

## **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 Häggglund.

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 senior executives 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 2018 Annual General Meeting.

The 2018 Annual General Meeting resolved that the forms of remuneration paid to the Company's senior executives are to be in line with market levels, are 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. In addition, the variable remuneration is to be linked to pre-determined objectively measurable criteria. An

executive's total remuneration is to consist 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 2018 Annual General Meeting.

The 2018 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 – are to be included in a variable remuneration system taking the form of a cash bonus. The CEO of ICA Bank is excluded from the bonus on account of the stricter rules that apply to remuneration systems in credit institutions.

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 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 strategies. The Board of Directors decides on an annual basis whether new programmes will be launched and determines the financial targets, target groups and maximum cost.

The size of the bonus is maximized per person and year at the equivalent of 100% of annual salary for the CEO and the equivalent of 50% of annual salary for other senior executives. For the 2018 Annual Bonus Programme, the maximum outcome is 50% of annual salary for the CEO and 25% of annual salary for other senior executives. For the

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<sup>1</sup>For information on the remuneration paid to the CEO and other senior executives for 2018, please refer to Note 4 for the Group (pages 90–92) in the 2018 annual report.

2018 Long-term Bonus Programme, the maximum outcome is 50% of annual salary for the CEO and a maximum of 25% of annual salary for other senior executives.

It was decided that the targets for the Annual Bonus Programme are to consist of financial targets, either at Group level or at unit level. The targets are to be established by the Board of Directors ahead of each financial year. In addition, the Annual Bonus Programme is to have targets linked to ICA Gruppen's strategies, which may be both financial and non-financial in nature.

As regards the 2018 Long-term Bonus Programme, it has been decided that the targets are to be set by the Board and linked to both absolute and relative performance requirements. Fulfilment of the absolute performance criteria is to account for 60% of the maximum outcome of the Long-term Bonus Programme and refers to (i) EBIT margin excluding items affecting comparability, (ii) return on capital employed (ROCE) for the Group excluding ICA Bank, (iii) net sales increase and (iv) decrease in greenhouse gases excluding carbon offset. The relative performance criteria are to account for the remaining 40% of the maximum outcome for the Long-term Bonus Programme and relate to the Company's position in a comparison group consisting of 10 companies running similar operations. The outcome depends on where the Company ranks within this comparison group in terms of (i) net sales increase and (ii) EBIT margin. With respect to the Long-term Bonus Programme that was approved by the 2018 Annual General Meeting, one third of the programme's term has passed.

Under the guidelines adopted at the 2018 Annual General Meeting, the Board has the right to deviate from the guidelines if special circumstances exist. At the date of this report there are the following

deviations from guidelines adopted by the 2018 Annual General Meeting:

*Current deviations that are also reported in the Corporate Governance Report for 2018:*

- Two senior executives are covered only by ITP2, which also means that for these individuals the bonus is pensionable.
- One senior executive is covered by ITP1, which also means that for this individual the bonus is pensionable.
- One senior executive has deviating terms regarding severance pay and deductibility of severance pay.

*Current deviations that have arisen since year-end 2018 and are therefore not reported in the Corporate Governance Report for 2018:*

- As of 1 January 2019 the employment of the CEO of Rimi Baltic transitioned from being a limited-term posting abroad to local employment in Latvia. After the transition to local employment the CEO of Rimi Baltic is receiving a monthly pay supplement to compensate for the loss of pension provisions and other benefits related to the posting abroad.

*Deviations that have ceased since year-end 2018 and are therefore reported in the Corporate Governance Report for 2018 but are no longer current:*

- One senior executive was 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 had deviating 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 senior executives 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.

Stockholm, 4 March 2019

The Board of Directors of ICA Gruppen AB

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