

## The Board's report on the Reward Group's evaluation in accordance with section 9.1 of the Swedish Corporate Governance Code

### **Reward Group**

The Board of Directors of ICA Gruppen AB has established a Reward Group to perform the tasks incumbent upon a remuneration committee according to the Swedish Code of Corporate Governance ("the Code"). The Reward Group consists of Claes-Göran Sylvén (chairman) and Board members Andrea Gisle Joosen and Fredrik Hägglund.

Under section 9.1 of the Code, the remuneration committee is among other things to monitor and evaluate all programmes for variable remuneration for the executive management, the application of the guidelines for remuneration of the executive management that the annual general meeting has established, as well as the current remuneration structures and levels in the company. The Board of Directors hereby submits the following report on the evaluation carried out by the Reward Group during the year.

### **Follow-up and evaluation of applicable guidelines, and of remuneration structures and remuneration levels**

This follow-up and evaluation pertains to the guidelines and to the remuneration structures and remuneration levels that were approved by the 2017 Annual General Meeting.

The 2017 Annual General Meeting resolved that the forms of remuneration paid to the Company's senior executives shall be in line with the going rate in the market, shall motivate senior executives to improve the Group's market position and earnings, and shall be linked to long-term value creation for the shareholders. In addition, the variable remuneration shall be linked to pre-determined measurable criteria. An executive's total remuneration shall be made up of the following components: basic salary, pension benefits, variable remuneration in the form of cash bonus, severance pay, and other remuneration and benefits. A more detailed description of the current guidelines can be found in the documentation for Item 19 in the notice convening the 2017 Annual General Meeting.

The 2017 Annual General Meeting resolved that, just as in previous years, the CEO and other senior executives – with the exception of the CEO of ICA Bank – shall be included in a variable remuneration system taking the form of a cash bonus. As a result of stricter rules on remuneration systems at credit institutions the CEO of ICA Bank is excluded from bonus programmes adopted after 31 December 2016, but remains included in the bonus programmes adopted in 2015 and 2016. 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 variable remuneration systems consist in part of a cash-based bonus programme linked to target figures for the financial year (annual bonus programme) and in part of a cash-based three-year bonus programme linked to value creation in the Group (long-term bonus programme).<sup>1</sup>

The size of the bonus is maximized per person and year at the equivalent of 115% of annual salary for the CEO and the equivalent of 57.5% of annual salary for other senior executives. For the 2017 annual bonus programme, the maximum outcome is 55% of annual salary for the CEO and 27.5% of annual salary for other senior executives. For the 2017 long-term bonus programme, the maximum outcome is 60% of annual salary for the CEO and a maximum of 30% of annual salary for other senior executives.

With respect to the annual bonus programme, it has been decided that the targets shall be objectively measurable and consist of financial and operational targets linked to ICA Gruppen's strategic focus areas.

As regards the 2017 long-term bonus programme, it has been decided that the targets shall be objectively measurable, set by the Board and linked to both absolute and relative performance requirements. Fulfilment of the absolute performance requirements is to account for 60% of the maximum outcome in the long-term bonus programme and pertain to (i) the operating margin (EBIT margin) excluding items affecting comparability (which corresponds to the term 'non-recurring items' used in the guidelines adopted in 2017), (ii) the return on capital employed (ROCE) in the Group excluding ICA Bank, and (iii) the net sales increase. The relative performance requirements are to 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

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<sup>1</sup> For information on the remuneration paid to the CEO and other senior executives for 2017, please refer to Note 4 for the Group (pages 89-90) in the 2017 annual report.

peer companies 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 respect to the long-term bonus programme that was approved by the 2017 Annual General Meeting, one third of the programme's term has passed.

Under the guidelines adopted at the 2017 Annual General Meeting, the Board has the right to deviate from the guidelines if there is particular reason to do so. In 2017 the Board deviated from the guidelines in isolated cases involving a few senior executives pursuant to agreements entered into previously. Two senior executives are covered only by ITP2 and one senior executive has pension benefits in accordance with ITP1, which also means that for these individuals the bonus is pensionable. In addition, one senior executive has different terms regarding the period of notice.

#### **Follow-up and evaluation**

Among other things, during the year the Reward Group monitored and evaluated variable remuneration programmes – both ongoing and those that have ended – for executive management, the application of guidelines for remuneration of executive management that the annual general meeting is legally obliged to establish, as well as current remuneration structures and levels in the Company. Overall, the Reward Group is of the opinion that both the remuneration structure and remuneration levels are well-balanced, in line with the going rate in the market and are reasonable in view of the executives' expertise, responsibilities and performance. The Reward Group determines that the adopted guidelines have been adhered to in payments of salaries and bonuses. The Reward Group is of the opinion that the design of the current incentive programmes is well-balanced and that the programmes promote the company's long-term strategy. Based on the Reward Group's evaluation and in line with the Company's efforts to offer its senior executives terms that are in line with the market and motivating, but at the same time moderate and balanced, the Board of Directors has decided for 2018 that the maximum outcome for both the long-term and the short-term programmes is to be lowered. This means that the maximum size of the bonus paid is lowered to 100% (115%) of annual salary in the case of the CEO and to 50% (57.5%) of annual salary for other senior executives.



Stockholm, 8 March 2018

The Board of Directors of ICA Gruppen AB

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Claes-Göran Sylvén

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Anette Wiotti

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Göran Blomberg

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Cecilia Daun Wennborg

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Andrea Gisle Joosen

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Jeanette Jäger

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Bengt Kjell

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Jan Olofsson

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