

## 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 2017 Annual General Meeting have been applied for senior executives of the Group in 2017. 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 2018 Annual General Meeting, to apply until the end of the 2019 Annual General Meeting.

#### **Current terms of employment**

The main content of the current employment contracts with senior executives who were employed by ICA Gruppen during the 2017 financial year is reported in the 2017 Corporate Governance Report and in Note 4 (pages 89-90) of the 2017 Annual Report.

#### **The Board's proposed guidelines**

The Company shall seek to offer its senior executives terms that provide motivation and are in line with the market, and that are also well-balanced and reasonable based on the executives' expertise, responsibilities and performance. The total remuneration package consists of the following components: basic salary, pension benefits, variable remuneration in the form of cash bonus, severance pay, and other remuneration and benefits.

It is important for the Company to provide competitive remuneration packages in line with market terms for senior executives in similar industries so that the Company can recruit, develop and retain senior executives with relevant experience and advanced leadership skills. The levels of remuneration paid to senior executives in related industries and markets are continually monitored and evaluated.

The remuneration principles are also to motivate senior executives to improve the Group's market position and earnings, and are to be linked to long-term growth in shareholder value. Variable remuneration is to be linked to pre-determined objectively measurable criteria.

#### Basic salary

Basic salary is to be on market terms and based on skills, responsibility and performance. Salary levels are to be reviewed regularly (usually annually) in order to ensure that salaries are in line with market levels and reward performance.

#### Pensions

For the CEO and other senior executives a defined contribution pension plan is to be provided. Pension premiums shall amount to a maximum of 35% of annual basic salary and holiday supplement. Premiums will be paid for as long as the individual is employed. The normal retirement age is 65.

Senior executives employed locally in countries other than Sweden have pension agreements in line with national practice but in accordance with the principles described above. Special pension agreements will be entered into for employees working abroad.

#### Bonus

The CEO and other senior executives in the Group, with the exception of the CEO of ICA Bank, are to be covered by two variable remuneration schemes in 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 targets in the variable remuneration systems are mainly to be based on financial performance targets, but performance can also be measured against non-financial targets linked to ICA Gruppen's strategic focus areas. The Board shall decide on an annual basis whether new programmes will be launched and shall determine the financial targets, target group and maximum cost.

Variable remuneration systems shall always have a maximum level. For the 2018 annual bonus programme, the bonus is maximised at 50% for the CEO of ICA Gruppen and 25% for other senior executives. For the 2018–2020 long-term bonus programme, the bonus is maximised at 50% of annual salary for the CEO and 25% for other senior executives. The size of the combined bonus is maximised per person and year at the equivalent of 50% of annual salary (100% of annual salary for the CEO of ICA Gruppen).

As a result of stricter rules on remuneration systems at credit institutions the CEO of ICA Bank is not covered by the bonus programmes adopted after 31 December 2016 for the CEO and other senior executives within the Group. The loss of bonus has been taken into consideration – within the scope of current guidelines – when determining the total remuneration package for the CEO of ICA Bank. The CEO of ICA Bank is still included in the bonus programmes adopted in 2015 and 2016.

Bonus payments are not pensionable.

Payment of bonus is contingent upon the participant's employment not being terminated during the term of the programme.

Further details of the terms and conditions of the annual bonus programme and the long-term bonus programme are provided 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 payable at up to 12 months of basic cash salary if the Company terminates employment. Such severance pay shall be deductible from earnings from future employment.

If a senior executive resigns, the Company may in certain cases choose to apply a non-competition clause. During the period the non-competition clause applies, the Company will pay compensation equivalent to a maximum of 60% of fixed salary. Severance pay and compensation paid during the non-competition period will not be pensionable.

#### **Terms for employees working abroad**

Special terms shall be offered to employees working abroad. The structure of these terms shall accord with the guidelines on remuneration of senior executives.

#### **Other remuneration and benefits**

Other remuneration and benefits shall be of limited value in relation to the total remuneration package and are to be in line with market norms.

#### Differing terms for certain senior executives

In accordance with agreements entered into previously, a few senior executives below have terms that deviate from the guidelines detailed above.

- Two senior executives are covered only by ITP2 and another senior executive has pension benefits in accordance with ITP1, which also means that for these senior executives the bonus is pensionable.
- One senior executive is entitled to retire at the age of 62 with a defined benefit pension plan for the period until the normal retirement age of 65.
- Two senior executives have differing terms regarding the period of notice.
- One senior executive has differing terms relating to severance pay and deductibility.

#### Special circumstances

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

## Appendix 1

### **Bonus programmes 2018**

#### **Annual bonus programme**

Cash-based bonus programme linked to target figures for the financial year.

The bonus programme is mainly to be measured against financial targets, either at Group level or at unit level, which are to be decided by the Board of Directors ahead of each financial year. In addition, the bonus programme is to be measured against targets linked to ICA Gruppen's strategic focus areas that may be both financial and non-financial in nature. The Company shall reach individual bonus agreements with the respective participants, and the terms of such bonus agreements shall depend on the participant's position at the time the agreement is made. The resulting bonus shall be determined annually in connection with the publication of the year-end report for the financial year in question, and shall be based on an assessment of the fulfilment of the targets set out in the bonus agreements. The cost<sup>1</sup> of the 2018 annual bonus programme, presuming a maximum outcome, including social security charges, will preliminarily amount to a total of approximately SEK 17.3 million, of which approximately SEK 6.1 million pertains to the CEO of ICA Gruppen and approximately SEK 11.2 million pertains to other senior executives.

#### **Long-term bonus programme**

##### *Long-term bonus programme 2018*

Long-term bonus programme linked to value creation in the Group.

The targets for the bonus programme shall be linked 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 items affecting comparability,
- (ii) the return on capital employed (ROCE) in the Group excluding ICA Bank,
- (iii) the net sales increase, and
- (iv) the reduction in greenhouse gas emissions excluding carbon offset.

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<sup>1</sup> The cost is an estimate calculated by the Company based on certain assumptions. However, the calculation does not take into consideration any index-linked increase for salary reviews or inflation, currency movements or any changes in the composition of the Executive Management Team. The actual costs may therefore deviate from the preliminarily calculated costs.

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. 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, after which the final outcome is calculated as the average of the annual results. This applies to all targets except for the climate target (reduction in greenhouse gas emissions excluding carbon offset), where the outcome is instead calculated based on the result at the end of the programme term.

The cost<sup>2</sup> of the 2018–2020 long-term bonus programme (three years), presuming a maximum outcome, including social security charges, will preliminarily amount to a total of approximately SEK 17.3 million, of which approximately SEK 6.1 million pertains to the CEO and approximately SEK 11.2 million 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 deviate from the guidelines proposed above if there is particular reason to do so.

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<sup>2</sup> The cost is an estimate calculated by the Company based on certain assumptions. However, the calculation does not take into consideration any index-linked increase for salary reviews or inflation, currency movements or any changes in the composition of the Executive Management Team. The actual costs may therefore deviate from the preliminarily calculated costs.



### **Drafting**

The Reward Group 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.

## Appendix 2

### **Existing bonus programmes for 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 for the bonus programme are objectively measurable and are linked to both absolute and relative performance requirements. The forecast cost of the 2015 bonus programme assuming maximum outcome, including social security charges, is approximately SEK 21.7 million<sup>3</sup>, of which approximately SEK 7.7 million pertains to the CEO of ICA Gruppen and approximately SEK 14.0 million 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 for the bonus programme are objectively measurable and are linked to both absolute and relative performance requirements. The forecast cost of the 2016 bonus programme assuming maximum outcome, including social security charges, is approximately SEK 23.1 million<sup>4</sup>, of which approximately SEK 7.8 million pertains to the CEO of ICA Gruppen and approximately SEK 15.3 million to other senior executives.

In 2017 a decision was made in ICA Gruppen AB on a cash-based three-year bonus programme (2017–2019) for the CEO and other senior executives, which may amount to a maximum of 30% of the executive's annual salary (60% for the CEO). The targets for the bonus programme are objectively measurable and are linked to both absolute and relative performance requirements. The forecast cost of the 2017 bonus programme assuming maximum outcome, including social security charges, is approximately SEK 20.6 million<sup>5</sup>, of which approximately SEK 7.3 million pertains to the CEO of ICA Gruppen and approximately SEK 13.3 million to other senior executives.

The total cost is an estimate that is based on certain assumptions. However, the calculation does not take into consideration any index-linked increase for salary reviews or inflation, currency

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<sup>3</sup> Pertains to the term of the entire programme (three years).

<sup>4</sup> Pertains to the term of the entire programme (three years).

<sup>5</sup> Pertains to the term of the entire programme (three years).



movements or any changes in the composition of the Executive Management Team. The actual costs may therefore deviate from the preliminarily calculated costs.