior executives

In 2014 a decision was made in ICA Gruppen AB on a cash-based three-year bonus programme (2014–2016) for the CEO and other senior executives, coupled to value creation in the Group. The bonus may amount to a maximum of 25% of the executive's annual salary (50% for the CEO). The targets for the bonus programme are objectively quantifiable and linked to both absolute and relative performance requirements. The forecast cost for the 2014 bonus programme upon maximum outcome, including social security charges, is approximately SEK 15.4 million², of which approximately SEK 5.8 million pertains to the CEO of ICA Gruppen and approximately SEK 9.6 million pertains to other senior executives.

In 2015 a decision was made in ICA Gruppen AB on a cash-based three-year bonus programme (2015–2017) for the CEO and other senior executives, which may amount to a maximum of 32% of the executive's annual salary (64% for the CEO). The targets of the bonus programme are objectively measurable and are coupled to both absolute and relative performance requirements. The forecast cost for the 2015 bonus programme upon maximum outcome, including social security charges, is approximately SEK 21.6 million³, of which approximately SEK 7.7 million pertains to the CEO of ICA Gruppen and approximately SEK 13.9 million pertains to other senior executives.

In 2016 a decision was made in ICA Gruppen AB on a cash-based three-year bonus programme (2016–2018) for the CEO and other senior executives, which may amount to a maximum of 32% of the executive's annual salary (64% for the CEO). The targets of the bonus programme are objectively measurable and are coupled to both absolute and relative performance requirements. The forecast cost for the 2016 bonus programme upon maximum outcome, including social security charges, is approximately SEK 22.2 million⁴, of which approximately SEK 7.7 million pertains to the CEO of ICA Gruppen and approximately SEK 14.5 million pertains to other senior executives.

² Pertains to the term of the entire programme (3 years).

³ Pertains to the term of the entire programme (3 years).

⁴ Pertains to the term of the entire programme (3 years).

The total cost is an estimate that is based on certain assumptions. However, the calculations do not take into account any index-related increases for salary reviews or inflation, or currency movements. The actual costs may therefore deviate from the preliminarily calculated costs.