

Report of the Remuneration Committee



Committee Chair's statement

Introduction

I am pleased to introduce to you my third Remuneration Report as Chair of the Remuneration Committee ('the Committee').

I said last year that we had made good progress in 2016 but much work remained to be done to ensure our approach to pay fully reflects our values and principles. I am delighted to tell you that 2017 has seen us begin to really address some key pay matters and my report will hopefully demonstrate this to you.

As I trailed last year, we have changed our executive bonus plans to simplify them and ensure they are a better fit with our business strategy. There have also been a number of other positive changes regarding pay ratios, gender pay reporting and arguably most important of all, customer-facing colleague pay.

Getting the balance right in executive pay is not easy and not all members will agree with the choices we make but your Committee continues to focus on what it believes is right and fair for our Co-op.

Business performance is a crucial factor in executive pay and our businesses performed well in 2017. However, as a Co-op, business performance is only one measure of the value we're creating as the UK's biggest consumer-owned co-op. Allan has given you more details on how we look at shared value, beyond reported profit, on page 7. We are proud that we are a different way of doing business and we reflect this in the way we pay our team.

Background

Pay reform

Executive pay has continued to make the headlines during 2017 with public scrutiny on pay arrangements that are too generous, too difficult to understand and not aligned to driving long-term success or to organisation's strategy and values.

We are expecting a new Corporate Governance Code to be launched later this year which will further improve transparency of executive pay in the UK and we will comply where it makes sense for us to do so.

There has also been increasing focus on what has become the growing gap between the highest and the lowest paid, as some of the UK's biggest companies were seen to be paying too much at the top. The government will also be introducing mandatory reporting of the pay ratio between a firm's chief executive and its average UK worker. Final guidance has not yet been provided but we will be publishing our ratio as required and, in addition, we will continue to report our pay ratio in the same way we did last year and you can find it on page 65.

As a Committee we are committed to making pay for our most senior colleagues less complex and clearer. To support our commitment in 2018 we will be simplifying our pay arrangements, which I refer to later in this report.

How we report to you

We are a co-op owned by millions of members who are also our customers. We do not have to comply with the rules that apply to large companies with traded shares. However, we believe in being open with our members and we choose to comply where this works for our type of business. We also take on board Council's views and those of the wider UK co-op movement.

Large public companies only report on the pay for their board directors, which would just be our Chief Executive and Chief Finance Officer. However we choose to give you information on our full Executive.

This report contains a lot of information but we've tried to make it as clear as possible. It has two sections:

- i. Part I – Executive Pay Policy. We have included a summary of our pay policy. We asked our members to vote on our policy in 2016 and 90% voted for it and to support changes to this policy in 2017. We pay our Executive in line with this updated policy. This section also covers how your Committee is applying it in 2018 which includes simplifying those elements of pay which link to performance.
- ii. Part II – Annual Report on Remuneration, which covers how we applied the policy in 2017.

We have also included a Pay at a Glance section, on page 67, where we pull together the key information we believe you will want to see in a simplified format.

How we have engaged with our members

Our members have given the Committee the role of deciding what we pay our Executive. However, we strongly believe in listening to our members and act on their concerns wherever possible and appropriate to do so.

In 2017 we had a number of meetings with Council members to hear their views and to explain our thinking.

At our 2017 Annual General Meeting (AGM) I gave an update on our approach to pay and answered members' questions. We continue to welcome feedback from you.

Our approach to pay

How we look at pay

I know that pay and reward can be an emotive topic.

We are committed to an approach to pay that is clear, visible and fair. We need to be able to compete for talented executives with the right skills and values to move our Co-op forward.

We also need to reward high performing colleagues for a job well done. We do this in a way we feel supports our purpose and the values of our Co-op.

How our pay links to strategy

Our aim is to clearly link our pay with our Co-op's strategy. We explain our strategy and business model on pages 9 and 6 and we have shown the clear link between our strategy and 2017 pay in the Pay at a Glance section on page 67.

Decisions and changes

The Committee decided that no annual salary increases were made for our Executive in 2017 and the Committee have decided that there will be no annual salary increases for our Executive in 2018 either.

In February 2017 we announced that Steve Murrells would succeed Richard Pennycook as our Chief Executive. At the same time Pippa Wicks was promoted to Deputy Chief Executive. Neither received a salary increase for those increased responsibilities.

Since his appointment Steve has been building his executive team. He wants our Co-op to be led by a smaller executive team with wider accountability, which will help us to make decisions more quickly and make things simpler. We're pleased to have appointed Jo Whitfield to succeed Steve as Chief Executive, Food; Helen Webb as our new Chief People Officer, Helen Grantham has become our permanent Group Secretary and takes on the role of General Counsel and Matt Atkinson has been appointed as our new Chief Membership Officer.

For the first time, our executive team has more women than men.

Full details of the changes are provided in the Annual Report on Remuneration which can be found on page 73.

Simplify the bonus for our Executive

At last year's AGM you voted in favour of simplifying the bonus arrangements for the Executive by adjusting the balance and design of the annual and long-term bonuses provided the total quantum that can be received did not exceed the amount available under the previous arrangements.

During 2017 your Committee has completed a thorough review of our bonus arrangements. We looked at what others do externally but with particular reference to our unique ownership structure and taking into account:

- a desire to remove complexity and be clearer;
- the practical difficulty of setting fair and robust long-term performance targets; and
- the duplication of measures across our current annual and long-term bonus plans.

Your Committee decided to change and simplify our approach by moving to a single bonus plan from 2018 - the Bonus Plan (BP), which will replace the current Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP).

The new BP will operate in a similar way to the current AIP with three key changes:

- The maximum opportunity increases as individuals will no longer participate in the LTIP.
- A deferral period is being introduced - not all of the award will be paid in one go - 50% will be paid two years later (this means we will still keep an element which links to the long term).
- The current AIP profit target will be replaced by a number of measures which we believe are important to our Co-op. This goes beyond just financial performance but will also cover other areas we, and our members, care about like community and colleagues.

When we look at the pay for our Executive we look at total package, not just salary, i.e. salary plus (at 'target') bonus and benefits to ensure they are appropriately aligned to the middle of the relevant market. We have used this principle when setting the target and maximum amount which can be paid under the new BP.

I am pleased to confirm that we will not be exceeding the 200% maximum opportunity which was in place under the old annual and long-term bonus schemes for all our executives except for our Chief Executive. For our Chief Executive we plan a change so his overall package is more appropriately aligned to the market, which I will come to shortly.

LTIP awards which have already been granted will continue. This will apply to those made in 2016 and 2017. If goals are met, payments can still be made in 2018 and 2019 for these awards. No new awards will be made under the LTIP.

Further details of the new BP can be found in the Executive Pay Policy section on page 68.

Bonus Plan maximum opportunity

Our Chief Executive's total package under the new bonus plan is a lot lower than the market rate, and the differential between his total package and the rest of the executive team is not at the right level.

Rather than increase base pay your Committee believes it is better to increase the part of pay which is variable and links to performance. This will mean the maximum amount which he could be paid for this part of his pay will increase from 200% to 250% of base pay. No payment would be made if performance is not good enough, but depending on the level of results achieved a payment of between nil and 250% of salary could be made (half of any payment is deferred for a further two years). As this is a change to the current Executive Pay Policy the Committee will be asking you to vote to support this change at the 2018 AGM.

Pippa Wicks will remain on a maximum opportunity of 200% in recognition of her expanded role. All other members of the Executive will see the maximum amount they can receive under this element of pay reduced. Full details can be found on page 70.

What about our other colleagues?

Your Committee and Board regularly discuss how we pay our colleagues across our Co-op for the great job they do.

We have continued to pay above National Living Wage (NLW) and apply our rates to all colleagues, which means that, unlike many other employers, we have chosen not to reduce rates for younger colleagues or apprentices. NLW continues to increase and this will be a major focus for us in the coming years.

At the 2016 AGM our members voted in favour of the motion encouraging the Board to take further positive steps on colleague pay, having regard to hourly rates recommended as a living wage by the Living Wage Foundation, which reflects their vital contribution to our business. To this end the Board have agreed to invest an additional £4m in customer-facing colleague pay in 2018. This means that we will have increased hourly pay rates for our experienced Customer Team Members by 6.1% in 2018 and increased pay rates by 21.5% in the last three years.

In addition to better pay rates, we offer a good level of benefits to all colleagues including a pension scheme much better than the government minimum. We have also continued to do more to help encourage and improve colleague wellbeing with the introduction of a range of health and financial initiatives.

Of course, we'd like to do more. But food retailing in particular is a highly competitive market. We need to get the balance right between our offer to members and customers, and our offer to colleagues, in order to thrive.

Pay ratio

Later this year the government will require mandatory reporting of the ratio of pay between a firm's chief executive and its average UK worker. Final guidance is yet to be provided, however it is our intention to publish this information from next year.

The new government pay ratio calculation is likely to be based on actual pay received. It therefore can change a lot as bonus payments can vary year on year as they are linked to both business and personal performance.

Last year we shared our pay ratio based on target earnings rather than actual as this approach makes sense to us and we believe it will make it easier for members to compare progress over time. We will continue to provide the ratio on this basis.

At our 2017 AGM you also asked us to look at our pay gap from top to bottom and to report on progress at our 2018 AGM. I will pick this up at the AGM and we have also given some information in our *You said, we did* update which you can see on our website. I have also set out below our ratio for 2017 and 2018.

The ratio between our highest paid executive and lowest paid colleague in April 2018 is 1:48 on base pay only or 1:96 for base pay plus on target bonuses.

The ratio between our highest paid executive and lowest paid colleague in April 2017 was 1:51 on base pay only or 1:101 for base pay plus on target bonuses.

Gender pay reporting

We published our gender pay gap report on 28 February 2018, and our numbers and accompanying report can be found here - www.co-operative.coop/ethics/gender-pay-gap-report.

We know that having more men than women at senior levels is causing much of our pay gap. Right now we're working to understand more about the underlying reasons for our gap which will help to inform and refine the initiatives which are already underway to reduce it.

Annual and Long Term Incentive Plan outturns in 2017

Payments under the 2017 Annual Incentive Plan (AIP) are based on a combination of business and individual performance. Business performance met most of the targets set.

The 2015-17 Long Term Incentive Plan (LTIP) consisted of four targets, the performance of which is shown below:

Target	Weighting	Performance
Ratio of Net Debt/EBITDA	40%	Near stretch
Membership spend as a percentage of total sales value	25%	Target +
Co-op colleague engagement	25%	Threshold
Brand health	10%	Stretch

The Committee decided that for the 2015-17 LTIP 69.03% of the maximum award should be paid. See page 74 for more information.

Looking ahead

Over the last couple of years your Committee has been reviewing how we reward our Executive to ensure our approach to pay works for our Co-op and its members and is appropriate. We have made significant improvements such as rebalancing our packages to have better balance between fixed and variable pay. We've also simplified our approach to bonuses to make them simpler and improve transparency. We will continue to review our approach to ensure it works but as a Committee we believe our approach to pay for our Executive is in a good place as we move into the next phase of our journey.

At a time when big businesses and national government have lost the confidence of many people in the UK, we believe our Co-op is uniquely placed to rebuild trust and restore confidence in the strength of communities and institutions. We want to raise our ambitions by growing our businesses and their commercial strength so that we can return more to our members, our colleagues and communities and make sure that our Co-op can continue to evolve and grow and look at new markets which can benefit our members. To make our business plans a success we need to be competitive, relevant and innovative. We need to invest in the businesses we have now and we need to open up new opportunities where our Co-op can make a distinctive difference. Our Stronger Co-op, Stronger Communities plan includes all of this, and more.

Governance

Committee

During 2017 I was pleased to welcome Gareth Thomas, our newly appointed Member Nominated Director (MND), to the Committee. Gareth comes from a background at John Lewis Partnership (JLP) and joins his former JLP colleague Margaret Casely-Hayford, alongside Sir Christopher Kelly and Peter Plumb. They have all worked hard this year and made a strong contribution to our work. We also said farewell to Ruth Spellman who had served as an MND for two years and chose not to seek re-election. I'd like to personally thank Ruth for her valued contribution while in post.

My thanks to all the Committee members, and to the members of the Council Remuneration Working Group under Lesley Reznicek's leadership, for the insight and challenge they provided through the year – particularly in making sure our members' voice was always heard.

AGM

Members will be asked to approve the Annual Report on Remuneration at our 2018 AGM and we would welcome your support by voting in favour of it.

We will also be asking for your support to change the maximum bonus we pay to Steve, our Chief Executive. We do not formally need to ask members before we make this change but we think this is the right thing to do and would ask you to vote in favour of the motion.

I recommend the report to you.

A handwritten signature in black ink, appearing to read 'Stevie Spring', written in a cursive style.

Stevie Spring

Chair of the Remuneration Committee

2017 pay at a glance

This section provides an overview of our pay policy in action and payments made to our executives in 2017. Full details of our policy and what we paid in 2017 are set out on page 68 and page 73.

Remuneration policy

Our Co-op is committed to a reward strategy that is clear, visible and fair, allowing us to compete for skills and talent and encourage and reward high performing colleagues, while also reflecting our purpose and values.

How 2017 pay aligned to our strategy

The following table describes how key elements of our strategy link to the way we reward performance. We are committed to a clear link between our reward structures and how our business performs, while maintaining a strong connection with our colleagues and supporting our Co-op values and purpose.

Co-op KPIs	Net budgeted profit	Debt	Reputation	Colleague
	It's important we make profit to reinvest and support our future strategy and purpose.	Maintaining responsible debt levels is an important part of our financial strategy. We must manage debt well but not at the expense of profit.	It's important that we continue to restore our Co-op's reputation and brand perception.	Colleagues play a significant role in ensuring we continue to deliver to our customers and communities.
Long Term Incentive Plan (LTIP)	✗	✓	✓	✓
Annual Incentive Plan (AIP)	✓	✗	✗	✗

Our new 2018 Bonus Plan will allow us to align pay, performance and strategy better than ever before. Please see page 68 for further details.

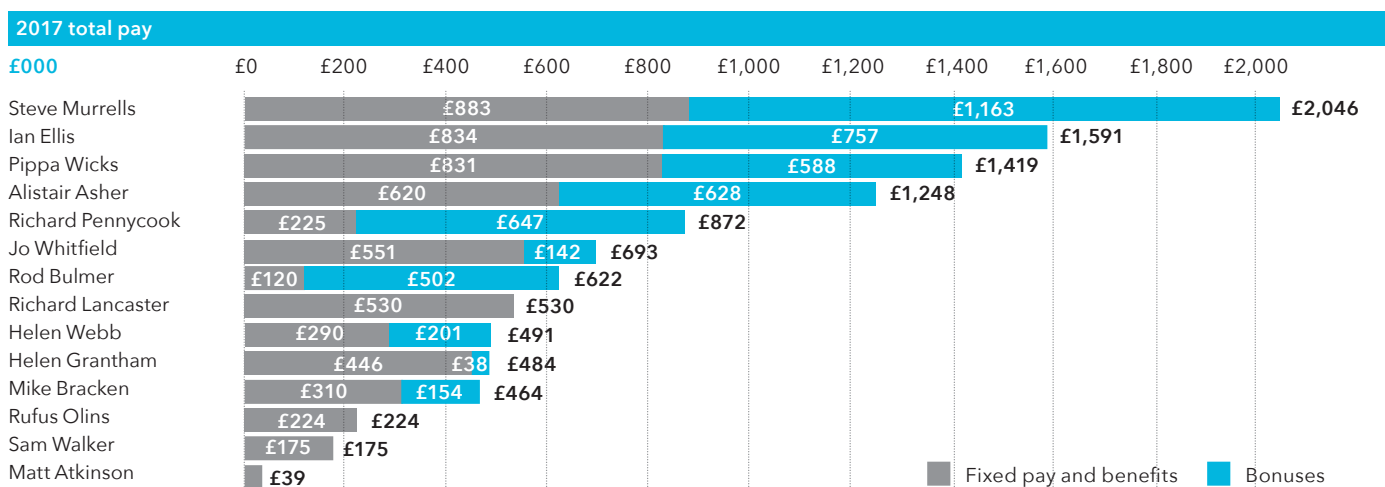
2017 pay

The key elements of pay for our Executive are:

Total Pay	Salary	Benefits	Pension	2017 Bonus (Annual Incentive Plan)	2015-17 Long Term Incentive Plan (LTIP)
Total Pay is made up of different elements. Salary and benefits are fixed. AIP and LTIP are variable and the amount an executive receives depends on the performance achieved.	Our Executive receives a salary for performing their core role	The benefits provided are in line with what happens elsewhere and could include a car or car allowance, fuel in certain cases, relocation assistance, healthcare cover and life cover.	Opportunity to participate in Co-op's pension plan or receive a cash allowance instead.	Payments are based on a combination of business and individual performance. For 2017 our executives were paid between 22% and 86% of salary.	Awards are cash based, have a three-year performance period, and the amount paid will depend on the level of performance against the measures and targets set at the start of the three-year plan.

2017 total pay

The chart below shows the pay which our executives received in 2017 and full details can be found in the Annual Report on Remuneration which starts on page 73.



Notes to chart

- The 2017 financial year ran from 1 January 2017 to 6 January 2018 which is a week longer than the 2016 financial year which ran from 3 January 2016 to 31 December 2016.
- Pippa Wicks' contract at the beginning of 2017 required her to work four days a week and her salary was adjusted accordingly.
- Helen Webb joined the Executive and was appointed as Chief People Officer on 18 April 2017.
- Jo Whitfield joined the Executive on an interim basis on 1 March 2017 and was permanently appointed as Chief Executive, Food on 17 July 2017.
- Helen Grantham was employed as Interim Group Secretary and was subsequently appointed as Group Secretary and General Counsel on 1 July 2017.
- Matt Atkinson joined our Co-op on 16 October 2017 on a one day a week basis, changing to full time on 8 January 2018.
- Richard Pennycook, Sam Walker, Rufus Olins, Alistair Asher, Mike Bracken, Rod Bulmer and Richard Lancaster all left the Executive during 2017.

I Executive Pay Policy

Reward philosophy

Our Co-op is committed to an approach to pay that is clear visible and fair which allows us to compete for skills and talent while encouraging and rewarding high performing colleagues. It also must reflect the purpose and values of our Co-op.

This is supported by the following reward principles:

- We want to pay our Executive at a level which reflects the job they do, but do not want to overpay. We look at what other similar organisations pay and take this into account.
- We want to reward our Executive for achieving stretching goals as well as for their commitment to our Co-op purpose and values.
- We want a benefits package that reflects our purpose and values.

New Bonus Plan

A new Bonus Plan (BP) has been introduced for 2018 that replaces the Annual Incentive Plan (AIP) and Long Term Incentive Plan (LTIP).

The new BP will operate in a similar way to the current AIP with three key changes:

- The maximum opportunity increases as individuals no longer participate in the LTIP.
- A deferral period is being introduced – not all of the award will be paid in one go – 50% will be paid two years later (this means we will still keep an element which links to the long term).
- The current AIP profit target will be replaced by a number of measures which we believe are important to our Co-op. This goes beyond just financial performance but will also cover other areas we know our members care about, like community and colleagues.

The maximum amount that can be paid under the BP for each Executive member can be found on page 70.

LTIP awards which have already been granted will continue. This will apply to those made in 2016 and 2017. If goals are met payments can still be made in 2018 and 2019 for these awards. No new awards will be made under the LTIP.

Summary of Executive Pay Policy

Our current Executive Pay Policy is summarised below.

Base salary	
Purpose and link to strategy	To set a level of pay for performing the core role that allows us to attract and retain talented leaders.
Summary and operation	We want to pay our Executive at a level that reflects the job they do, but do not want to overpay. We look at what other similar organisations pay and take this into account when setting our Executive's pay.
Maximum Opportunity	There is no maximum salary. Typically, salaries are reviewed annually. When reviewing salaries, the Committee will take account of: <ul style="list-style-type: none">• Experience• Personal and business performance• Appropriate comparator business data• Increases being granted to other colleagues throughout the business
Benefits	
Purpose and link to strategy	To offer a benefits proposition to attract and retain talented leaders.
Summary and operation	The benefits provided to our Executive will be in line with normal market practice and could include a car or car allowance, fuel in certain cases, relocation assistance, healthcare cover and life cover. Executives are also able to take advantage of benefits offered to all colleagues for example childcare vouchers and discounts on certain products and services.
Maximum Opportunity	There is no formal cap on the level of benefits that can be provided however this will represent a small proportion of the total pay.
Pension	
Purpose and link to strategy	To provide the same percentage level of pension benefits to all colleagues across our Co-op, that provides an income in retirement.
Summary and operation	Our Executive are able to join the Co-op Defined Contribution pension plan or receive a cash allowance in lieu of pension provision.
Maximum Opportunity	The following options are available: <ul style="list-style-type: none">• Defined Contribution employer pension contributions of up to 10% of salary.• Cash alternative of up to 10% of salary.

Bonus Plan

Purpose and link to strategy	To motivate and reward achievement of key business performance measures which support the delivery of our purpose and values.
Summary and operation	<p>Our Executive will be eligible for a payment under a BP agreed by the Committee.</p> <p>The performance measures and targets for each annual BP cycle will be set at the start of each year. Payments will be based on a combination of business and individual performance.</p> <p>50% of any award is subject to a two-year deferral period - not all of the award will be paid in one go - 50% will be paid two years later.</p> <p>Payments made under the BP are subject to malus and clawback provisions.</p>
Maximum Opportunity	<p>The maximum possible bonus opportunity under the AIP and LTIP was 200% of salary and this currently applies under the BP.</p> <p>It is proposed that the maximum possible BP opportunity under this plan is 250% of salary at stretch performance. The maximum amount payable under the BP varies by Executive member and is set at an appropriate level in accordance with our reward philosophy. Target performance bonus remains at 50% of maximum.</p> <p>Also see Notes 1, 2 and 3.</p>

Notes to table

1. The Committee will be asking for our members' support at the 2018 AGM to vary the Pay Policy to increase the maximum opportunity to 250% of salary for the Chief Executive only.
2. The 2017 AGM voted to support a change to our Pay Policy to simplify bonus arrangements for our Executive by adjusting the balance and design of annual and long-term bonus plans provided that combined overall maximums are not exceeded.
3. The performance measures for the 2018 Bonus Plan are shown on page 71.

Following the implementation of the new Bonus Plan we will no longer be operating an AIP or LTIP in 2018. Details of Executive bonus schemes which were applied up to 2017 are summarised below:

Annual Incentive Plan

Purpose and link to strategy	To motivate and reward achievement of key short-term business performance measures.
Summary and operation	<p>Our Executive were eligible for a payment under an AIP agreed by the Committee.</p> <p>The performance measures and targets for each annual AIP cycle were set at the start of each year. Payments were based on a combination of business and individual performance.</p> <p>Payments made under the AIP are subject to the clawback provisions.</p>
Maximum Opportunity	<p>The AIP opportunity for our Executive was 50% of salary at target performance (maximum payout was 100% of salary at stretch performance).</p> <p>Also see Note 1</p>

Long Term Incentive Plan

Purpose and link to strategy	To reward the achievement of longer term performance targets and results, and promote the behaviours considered by the Committee to be key to the success of our Co-op.
Summary and operation	<p>Our Executive were eligible to participate in an LTIP agreed by the Committee. Key terms of the plan:</p> <ul style="list-style-type: none"> • All LTIP awards are cash based, have a three-year performance period, and are subject to performance measures and targets set at the start of each three-year award cycle. • LTIP awards were made annually although awards could be granted where an eligible participant has joined after the grant date. • The Committee has the discretion to determine the performance measures for each LTIP award, including the weighting and ensuring that they support the long-term strategy of the business. • At the end of each LTIP performance period, the Committee will assess the overall performance of our Co-op and can reduce any payments under the award as it determines appropriate. <p>Payments made under the LTIP are subject to malus and clawback provisions.</p>
Maximum Opportunity	<p>The LTIP opportunity for our Executive is 50% of salary at target performance (maximum payout is 100% of salary at stretch performance). Performance measures and opportunity levels for our Executive are shown below.</p> <p>Also see Notes 1 and 2.</p>

Notes to table

1. The maximum opportunities for the 2017 AIP and 2017-19 LTIP were temporarily set lower than this for Jo Whitfield, Rod Bulmer, Helen Webb and Helen Grantham while the review of our bonus plans was undertaken.
2. The 2016-2018 and 2017-2019 LTIPs will remain in place until the end of their performance periods.

Implementation of the Pay Policy in 2018

Base salary

Annual base salaries for our Executive are set out below:

Executive member	2017 ¹ £000	2018 ¹ £000	Comments
Steve Murrells	750	750	Joined Executive 16 July 2012, promoted to Chief Executive 1 March 2017
Pippa Wicks ²	560	700	Joined Executive 1 April 2016, promoted to Deputy Chief Executive 1 March 2017
Ian Ellis	700	700	Joined Executive 4 September 2015
Jo Whitfield ³	418	550	Interim appointment to Executive 1 March 2017, promoted to Chief Executive, Food 17 July 2017
Helen Webb ⁴	350	350	Joined Executive 18 April 2017
Helen Grantham ⁵	293	350	Joined Executive 11 January 2016, promoted to Group Secretary and General Counsel 1 July 2017
Matt Atkinson ⁶	110	450	Joined Executive 16 October 2017

Notes to table

- Salaries are as at 1 January or appointment date to our Executive if later.
- Pippa Wicks' contract at the beginning of 2017 required her to work four days a week and her salary was adjusted accordingly. Pippa's contract was amended to five days a week with effect from 7 February 2017 and her salary was adjusted accordingly.
- Jo Whitfield's 2017 salary is inclusive of an interim acting up allowance, Jo was permanently appointed to Chief Executive, Food 17 July 2017 and her new package took effect from that date.
- Helen Webb joined the Executive and was appointed to the role of Chief People Officer on 18 April 2017. The salary shown for 2017 is her appointment salary.
- Helen Grantham was employed as Interim Group Secretary and was subsequently appointed as Group Secretary and General Counsel on 1 July 2017. Her new package took effect from that date.
- Matt Atkinson joined our Co-op on 16 October 2017 on a one day a week basis. He changed to full time on 8 January 2018 and his full time salary is shown for 2018.

We benchmark the total pay of our Executive using market data from a pre-determined comparator group comprising a selection of retail PLCs, mutuals and co-operatives as determined by the Committee.

The Committee has determined that no changes to salary will be made in 2018 for our Executive.

Benefits

Our Executive will receive benefits in line with the current policy.

Pension

Our Executive will receive pension benefits in line with the current policy.

Bonus Plan

This is a new scheme introduced in 2018, and replaces the previous Annual Incentive Plan and Long Term Incentive Plan.

The table below sets out the maximum amount each Executive member can receive under this plan.

Executive member	Maximum BP opportunity as a % of bonusable pay
Steve Murrells ¹	250%
Pippa Wicks	200%
Ian Ellis	180%
Jo Whitfield	150%
Helen Webb	150%
Helen Grantham	150%
Matt Atkinson	150%

Note to table

- The Committee will be seeking support at the 2018 AGM to vary the approved Pay Policy to increase the maximum opportunity to 250% of salary for the Chief Executive role.

Performance under this plan is measured in reference to a number of measures which we believe are important to our Co-op. This goes beyond just financial performance and also covers other areas we know our members also care about like community, colleagues and personal performance. The 2018 balanced scorecard measures and their weightings are detailed below:

2018 Balanced scorecard measures	Weighting
Financial	
Co-op Operating Profit	50%
Being Co-op	
Member - measures focused on our membership proposition	10%
Community - measures focused on championing co-operation and engagement with community activities	10%
Colleague - measures focused on building and maintaining colleague engagement	10%
Personal performance	
Assessment of how each Executive performs against their job requirements and our Ways of Being Co-op.	20%

Key requirement

Underlying profit before tax is an important performance measure for us to enable us to deliver strategic objectives of our Co-op. If we do not achieve a minimum of 90% of our 2018 profit target then no payment will be made under this plan.

The Committee will look at performance at the end of each year and decide what should be paid under the BP scheme. The Committee can decide nothing is paid or that a payment is made between nil and the maximum opportunity for each executive depending on performance. The Committee has discretion to adjust targets, performance results or payments (up to the maximum or down to zero) for exceptional events which they were not aware of at the time of granting the award.

Policy for the recruitment of new members of our Executive

The pay package for any new executive will be set using the same policies that apply to current executives, benchmarked externally by role. This means that the Committee would set a total pay package that is aligned to an appropriately defined basket of external comparators, while ensuring that it pays no more than is necessary to secure the individual.

The following additional items of pay may be considered when recruiting an executive:

- **Relocation.** The Committee will consider contributing towards relocation costs for an executive who needs to move home to be closer to their place of work or stay close to their place of work during the working week. When applicable, this is provided under a relocation policy that seeks to provide appropriate financial assistance based on the nature of the move and individual circumstances, without encouraging people to spend extended periods away from family.
- **Forfeiture of previous bonus type awards.** Under exceptional circumstances and at its absolute discretion, the Committee will consider compensating a new executive for variable bonus awards lost from a previous employer. The exact type and amount of compensation will vary depending on the variable bonus plans operated by the previous employer. Any payments agreed under this policy will not be more generous than, and will mirror as far as possible, the terms of the forfeited awards and will be subject to performance criteria.

Entitlements of executives on leaving our Co-op

In the event of termination the Committee will review and approve all payments due to an executive with the aim of minimising the costs to our Co-op. Payments will be based on contractual and statutory obligations, including legal fees. Where negotiated a contribution towards career support may be made.

The notice period in newly recruited executives' service contracts will not exceed six months. Current executive contracts can be terminated by a maximum of six months' notice. Where it is better for our Co-op for an individual to remain under a contract of employment but not to work their notice, they are placed on garden leave and only contractual payments are made. Where an individual is not required to work their notice and receives a payment in lieu, our Co-op is only obliged to pay base salary. The payment in lieu would not include any benefits or bonuses.

The Committee can agree that the salary in lieu of the whole or part of the notice period can be paid in instalments. The Committee has the right to reduce the payments of salary in lieu of notice by the amount of income from a new role.

The Committee has discretion to determine whether, and to what extent, a leaver is allowed to retain LTIP awards they already hold and whether any BP payment should be made in respect of the period they have been employed. In exercising its discretion the Committee will take account of the reasons for leaving, performance and contractual commitments.

Comparison of pay policies for our Executive and wider colleagues

For base salary, benefits and pension, the same market-aligned principles are applied to all colleagues. The stated policy is that total pay for good performance should be aligned to an appropriately defined basket of external comparators. That policy will apply to all colleagues.

Our Co-op's long-term ambition is for all colleagues to be eligible to participate in a bonus scheme. However, our primary focus is on making sure pay rates for all our customer-facing colleagues remain competitive.

Clawback provisions apply to the new BP and AIP and LTIP plans we have previously used. These enable the Committee to recoup part or all of a payment under these arrangements if our Co-op's results were materially misstated, should have been assessed materially differently, or where an individual ceases to be employed by our Co-op as a result of misconduct. Malus provisions allow, under specific circumstances, that the Committee can decide that an award which has not yet paid out should lapse.

Fees for non-executive directors

Fees for non-executive Board directors are determined by the Non-Executive Fees Committee of Council. Fees are described in the section Annual Report on Remuneration on page 77.

II Annual Report on Remuneration

What did our executives earn in total during the year?

The table below shows the pay received by our executives while appointed to our Executive during the 2017 financial year.

It is important to note that this financial year ran from 1 January 2017 to 6 January 2018 meaning it was a week longer than 2016. This explains why, for example, the basic salary and benefits shown for Steve Murrells are higher in 2017 than 2016, even though there has been no increase to either pay element.

Table 1a - 2017 pay for our executives in post at 6 January 2018

Name of executive	Date appointed to Executive (Note 1)	Date stepped down from Executive (Note 1)	Period	Basic salary £000	Taxable benefits (Note 3) £000	AIP (Note 4) £000	LTIP (Note 5) £000	Pension benefits (Note 6) £000	Other (Note 7) £000	Total £000
Steve Murrells	16 Jul 2012	-	2017 2016	764 750	43 42	645 469	518 500	76 75	- -	2,046 1,836
Ian Ellis (Note 7)	4 Sep 2015	-	2017 2016	713 700	16 14	381 368	376 -	71 70	34 45	1,591 1,197
Pippa Wicks (Notes 7 and 8)	1 Apr 2016	-	2017 2016	700 420	15 9	588 336	- -	70 42	46 34	1,419 841
Jo Whitfield (Note 11)	1 Mar 2017	-	2017 2016	422 -	11 -	142 -	- -	42 -	76 -	693 -
Helen Webb	18 Apr 2017	-	2017 2016	254 -	11 -	103 -	98 -	25 -	- -	491 -
Helen Grantham (Notes 9 and 10)	11 Jan 2016	-	2017 2016	328 288	12 10	38 -	- -	33 29	73 -	484 327
Matt Atkinson (Note 12)	16 Oct 2017	-	2017 2016	35 -	1 -	- -	- -	3 -	- -	39 -

Table 1b - 2017 pay for executives who left our Executive during the 2017 financial year

Name of executive	Date appointed to Executive (Note 1)	Date stepped down from Executive (Note 1)	Period	Basic salary £000	Taxable benefits (Note 3) £000	AIP (Note 4) £000	LTIP (Note 5) £000	Pension benefits (Note 6) £000	Other (Note 7) £000	Total £000
Alistair Asher	1 Jul 2013	31 Dec 2017	2017 2016	550 550	15 14	248 289	380 367	55 55	- -	1,248 1,275
Richard Pennycook	1 Jul 2013	31 Mar 2017	2017 2016	188 998	7 30	- 600	647 600	19 00	11 45	872 2,373
Rod Bulmer	9 Jun 2014	1 Mar 2017	2017 2016	105 650	4 14	103 341	399 433	11 65	- -	622 1,503
Richard Lancaster	1 Jan 2017	1 Nov 2017	2017 2016	474 -	10 -	- -	- -	46 -	- -	530 -
Mike Bracken	30 Sep 2015	31 Aug 2017	2017 2016	246 350	10 14	- 184	154 -	24 35	30 45	464 628
Rufus Olins	17 Oct 2016	1 Jul 2017	2017 2016	175 74	8 3	- -	- -	18 7	23 10	224 94
Sam Walker	17 Mar 2014	4 Apr 2017	2017 2016	160 425	4 14	- -	- -	11 43	- -	175 482

Notes to Table 1a and Table 1b

- The date of appointment to or stepping down from the Executive may differ from the date service commenced or terminated with our Co-op.
- The 2017 financial year ran from 1 January 2017 to 6 January 2018, which is a week longer than the 2016 financial year which ran from 3 January 2016 to 31 December 2016.
- Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
- AIP payments relate to payments under the Annual Incentive Plan.
- LTIP payments relate to cash payments made under the 2015-17 Long Term Incentive Plan.
- Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
- Other payments in 2017 financial year, which were agreed at the date of appointment, include:
 - Payments were agreed under the relocation policy to assist executives to stay close to their workplace during the working week. During 2017, Richard Pennycook received £10,990, Ian Ellis received £33,750, Mike Bracken received £30,288, Pippa Wicks received £45,909 and Rufus Olins received £22,500.

8. Pippa Wicks' contract at the beginning of 2017 required her to work four days a week and her salary was adjusted accordingly. Pippa's contract was amended to five days a week with effect from 7 February 2017 and her salary was adjusted accordingly.
9. Helen Grantham was employed as Interim Group Secretary from 11 January 2016 and was subsequently appointed as Group Secretary and General Counsel on 1 July 2017. Her new package took effect from that date
10. Helen Grantham was only eligible for AIP from the 1 July 2017 appointment date to her new role, prior to this she had a separate retention arrangement which was linked to being in post at the 2017 AGM and received £73,369 payment in respect of this arrangement.
11. A payment of £75,728 was made to Jo Whitfield as compensation for incentive scheme awards that she forfeited on taking a new position with our Co-op.
12. Matt Atkinson joined our Co-op on 16 October 2017 on a one day a week basis, changing to full time on 8 January 2018.

Will our Executive receive a salary increase in 2018?

The Committee has decided that there will be no salary increases in 2018.

What LTIP scheme interests do our executives hold?

Awards were made annually under the Long Term Incentive Plan (LTIP), and any payments due are made in cash, subject to the achievement of performance conditions over a three year period. Table 2a shows the maximum potential LTIP awards held by executives in post at 6 January 2018. Table 2b shows the maximum potential award under each plan for those who were executives at the time of leaving.

Lapsed awards include the portion of the award that did not pay out due to not fully meeting the performance conditions.

Table 2a - LTIP awards held by our executives in post at 6 January 2018

Name of executive	Award	Notes	Maximum award opportunity at start of the year £000	Maximum 2017-2019 award opportunity granted £000	Awards vested in year £000	Awards lapsed in year £000	Maximum award opportunity at the year end £000
Steve Murrells	2017-2019	1	-	750	-	-	750
	2016-2018	2	750	-	-	-	750
	2015-2017	3	750	-	518	232	-
Pippa Wicks	2017-2019	1,6	-	692	-	-	692
	2016-2018	2,6	646	-	-	-	646
Ian Ellis	2017-2019	1	-	700	-	-	700
	2016-2018	2	700	-	-	-	700
	2015-2017	3	544	-	376	168	-
Helen Grantham	2017-2019	1,5	-	175	-	-	175
Helen Webb	2017-2019	1,7	-	148	-	-	148
	2016-2018	2,7	148	-	-	-	148
	2015-2017	3,7	143	-	98	45	-
Jo Whitfield	2017-2019	1,7	-	155	-	-	155
	2016-2018	2,7	155	-	-	-	155

Notes to Table 2a

1. The 2017-2019 LTIP awards are subject to performance conditions and the measures are:
 - Net debt to EBITDA ratio (50% weighting)
 - Membership spend as a percentage of total sales value (25% weighting)
 - Co-op colleague engagement (25% weighting)
2. The 2016-2018 LTIP awards are subject to performance conditions, and the measures are:
 - Net debt to EBITDA ratio (40% weighting)
 - Membership spend as a percentage of total sales value (25% weighting)
 - Co-op colleague engagement (25% weighting)
 - Brand health (10% weighting)
3. The 2015-2017 LTIP awards are subject to performance conditions which are deemed key to the success of the Rebuild phase. The measures are:
 - Net debt to EBITDA ratio (40% weighting)
 - Membership spend as a percentage of total sales value (25% weighting)
 - Co-op colleague engagement (25% weighting)
 - Brand health (10% weighting)
4. A 2017-19 LTIP grant was not made to Matt Atkinson due to starting after the cut-off to join the plan.
5. Helen Grantham held an interim position during 2016 and therefore was not eligible to participate in the 2016-18 LTIP scheme.
6. Adjustment has been made to Pippa Wicks' grant salary due to a change in working hours during the performance period.
7. LTIP grants made while employed in previous roles in our Co-op which were not on our Executive.

Table 2b - LTIP awards for executives who left the Executive

Name of executive	Award	Notes	Maximum award opportunity at start of the year £000	Maximum 2017-2019 award opportunity granted £000	Awards vested in year £000	Awards lapsed in year £000	Maximum award opportunity at the year end £000
Richard Pennycook	2016-2018	1,2	1,250	-	-	729	521
	2015-2017	1,2	1,250	-	647	603	-
Mike Bracken	2017-2019	3	-	350	-	350	-
	2016-2018	3	350	-	-	350	-
	2015-2017	1,3	263	-	154	109	-
Rod Bulmer	2016-2018	1,4	-	542	-	181	361
	2015-2017	1,4	578	-	399	179	-
Alistair Asher	2017-2019	1,5	-	550	-	-	550
	2016-2018	1,5	550	-	-	-	550
	2015-2017	1,5	550	-	380	170	-

Notes to Table 2b

- Under the terms of their leaver arrangements the former Executive members in the table who left our Co-op during 2017 retained parts of their LTIP awards that related to the period they were in employment. These remain subject to the original performance measures and the original performance periods. Payments are due on the vesting of these awards following the end of the performance period.
- The Committee has determined that Richard Pennycook is a qualifying leaver from both 2015-17 and 2016-18 LTIP schemes. His unvested awards are pro-rated to time served as a member of the Executive during the performance period for each scheme. These remain subject to the original performance measures and the original performance periods.
- Mike Bracken left our Co-op on 31 August 2017. The Committee has determined that Mike is a qualifying leaver from the 2015-17 LTIP. His award has been pro-rated to time served as a member of the Executive during the performance period and remained subject to the original performance measures and the original performance periods. Both the 2016-18 and 2017-19 LTIP awards have lapsed.
- Rod Bulmer stepped down from the Executive on 1 March 2017 and left our Co-op on 31 December 2017. The Committee has determined that Rod is a qualifying leaver from both 2015-17 and 2016-18 LTIP schemes. His unvested awards are pro-rated to time served during the performance period for each scheme. These remain subject to the original performance measures and the original performance periods. Adjustment has been made to Rod's grant salary due to a change in working hours during the performance period.
- Alistair Asher stepped down from the Executive on 31 December 2017 and is due to leave our Co-op at the end of May 2018. The Committee has determined that Alistair will be a qualifying leaver from both 2016-18 and 2017-19 LTIP schemes. His unvested awards will be pro-rated upon leaving to time served during the performance period for each scheme. This means he will be eligible for 29/36ths of his 2016-18 LTIP and 17/36ths of his 2017-19 LTIP. These remain subject to the original performance measures and the original performance periods.

What pension benefits are our executives entitled to?

The table below shows the pension entitlements for our Executive. The figures shown reflect the period that the individuals were appointed to our Executive.

Table 3a - Pension entitlements for executives in post at 6 January 2018

Name of executive	Date appointed to Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £000	Payment in lieu of pension benefit £000	Total Pensions Benefits £000
Steve Murrells	16 Jul 2012	5	2017	-	76	76
			2016	-	75	75
Ian Ellis	4 Sep 2015	2	2017	-	71	71
			2016	-	70	70
Pippa Wicks	1 Apr 2016	1	2017	-	70	70
			2016	-	42	42
Jo Whitfield	1 Mar 2017	1	2017	6	36	42
			2016	-	-	-
Helen Webb	18 Apr 2017	4	2017	-	25	25
			2016	-	-	-
Helen Grantham	11 Jan 2016	2	2017	-	33	33
			2016	-	29	29
Matt Atkinson	16 Oct 2017	-	2017	-	3	3
			2016	-	-	-

Table 3b - Pension entitlements for executives who left or stepped down from the Executive during the 2017 financial year

Name of executive	Date appointed to Executive	Date of stepping down from Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £000	Payment in lieu of pension benefit £000	Total Pensions Benefits £000
Alistair Asher	1 Jul 2013	31 Dec 2017	4	2017	-	55	55
				2016	-	55	55
Richard Pennycook	1 Jul 2013	31 Mar 2017	3	2017	-	19	19
				2016	-	100	100
Rod Bulmer	9 Jun 2014	1 Mar 2017	3	2017	-	11	11
				2016	14	51	65
Richard Lancaster	1 Jan 2017	1 Nov 2017	1	2017	-	46	46
				2016	-	-	-
Mike Bracken	30 Sep 2015	31 Aug 2017	1	2017	-	24	24
				2016	-	35	35
Rufus Olins	17 Oct 2016	1 Jul 2017	1	2017	-	18	18
				2016	-	7	7
Sam Walker	17 Mar 2014	4 Apr 2017	3	2017	11	-	11
				2016	43	-	43

Notes to Table 3a and Table 3b

- All pension scheme members have the option of paying additional voluntary contributions to their respective pension scheme. Neither any contributions paid nor any benefits arising from them are shown in the above table.
- Defined benefit accrual ceased in October 2015 for all colleagues.
- Total Defined Benefit pension is that which would be paid annually on retirement at normal retirement age based on service to the closure of the Defined Benefit pension accrual on 28 October 2015 and statutory revaluation increases in deferment. There is no additional pension benefit payable in the event of an executive's early retirement.
- Rod Bulmer's Defined Benefit pension at 31 December 2016 was £34,624 and at 31 December 2017 was £35,490.
- Sam Walker's Defined Benefit pension at 31 December 2016 was £3,860 and at 31 December 2017 was £3,957.

What arrangements have been agreed for former executives?

Details of the leaver arrangements for executives who have left our Co-op during 2017 are shown below.

Mike Bracken	<p>Mike's employment terminated on 31 August 2017. His earnings while he was an active member of the Executive up to his leave date are shown in Table 1b.</p> <p>Mike's leaver arrangements included a payment of £175,000 in lieu of his notice period in accordance with his contract, and a payment of £10,769 in lieu of accrued holiday entitlement.</p>
Richard Lancaster	<p>Richard's employment terminated on 1 November 2017. His earnings while he was an active member of the Executive up to his leave date are shown in Table 1b.</p> <p>Richard's leaver arrangements included a payment of £52,885 in lieu of the balance of his notice period in accordance with his contract, and a payment of £14,565 in lieu of accrued holiday entitlement.</p>

Non-executive directors' remuneration

This section of the report includes details of the payments made to the non-executive directors (NEDs) in office during 2017.

What are the fees for the NEDs for 2017?

NED Role	Fees
Chair	<ul style="list-style-type: none"> The basic fee for the Chair role is £250,000 per annum. There has been no change in annual fee between 2015 and 2017. No additional fees are paid.
Independent Non-Executive Directors (INEDs)	<ul style="list-style-type: none"> The basic fee for an INED is £60,000 per annum. The following additional fees apply: <ul style="list-style-type: none"> Senior Independent Director £15,000 Chair of Risk and Audit Committee £15,000 Chair of Remuneration Committee £15,000 There is no additional fee for the Chair of Nominations Committee or for being a member of any committee
Member Nominated Directors (MNDs)	<ul style="list-style-type: none"> The basic fee for an MND is £60,000 per annum. The same additional fees for the INEDs apply to MNDs who are Chairs of a committee. There is no additional fee for being a member of any committee.

Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2017, it was paid to the Co-operative Community Investment Foundation. The Chair also has access to a pool car and driver for Co-op business if required. No other benefits will be provided for the Chair or any other NED member of the Board.

All NEDs are entitled to reimbursement of all reasonable and properly documented travel, hotel and other expenses incurred in performing their duties, in accordance with the terms of the Society's expenses policy.

None of the NEDs, by virtue of their Board position, participated in any of our Co-op's incentive plans or pension schemes, nor did they receive performance related payments during the period.

No additional fees will be paid to an executive who sits on the Board or on any of the operating division boards.

The NEDs' letters of appointment are available for inspection on request.

How long are directors appointed to the Board for?

Appointments to the Board are for the following periods:

- The Chair and INEDs were appointed for an initial two-year term subject to election and re-election in accordance with the Rules. A Chair or an INED who has been in office for a continuous period of six years or more at the date of an AGM will be required to retire from office and they will not be eligible to put themselves forward for election again.
- All directors (other than MNDs) retire from office at the second AGM following his/her election/re-election. The Board and the Council have the right to agree otherwise in order to avoid a situation where more than half of these roles would be retiring from office at the same AGM.
- An MND will ordinarily serve terms of two years and may serve a maximum of three terms of two years each, subject to the Member Nominated Director Election Regulations. One MND elected in 2015, Hazel Blears, was initially elected for a one year term to ensure not all MNDs had the same term. She was re-elected in 2016 for an additional two-year term. She may serve for a further two terms of two years.

We will be putting a motion to our AGM which would allow directors to serve for longer periods. Additional information can be found in our AGM pack and on our website at www.co-operative.coop/agm.

What did the NEDs earn during the year?

The table below shows the fees paid to our NEDs during the 2017 financial year.

Table 4a - Non-executive members of the Board at 6 January 2018

	Notes	Board £000	Risk and Audit Committee Chair £000	Remuneration Committee Chair £000	Senior Independent Director £000	2017 Total £000	2016 Total £000
Allan Leighton(Chair)	1, 3	See Note 1	-	-	-	-	See Note 1
Sir Christopher Kelly	2, 3	61	-	-	15	76	75
Simon Burke	2, 3	61	15	-	-	76	75
Stevie Spring	2, 3	61	-	15	-	76	75
Lord Victor Adebawale CBE	3	61	-	-	-	61	44
Hazel Blears	3	61	-	-	-	61	60
Margaret Casley-Hayford	3	61	-	-	-	61	37
Paul Chandler	3	61	-	-	-	61	60
Peter Plumb	3	61	-	-	-	61	60
Gareth Thomas	3, 4	38	-	-	-	38	-

Notes to Table 4a

1. Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2017, it was paid to the Co-operative Community Investment Foundation.
2. The Risk and Audit Committee Chair, the Remuneration Committee Chair and the Senior Independent Director each receive an additional fee of £15,000 per annum.
3. The 2017 financial year ran from 1 January 2017 to 6 January 2018 which is a week longer than the 2016 financial year which ran from 3 January 2016 to 31 December 2016.
4. Gareth Thomas was appointed as a Member Nominated Director on 20 May 2017.
5. No additional fee is paid to the Chair of the Nominations Committee.

Table 4b - Former non-executive members of the Board who left during 2017 financial year

	Notes	Board £000	Risk and Audit Committee Chair £000	Remuneration Committee Chair £000	Senior Independent Director £000	2017 Total £000	2016 Total £000
Ruth Spellman	1, 2	22	-	-	-	22	60

Notes to Table 4b:

1. The 2017 financial year ran from 1 January 2017 to 6 January 2018 which is a week longer than the 2016 financial year which ran from 3 January 2016 to 31 December 2016
2. Ruth Spellman stepped down from the Board on 20 May 2017.

For details of fees paid to Independent Non-Executive Directors on the boards of subsidiary businesses please see the relevant accounts which are available on request from the Secretary.

Role of the Committee

The Committee is responsible for determining and overseeing the Executive Pay Policy for our Co-op to ensure a consistent approach across our Co-op and its subsidiaries.

Terms of reference

The terms of reference of the Committee are available on our website: <https://www.co-operative.coop/investors/rules>.

Members of the Committee

Details of the Committee members and their attendance at meetings during 2017 are provided on page 47.

The Chief Executive, the Group Secretary and General Counsel, the Chief People Officer and members of the Reward team are also invited to attend the meetings of the Committee, but are not present when their own remuneration or terms and conditions are being considered. Other individuals are invited to attend for specific agenda items when necessary.

The Committee members are all non-executive. They have no personal financial interests in the Committee's decisions and they have no involvement in the day-to-day management of our Co-op. The Board believes that all members of the Committee are independent for the purpose of reviewing remuneration matters.

Independent advice

In carrying out its responsibilities, the Committee has access to independent advice as required. During 2017 the Committee retained New Bridge Street (an Aon Hewitt company) as its independent remuneration adviser until September 2017. Following a tender exercise Deloitte were appointed as new independent adviser to the Committee with effect from October 2017. The fees paid to New Bridge Street and Deloitte during this period totalled £87,182 excluding VAT.

Both New Bridge Street and Deloitte are a signatory of the Remuneration Consultants' Code of Conduct which requires their advice to be objective and impartial.

The Committee takes legal advice from our Co-op's internal legal team and also from external legal advisers where appropriate. No external lawyers were used during 2017.