

# 4. CORPORATE GOVERNANCE STATEMENT

## A. Introduction

PG p.l.c. was incorporated on 25 November 2016 and acquired control of the subsidiaries and associates that constitute the group's business on 10 March 2017. The company's equity was admitted to the Official List of the Malta Stock Exchange on 4 May 2017, after the company's financial year end.

The company is accordingly not required to submit a report on its corporate governance pursuant to Listing Rules 5.94 and 5.97 issued by the Listing Authority of the Malta Financial Services Authority and given the brevity of its operation as a statutory entity such a report covering the year ended 30 April 2017 would not be a meaningful one.

The board of directors has nevertheless ensured, in the course of preparing for the listing of the company's equity, that the company adopts corporate governance procedures that are appropriate to the business, safeguard its continuity and comply with the Code of Principles of Good Corporate Governance (the Code) contained in Appendix 5.1 to Chapter 5 of the Listing Rules. Rather than constituting a report made in terms of Listing Rule 5.94 and relating to the financial year ended 30 April 2017, this statement reports on the measures adopted by PG p.l.c. to ensure compliance with the Code moving ahead. It also reports on the remuneration payable to directors and senior management, in lieu of a separate report thereon.

## B. Compliance with the Code

### *Principle 1: The Board*

The board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. In terms of the Memorandum of Association of PG p.l.c., the affairs of the company are managed and administered by a board composed of seven directors.

The board is in regular contact with the CEO, who is a board member, in order to ensure that it is in receipt of timely and appropriate information in relation to the business of the group and management performance. This enables the board to contribute effectively to the decision making process, whilst at the same time exercising prudent and effective controls.

The board delegates specific responsibilities to the Audit Committee and to the RemNom Committee. Further detail in relation to the committees and the responsibilities of the board is found in Principles 4, 5 and 8 of this statement.

### *Principle 2: Chairman and Chief Executive*

The statute of PG p.l.c. provides for the board to appoint a chairman from amongst the directors. It also provides for the appointment of a CEO who will also serve, by virtue of his office, as a director of the company. Mr John Zarb and Mr Charles Borg were appointed chairman and CEO respectively.

The chairman is responsible to lead the board and set its agenda, ensure that the directors of the board receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the company, ensure effective communication with shareholders and encourage active engagement by all directors during board discussions.

The CEO leads the management team of the group. He reports regularly to the board on the business and affairs of the group and the commercial, economic and other challenges facing it. He is also responsible to ensure that all submissions made to the board are timely, give a true and correct picture of the issue or issues under consideration, and are of a professional standard suited to the subject matter concerned.

## 4. CORPORATE GOVERNANCE STATEMENT (CONT.)

### B. Compliance with the Code (cont.)

The CEO is supported by Mr Paul Gauci, the founder and major shareholder of the company, who serves as Executive Vice-Chairman. Mr Gauci also takes a leading role in the business development of the group and in identifying and developing opportunities for expansion.

The CEO chairs a Management Committee composed of the group's senior executives. The committee meets on a weekly basis to review the conduct of operations, to review and discuss monthly management accounts and to review and approve annual plans and budgets prior to their presentation to the board. The heads of the respective business areas are invited to attend the Management Committee and to answer any questions of the members of the committee.

The Deputy CEO, Mr Malcolm Camilleri, chairs a Purchasing Committee charged with assisting the Head Purchasing Officer in the operation of the group's purchasing activities and in negotiations with suppliers. The committee also exercises oversight on the group's relationships with its principal suppliers.

#### *Principle 3: Composition of the Board*

The composition of the company's first board of directors was designed to attain a diverse mix of professional and business skills and backgrounds appropriate to the needs of the group; an appropriate balance between executive and non-executive directors; and the representation of the majority shareholder sufficient to attain continuity in leadership and an ongoing detailed awareness of the operations of the group, so as to ensure the proper exercise of the voting rights, and the associated responsibilities, that are pertinent to such shareholder.

The board of directors is composed of:

#### Non-executive directors

Mr John Zarb FCCA FIA CPA - Chairman  
Dr Ramona Piscopo LL.M., LL.D  
Mr William Spiteri Bailey FIA CPA  
Mr Lawrence Zammit MA (Econ)

#### Executive directors

Mr Paul Gauci - Executive Vice-Chairman  
Mr Charles Borg BA Banking & Finance, MA Financial Services, FCIB - CEO  
Mrs Claire-Alexia Borg Gauci.

All the non-executive directors are considered as independent and they are free from any business or other relationship with the company which could interfere materially with the exercise of their independent and impartial judgment.

In terms of the Articles of Association of the company, the first directors may serve in office for a period of three years, following which one third of the board shall retire by rotation every year, and shall be eligible for election.

Nominations for the appointment of directors must be approved by the Nominations Committee, which is empowered by the Articles of Association of the company to reject any recommendation made if, in its considered opinion, the proposed appointment could be detrimental to the company's interests or if such person is not considered as fit and proper to occupy that position. The Nominations Committee is also empowered on its own initiative to take steps to ensure that the board remains constituted by a diverse mix of professional and business skills and backgrounds appropriate to the needs of the group.

## 4. CORPORATE GOVERNANCE STATEMENT (CONT.)

### B. Compliance with the Code (cont.)

#### *Principles 4 and 5: The Responsibilities of the Board and Board Meetings*

The board meets regularly every month in addition to other occasions as may be needed from time to time. Individual directors, apart from attendance at formal board meetings, participate in other ad hoc meetings during the year as may be required, and are also active in board sub-committees as mentioned further below.

Since the incorporation of the company and up to the date of approval of this report, ten board meetings were held. Attendance at these meetings was as follows:

<i>Board member</i>	<i>Meetings attended</i>
Mr John Zarb	10
Mr Paul Gauci	10
Mr Charles Borg	10
Mrs Claire-Alexia Borg Gauci	7
Dr Ramona Piscopo (appointed 21 December 2016)	9
Mr William Spiteri Bailey	9
Mr Lawrence Zammit	10

The board is entrusted with the overall direction, administration and management of the group. The board, in fulfilling this mandate, assumes responsibility for the following:

- reviewing and approving the business plan and budgets that are submitted by management, and working with management in the implementation of the business plan;
- identifying the principal business risks for the group and overseeing the implementation and monitoring of appropriate risk management systems;
- ensuring that effective internal control and management information systems for the group are in place;
- assessing the performance of the group's executive officers, including monitoring the establishment of appropriate systems for succession planning, and for approving the compensation levels of such executive officers; and
- ensuring that the group has in place a policy to enable it to communicate effectively with shareholders, other stakeholders and the public generally.

The board regularly reviews and approves various management reports as well as annual financial plans, including capital budgets. The strategy, processes and policies adopted for implementation are regularly reviewed by the board.

#### *Principle 6: Information and Professional Development*

The directors were made familiar with the key provisions of the company's memorandum and articles and its overall objectives before the company was formed, as part of the process of seeking their consent to their proposed appointment. The incorporation of the company was followed by a process whereby the non-executive directors were introduced in more detail to the group's business and its plans, and to its senior management team.

The recruitment and selection of senior management is the responsibility of the CEO in consultation with the board. Likewise, the CEO consults with the board on matters relating to succession planning for senior management within the company. The board considers and discusses succession planning measures at all senior management levels taking into account the size and depth of the management team of the company. The board, acting through the RemNom Committee, is also concerned with ensuring the ongoing training and development of the group's management team.

## 4. CORPORATE GOVERNANCE STATEMENT (CONT.)

### B. Compliance with the Code (cont.)

The directors have access to the advice and services of the Company Secretary, Dr Fransina Abela, who is responsible for ensuring that board procedures are adhered to. Additionally, directors may seek independent professional advice on any matter at the company's expense.

#### *Principle 7: Evaluation of the Board's Performance*

The board undertakes to carry out an evaluation of its own performance together with that of the Committees, the chairman, the individual directors and the CEO. This evaluation will be made under the direction of the chairman of the RemNom Committee.

#### *Principle 8: Committees*

The directors have constituted the following board committees, the terms of reference of which shall be determined by the board from time to time with the purpose of fulfilling the below mentioned purposes:

#### Audit Committee

The Audit Committee is composed of Mr William Spiteri Bailey (chairman), Mr John Zarb and Dr Ramona Piscopo, all occupying an independent non-executive director role within the company. Mr William Spiteri Bailey and Mr John Zarb are the Audit Committee members who are considered to be competent in accounting and/or auditing in terms of the Listing Rules.

The committee is responsible for reviewing the financial reporting processes and policies, the system of internal control and management of financial risk, the audit process, any transactions with related parties and the company's process for monitoring compliance with laws and regulations. When the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the board on the action needed to address the issue or make improvements.

The Audit Committee has the task to ensure that any potential conflicts of interest are resolved in the best interests of the group. Its primary objective is to assist the board in dealing with issues of risk, control and governance and in reviewing the group's reporting processes, financial policies and internal control structure. The Audit Committee also oversees the conduct of the external audit and facilitates communication between the board, management and external auditors. The Audit Committee is a committee appointed by the board and is directly responsible and accountable to the board. Its main role and responsibilities are:

- (a) to review procedures and assess the effectiveness of the internal control systems, including financial reporting;
- (b) to assist the board in monitoring the integrity of the financial statements, the internal control structures, the financial reporting processes and financial policies of the company;
- (c) to make recommendations to the board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor following appointment by the shareholders in general meeting;
- (d) to monitor and review the external audit functions, including the external auditor's independence, objectivity and effectiveness;
- (e) to establish internal procedures and to monitor these on a regular basis;
- (f) to establish and maintain access between the internal and external auditors of the company and to ensure that this is open and constructive;

## 4. CORPORATE GOVERNANCE STATEMENT (CONT.)

### B. Compliance with the Code (cont.)

- (g) to review and challenge where necessary, the actions and judgements of management, in relation to the interim (if applicable) and annual financial statements before submission to the board, focusing particularly on:
  - (i) critical accounting policies and practices and any changes in them;
  - (ii) decisions requiring a major element of judgement;
  - (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - (iv) the clarity of disclosures and compliance with International Financial Reporting Standards;
  - (v) significant adjustments resulting from the audit;
  - (vi) compliance with stock exchange and other legal requirements; and
  - (vii) reviewing the company's statement on Corporate Governance prior to endorsement by the board;
- (h) to gain an understanding of whether significant internal control recommendations made by internal and external auditors have been implemented by management;
- (i) to establish and exercise oversight upon the internal audit function of the company, and to review its plans, activities, staffing and organisational structure;
- (j) to monitor the statutory audit of the annual and consolidated accounts;
- (k) to discuss company policies with respect to risk assessment and risk management, review contingent liabilities and risks that may be material to the company; and
- (l) to consider other matters that are within the general scope of the committee that are referred to it by the board of directors.

The Audit Committee has met four times since the incorporation of the company, and the meetings were attended by all committee members.

#### RemNom Committee

In view of its size, the company has taken the view that whilst it considers the role and function of each of the Remuneration Committee and the Nomination Committee as important, it would be more efficient for these committees to be merged into one committee ("RemNom Committee") that would serve a dual role.

The RemNom Committee is composed of Mr John Zarb (chairman), Mr Paul Gauci and Mr Lawrence Zammit.

In its function as Remuneration Committee, the RemNom Committee is charged with the oversight of the remuneration policies implemented by the company with respect to its management and employees. Its objectives are those of deciding a remuneration policy aimed to attract, retain and motivate directors, whether executive or non-executive, as well as senior management with the right qualities and skills for the benefit of the company. It is responsible for making proposals to the board on the individual remuneration packages of directors and senior management and is entrusted with monitoring the level and structure of remuneration of the non-executive directors.

In its function as Nomination Committee, the RemNom Committee's task is to propose to the board candidates for the position of director, including persons considered to be independent in terms of the Listing Rules, whilst also taking into account any recommendation from shareholders. It is to periodically assess the structure, size, composition and performance of the board and make recommendations to the board regarding any changes, as well as consider issues

## 4. CORPORATE GOVERNANCE STATEMENT (CONT.)

### B. Compliance with the Code (cont.)

related to succession planning. It is also entrusted with reviewing the board's policy for selection and appointment of senior management.

The RemNom Committee met once since the incorporation of the company, and this meeting was attended by all committee members.

#### *Remuneration of directors and senior management*

As explained in the Directors' Report, the group was formed as a result of a restructuring exercise whereby, on 10 March 2017, PG p.l.c. acquired a number of entities which operated the two main business activities of the PG Holdings group of companies namely the supermarkets and associated retail operations and the franchise operations. The shareholder of PG Holdings Limited is Mr Paul Gauci and the acquisition was made in exchange for the issue of shares to Mr Gauci.

The remuneration of the company's directors was established at the time, before the formation of the RemNom Committee, in the following manner:

- (a) Continuity was assured in the salaries payable to executive directors after these were reviewed by the board and judged appropriate in the context of the responsibilities and experience of the individuals concerned.
- (b) The remuneration of the non-executive directors was set by reference to the time they are expected to dedicate, annually, to the affairs of the group, remunerated at a rate that recognises the professional status and experience of the individuals concerned. The process was designed to attain transparency on the time input that directors are expected to dedicate annually to the group; at the same time creating a basis on which to determine future revisions should directors be required to dedicate more time to the group's affairs.

Once the resultant remuneration was approved by the board, the results were reflected in the prospective financial information included in the company's prospectus dated 27 March 2017.

All remuneration payable to directors is of a fixed nature. It is the intention of the RemNom Committee, in due course, to introduce an element of variable, performance based remuneration for executive directors and for senior management, based on a balanced scorecard, and a process has been initiated that will facilitate, inter alia, the determination of suitable parameters for the purpose.

No director has a contract with the company that contains provisions for termination payments and other payments linked to early termination.

Non-cash benefits for two executive directors include the use of a company car.

The maximum annual aggregate emoluments that may be paid to the directors as approved by the shareholders in terms of Article 22 of the company's Articles of Association is fixed at an aggregate sum of €750,000 per annum.

The following is an outline of the directors' remuneration for the financial year under review:

Directors' fees	€73,000
Directors' salaries	€397,000

## 4. CORPORATE GOVERNANCE STATEMENT (CONT.)

### B. Compliance with the Code (cont.)

#### *Emoluments of directors and senior management*

	<b>Fixed Remuneration</b>	<b>Share Options</b>	<b>Others</b>
Directors	€470,000	None	Non-cash benefits referred to above
Senior Management	€206,000	None	Non-cash benefits referred to above

#### *Principles 9 and 10: Relations with Shareholders and with the Market, and Institutional Shareholders*

The company recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood.

The company will communicate effectively with shareholders by publishing its results on a six-monthly basis during the year, by way of half yearly and annual reports and financial statements, through Interim Directors' Statements, through periodical company announcements and through press releases in the local media to the market in general. The financial results will be made available on the company's website [www.pggroup.com.mt](http://www.pggroup.com.mt).

#### *Annual General Meeting*

Within seven months of the end of the financial year, the annual general meeting of the shareholders will be convened to consider the annual financial statements, the directors' and auditors' reports for the year, to decide on any dividends recommended by the board, to elect directors, appoint auditors and to set their remuneration. A presentation will be given to the shareholders present showing how the company operated in the light of prevailing economic and market conditions, and an assessment on future prospects will be given. The chairman arranges for all directors to attend the Annual General Meeting.

#### *Principle 11: Conflicts of Interest*

Directors having conflicts of interest on any matters being discussed at board level are required to disclose the conflict in a timely manner to the board and the director so conflicted will not be allowed to vote on such matters.

None of the directors save Mr Paul Gauci have any shares in the company.

Any material transactions with related parties, which pose intrinsic potential conflicts of interests, require the approval of the Audit Committee, which is charged with ensuring that such transactions are necessary for the conduct of the company's business and are transacted on an arms' length basis.

As explained in the prospectus issued by the company on 27 March 2017, the group was re-organised in its current form to include, as far as practicable, all the businesses that are controlled by Mr Paul Gauci, and managed by his management team. This serves to reduce the scope for any future potential conflicts of interests involving the majority shareholder.

#### *Principle 12: Corporate Social Responsibility*

The company recognises the importance of its role in the corporate social responsibility arena and seeks to ensure that in its operations the environment is respected. The directors are also aware of the importance of having good relations with stakeholders and strive to work together with them in order to invest in human capital, health and safety issues and to adopt environmentally responsible practices.

## 4. CORPORATE GOVERNANCE STATEMENT (CONT.)

### C. Non-compliance with the Code

In the opinion of the board, the company has instituted governance procedures which shall ensure full compliance with the Code.

### D. Internal Control and Risk Management in relation to financial reporting

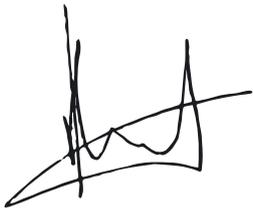
The board is ultimately responsible for the company's system of internal control and risk management and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable, as opposed to absolute assurance against material misstatement or loss.

The company operates through the board of directors and the management team with clear reporting lines and delegation of powers. The board of directors has adopted and implemented appropriate policies and procedures to manage risks and internal control. The board plans, controls and monitors business operations in order to achieve the set objectives.

The directors, with the assistance of management, are responsible for the identification, evaluation and management of the key risks to which the company may be exposed. The company has clear and consistent procedures in place for monitoring the system of internal financial controls. The directors also receive periodic management information giving comprehensive analysis of financial and business performance including variances against the company's set targets. This process is applicable specifically in relation to the company's financial reporting framework.

Through the Audit Committee, the board reviews the effectiveness of the company's system of internal controls, including financial reporting, which will be monitored by an Internal Audit team that was appointed in April 2017 and which has recently commenced operations. The Audit Committee also determines whether significant internal control recommendations made by the internal and external auditors have been implemented.

Approved by the board of directors on 10 August 2017 and signed on its behalf by:



John B Zarb  
*Chairman*



Paul Gauci  
*Executive Vice-Chairman*