



ANNUAL REPORT 2020-21



ZARA ZARA
HOME





A member of PG Group

ANNUAL REPORT 2020-21

contents

4	Chairman's Statement
6	Board of Directors
8	Senior Management, Group Services and Operations
10	Chief Executive Officer's Review

Chairman's Statement



The growth in sales and operating profit being reported by the group is exceptionally strong and has exceeded the board's expectations. The success of our food supermarket operations has been a key driver of this success.

The PG Group attained a turnover of €129.5 million in the financial year ended 30 April 2021, representing a growth of 7.9% on the previous year, which had registered a turnover of €120.0 million. Operating profit amounted to €16.3 million, compared to €15.1 million in 2020.

The financial year commenced with the commercial community in Malta reopening for business after the COVID first wave lockdown. This first lockdown caught both business owners and consumers unaware, and recovery in the non-food sectors was a gradual one. Our group recognised this and waived all rents at its outlets in May 2020, supporting its tenants as they sought to make up lost ground. The group's own franchise business also suffered, in part given the poor tourist season recorded in summer 2020, which impacted our main retail outlet in Sliema. In-store sales of clothing decreased, even if this decrease was in large part offset by a significant growth in on-line sales and enhanced sales within Zara Home outlets.

This background led to reduced profitability in the initial months of the financial year, and this time last year we set ourselves the target of recouping this setback by 30 April 2021 – although at that time the Maltese islands were experiencing a significant surge in the number of reported COVID-19 cases, pointing to the possibility of the re-introduction of precautionary restrictions. In the event, the group had to face a second lockdown of a six week duration in March and April of 2021. The group again waived rentals due from tenants impacted by this lockdown, apart from being obliged once more to temporarily close its Zara and Zara Home outlets.

Against this background, the growth in sales and operating profit being reported by the group is exceptionally strong and has exceeded the board's expectations. The performance of our food supermarket operations has been a key driver of this success. In spite of substantial lost rentals, the supermarket and associated retail segment as a whole reported increases in sales and operating profit of 10.9% and 12.7% respectively. At the same time, the decreases in sales and operating profit in our franchise segment were relatively contained at 7.5% and 12.6% respectively.

While custom at our Pama and Pavi supermarkets again grew during this financial year, operations continued to be conducted with additional vigilance to mitigate the risks posed by COVID-19. Our first priority since the outbreak of the COVID-19 pandemic has been that of safeguarding continuity of service through ensuring the safety of our customers and staff. Various measures were and continue to be taken to ensure this continuity

of service, in full co-operation with public health authorities, and we have not relaxed our guard.

The group's net profit after taxation for the year ended 30 April 2021 amounted to €10.6 million, compared to €9.7 million in 2020, representing an increase of 9.4%.

Net cash generated from operating activities totalled €13.1 million, compared to €15.5 million in 2020. Capital expenditure incurred during the period amounted to €1.7 million. Our net bank liabilities as at 30 April 2021 totalled €8.5m, compared to €14.9m in 2020, and are today relatively insignificant in the context of our business activities.

An interim net dividend of €2.0 million was distributed to shareholders in December 2020, while a second interim net dividend of €3.2 million was paid in July 2021. These two distributions, totalling €5.2 million, represent 49.3% of the profits reported for the financial year and entail a growth of 8.3% over the dividends paid in respect of 2020.

Looking ahead, the outlook for the current financial year, ending on 30 April 2022, appears encouraging. The supermarket sector within the Maltese islands has suffered a reduction in sales since the pandemic started, driven mainly by a reduction in expatriate workers resident in the country and by the reduction in tourism in self-catering accommodation. This phenomenon has not impacted our two supermarkets, whose location is not vulnerable to a downturn in tourism. The end of the second COVID-19 lockdown appears to have resulted in a surge in consumer confidence, perhaps encouraged by the success of Malta's vaccination programme, and this has benefited our Zara and Zara Home operations.

Turnover within the supermarket and associated retail segment again increased in the first quarter of the current financial year, while that turnover within our franchise operations has grown substantially during the same quarter, exceeding pre-COVID levels. This represents an encouraging start to the current financial year, although it would be unrealistic to expect a high level of growth to be sustained for the full twelve-month period. The COVID-19 pandemic continues to create business uncertainty. It is also too early to judge the duration and long-term economic impact of Malta's grey listing, and its effects on consumer confidence and spending.

The Board nevertheless looks forward to the future with confidence. The group remains well positioned on key attributes such as the low volatility of the business sectors it is engaged in; the quality of its physical facilities; the versatility of its management in initiating and managing change; and the adequacy of its financial

The group's net profit after taxation for the year ended 30 April 2021 amounted to €10.6 million, compared to €9.7 million in 2020, representing an increase of 9.4%.

resources. Given its healthy operating cash flows and low borrowing levels, the group is well positioned to pursue growth opportunities. The board has worked incessantly over the past year on this topic, and considered a number of potential projects that would serve to expand the group's business. This is a subject on which I hope to be able to report further progress in future.

We reported in the past that in order to support growth in its supermarket business, the group first needs to implement a modern multi-location retail and stock control system across this business segment. I am pleased to report that this project is now in its final stages, representing an important achievement for the group's management team. New core IT systems were successfully implemented in May 2021 in a seamless process that did not interrupt day to day operations and that was largely invisible to our customers. The remaining elements of this project will however be targeted primarily at our customers, seeking to enhance and facilitate their shopping experience at our stores.

Our success during the financial year just ended was the result of hard work and dedication on the part of the group's management and staff and I extend my thanks and congratulations to all of them, to our various partners, and to my colleagues on the Board, for their contribution to the positive results attained.



John B Zarb
Chairman

25 August 2021

Board of Directors



John B Zarb

Chairman



Paul Gauci

Executive Vice-Chairman



Charles Borg

Executive Director &
Chief Executive Officer



Gianluca Borg

Executive Director &
Chief Purchasing Officer



Lawrence Zammit

Non-Executive Director



Maria Micallef

Non-Executive Director



Claire Alexia Borg Gauci

Non-Executive Director



William Spiteri Bailey

Non-Executive Director



Dr Emma Grech

Company Secretary

JOHN B ZARB is a fellow of the Chartered Association of Certified Accountants, and of the Malta Institute of Accountants. He retired in 2016 from a long career with PricewaterhouseCoopers, where he served as a partner from 1988. He served on the Accountancy Board, the regulatory body of the profession, between 1996 and 2014, and represented Government on the EU Accounting Regulatory Committee between 2004 and 2014. John also served for many years as a visiting lecturer and examiner in Auditing at University of Malta. John is today a director on a number of companies, including two banks.

PAUL GAUCI is the main shareholder of the Company. He is the founder of the PG Group and remains one of the driving forces behind the business. He is an experienced businessman, actively involved in the business development of a number of companies, particularly in the retail and real estate sectors, over the last 50 years.

CHARLES BORG is a fellow of the Chartered Institute of Bankers (UK), and holds a banking degree and a Masters degree in financial legislation from the University of Malta. He retired from Bank of Valletta plc in December 2015 following a 34 years career during which he occupied various senior management positions, including that of Chief Executive Officer during 2012 to 2015. He has occupied directorship positions of listed companies in Malta and also Chaired the audit Boards of the European Investment Fund, and of Mapfre Middlesea Insurance. Charles also served as a director on the World's Savings Bank in Brussels and was also the President of the Institute of Financial Services and the President of the Malta Bankers Association.

GIANLUCA BORG joined the Group in July 2015 and is now Chief Purchasing Officer responsible for all procurement activities of both supermarkets whilst also being an integral part in formulating the company's strategic direction. He was appointed to the board of PG plc as an executive director in January 2020 and also owns a retail outlet within PAMA Shopping Village.

CLAIRE ALEXIA BORG GAUCI is a shareholder of a number of companies forming part of the Group. She had joined the Group in April 2008 and worked at the Zara store in Sliema. In September 2015 Claire was then appointed as the company's Head of Marketing and Public Relations while also being responsible for customer and shareholder relationships.

LAWRENCE ZAMMIT is a founding partner and the director of MISCO. He holds a number of directorships in both private and public companies. At MISCO he has developed the market research division of the organisation, and is also a trainer as well as a consultant to a number of business organisations, focusing on strategic issues related to a business development, leadership, human resources development, management and marketing. He is a former chairman of the Employment and Training Corporation, Malta International Airport plc, Air Malta plc and Malta Enterprise.

WILLIAM SPITERI BAILEY is a Certified Public Accountant and Registered Auditor. He is a partner within RSM Malta. He has extensive experience in servicing local and international clients across a wide range of industry sectors. William currently oversees various outsourced internal audit functions for services in the public and private sectors. William is a Council Member on the Malta Chamber of Commerce, and the Chairman of the Services Section and the Financial Services Business Section. William is a fellow of the Malta Institute of Accountants. He is currently a Council member and former President of the Malta Institute of Accountants. William is a member of the Accountancy Europe's SMP Forum. William is also a member of the IFAC (International Federation of Accountants) Small and Medium Practices ("SMP") Committee.

MARIA MICALLEF was the Managing Partner at RSM Malta until her retirement in December 2020. Maria specialised in business advisory services including mergers and acquisitions, corporate finance, valuations and investment appraisals. She is a visiting lecturer at the University of Malta. Currently Maria is pursuing studies and following a Degree in Humanities at the same University. Maria has a B.A. Hons Accountancy degree and is a Certified Public Accountant. She is a fellow of the Malta Institute of Accountants, a member of the US Institute of Internal Auditors and a member of the Association of Certified Fraud Examiners. Maria served as President of the Malta Institute of Accountants during the period 2013 to 2015.

DR EMMA GRECH is a lawyer by profession. Her main areas of practice are corporate and commercial law, capital markets, gaming and data protection regulation. Previously, Emma formed part of the corporate and finance team within a top-tier Maltese law firm, and then joined the Malta Gaming Authority as Senior Legal Counsel. Today, Emma is a partner in Malta-based law firm City Legal, and also occupies the role of company secretary for various companies, including listed entities. She is currently pursuing an LL.M. in Banking and Finance Law at the University of London.

Senior Management, Group Services and Operations



SENIOR MANAGEMENT

LEFT TO RIGHT

Ian Micallef Chief Financial Officer

Gianluca Borg Executive Director & Chief Purchasing Officer

Kevin Azzopardi Head Marketing

Charles Borg Executive Director & Chief Executive Officer

Silvio Carabott Chief Operations Officer

Malcolm Camilleri Deputy Chief Executive Officer

Mark Seguna Head Information Technology



GENERAL MANAGERS RETAIL

LEFT TO RIGHT

Manuel Caruana General Manager - Pavi

Jackie Micallef Brand Manager - Zara Home®

Stephen Gauci General Manager - Pama

Adriana Cassar Camilleri Brand Manager - Zara®



OPERATIONS MANAGEMENT

LEFT TO RIGHT

Claire Eddlestone Finance Manager

Mark Mifsud Finance Manager

Michelle-Marie Buttigieg Finance Manager

Giannella Gauci Finance Manager

Marthese Gatt Human Resources Manager

Chief Executive Officer's Review



The overall financial performance in FY 2020/21 was higher than previous years and this is a reflection that the business of PG plc has matured enough to withstand challenging situations.

Operations of the Group

Financial year 2020/2021 was another uniquely challenging year in which unprecedented events and an uncertain environment meant that we had to adapt quickly to new ways of working and deploy innovative practices to meet and exceed our customers' expectations. Covid-19 posed significant challenges for both our personnel as well as our various customers and our immediate priority has been to provide proactive support and flexibility to our customers from the outset of the pandemic.

The impact of COVID-19 during financial year ending 30 April 2021 was felt particularly keenly on our franchise and retail operations. This pandemic also continued to have an impact on our other retail and catering business within both our supermarkets. Notwithstanding this impact, the operations both of Pavi and Pama supermarkets have increased substantially and this has mitigated the reduction in sales from our franchise operations. The overall financial performance in FY 2020/21 was stronger than in previous years and this is a reflection that the business of PG plc has matured enough to withstand challenging situations.

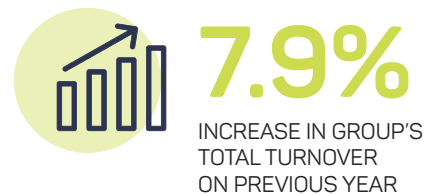
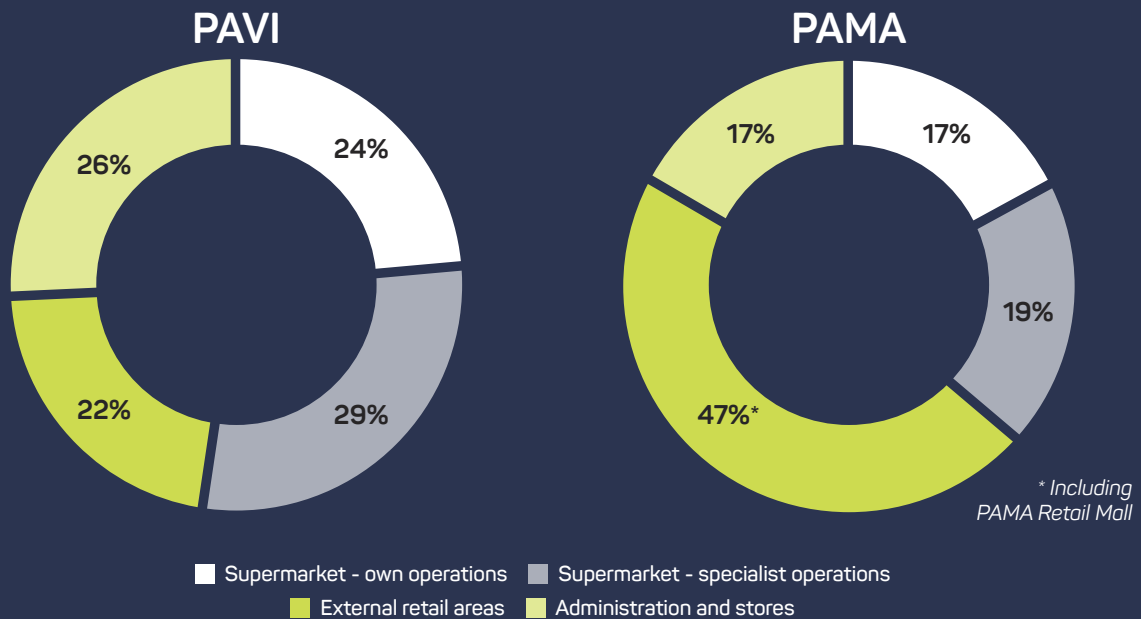
I am pleased to report that, as planned, during this financial year our team has managed to conclude the first phase of the implementation of a new IT system that integrates the various operations within the group. The new IT backbone brought about a significant transformation process which may not be very visible from the customers' point of view for the time being; however, it was critical for our business to grow sustainably in the future. I will explain in more detail later on in my report. We anticipate further investment in additional modules and services later on this year and also next year. This is to ensure that we continue to offer a better service and a more efficient operation that exceeds our customers' expectations.

Supermarket operations

The strategy of the group with respect to the two supermarket complexes remains that of focusing its activities on areas closely aligned to the core expertise and attain an adequate spread of risk. Revenue is generated from three main activities, namely:

1. The retailing of food and non-food products, directly procured by the business and carried at its own risk. We also purchase 77% of our products from local suppliers;
2. Rental arrangements with third party operators in respect of certain specialist activities carried out from designated areas within the supermarkets and;

ALLOCATION OF AREA



3. The management, operation and letting of other retail and commercial outlets within the two complexes.

We have been very consistent in our primary objective that is to create destinations which cater for a number of day-to-day needs for shoppers. This goes beyond the normal visit to a supermarket, albeit this remains a fundamental aspect of our business. The two supermarkets are the key anchors within the Pama and Pavi complexes. In both cases they are set out on one floor employing a logical and customer friendly layout that has proved to be very popular with our various customers. Moreover, the two supermarkets are very well geographically located and offer large car parking facilities. This has also contributed to a consistent growth in footfall and sales.

Overall turnover within the supermarkets and associated retail operations have increased by 10.9% when compared to the previous financial year, in spite of the fact that all the catering and retail outlets were closed for around six weeks. During this financial year, the total footfall within the two supermarkets totaled 4.6 million persons when compared to 4.8 million last year.

We continue to place emphasis on the procurement side of our supermarket business. During the year we commissioned an internal audit exercise on our procurement process to ensure that we adopt best practices and to try to minimize our risks. The Board of Directors and Management have adopted most of the recommendations made in this report.



Għal I-irħas xirja...



**SUPER
PRICES
EVERYDAY**

Kultadd jaf!



The group imports directly a number of products to maximise efficiency and margins.. The group invested in its central stores to be able to take advantage of the purchasing in bulk of various essential commodities. This helps us to improve both the availability of products as well as our margins. Our people continuously seek to make arrangements with foreign manufacturers and agents to purchase directly from them with the purpose of maximizing profitability while befitting consumers by way of lower prices.

Within the supermarkets themselves, we have a number of third party specialists such as the butcher shop, the delicatessen counter, fruit and vegetable shop and the health shop amongst others. Our main focus here is to ensure that the quality of the products is maintained whilst retaining competitive prices. We

engage a health specialist who performs a regular independent analysis of the food products being sold to ensure the freshness and the safety of all our third party products. We are also interested to see that the third parties come up with promotional schemes on a regular basis so that more customers are attracted to our stores.

Naturally, the success or otherwise of every supermarket complex like ours very much depends on the footfall that they can generate and on the price competitiveness. As I stated earlier in this report, the levels of footfall have continued to rise during this financial year, notwithstanding the fact that we were going through a serious pandemic situation. Our continued commitment towards our various customers is to offer the Best Prices - Everyday.

Our financial performance, the strong management team, and the robust IT platform have made it possible for us to deal with the unexpected challenges brought about by the pandemic. This gives us confidence that the long-term future of our business is stable, sustainable and secure.

The importance of the different third-party partners making up the two supermarket complexes is illustrated by how the space is utilized and can be shown by the two pie charts above.

Dealing with the COVID-19 pandemic

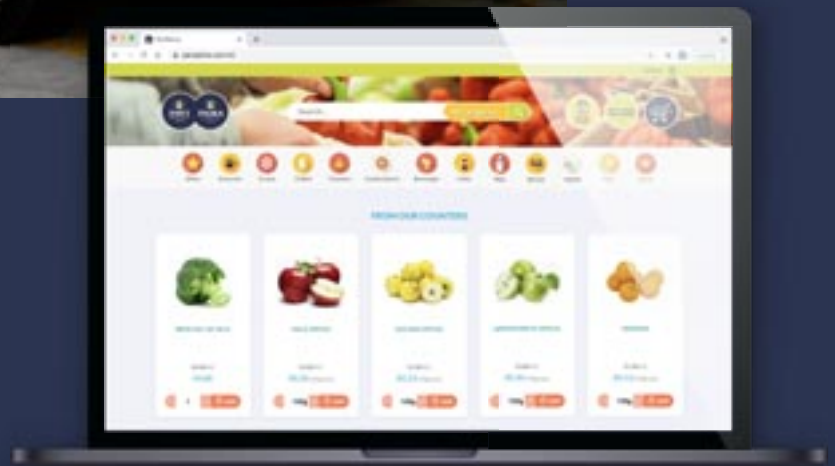
During financial year May 2020 to April 2021, the group has managed to deliver very encouraging results and the main reason for this is that we focused completely on customers, re-engaging our colleagues and fundamentally rethinking our relationship with suppliers. We are very proud of the achievement of the whole team over these last twelve months. As a stronger, more customer-focused business, we are also in a better position to step up and meet the unprecedented challenges of the COVID-19 pandemic. Our colleagues, especially those in the front-line, have responded brilliantly to those challenges. In very difficult circumstances the whole PG team has pulled

together to look after our customers and each other, doing everything possible to provide more of the products that people need, in a clean and safe environment.

I am incredibly proud of what our colleagues are doing, and also of the way that they're doing it – working day and night to ensure everyone has access to the essentials, and putting our customers first. At the time of writing, while it appears that the number of daily positive cases are starting to decrease again, we remain conscious of the need to maintain our guard. Our focus will continue to be the same – that is to ensure the health and safety of our customers and colleagues and provide the necessities to Maltese households.

Like all other businesses in Malta, there is almost no part of our operation that remains untouched by this situation. To ensure that food and necessities are available for all, we have changed the way we run our stores, managing our supply chain in a different way. Our on-line team is exploring every opportunity possible to increase capacity, so that we can help the most vulnerable in society and those that prefer to shop online. For the majority of our customers that are able to shop in-store safely, we have introduced distancing measures to protect customers and colleagues. We also recruited more personnel to be able to cope better with the increased demand of both our in-store





8,284

ONLINE DELIVERIES
2020-21



10,000

SUPERMARKET PRODUCTS
AVAILABLE ONLINE

business as well as our on-line business. During this reporting period, our supermarket online sales increased by 6% which in the circumstances is quite encouraging.

The contribution of our supplier partners has also been outstanding. We are aware that for many of our partners, and in particular our smaller suppliers, this is a challenging time economically and financially. To support their businesses, we have in some cases reduced our payment periods for small suppliers. In the case of our rental outlets, we suspended the charging of monthly rents during the period when they were closed because

of COVID-19. We had also already waived all rentals in May 2020, to give our tenants a breathing space in which to recover from the first, unexpected lock-down which had then only just ended; and waived minimum rentals in subsequent months, operating solely on a percentage of turnover basis. We decided to do this on our own initiative and before any of our rental partners asked for this assistance. These actions were the right ones to take, in a unique and difficult set of circumstances. Some of the measures we have taken have resulted in significant extra costs and reduced revenue, but served to protect and enhance our long term relationship with our business partners.

Zara & Zara Home franchise operations

The Zara and Zara Home brands belong to the Spanish firm Inditex S.A. which is one of the world's leading retail brands. It has around 7,000 outlets around the world with a group turnover of €20.4 billion as at the financial year end 2020.

We are proud to represent Zara and Zara Home in Malta, and have invested heavily in this business. Our main store in Sliema offers 3,710 square metres of retail space consisting of four floors of clothing and one floor of household goods offered by Zara Home. We also have two levels of storage where we keep all the stock of clothing and household goods.

A second Zara Home outlet is situated at the Pama Shopping Mall and measures around 880 square metres. This is the ideal size to exhibit the range of products available from this brand. This outlet has been very successful and ranks amongst the top Zara Home outlets in Europe in terms of sales per square metre. A third outlet measuring 480 square metres is located at the PAVI complex.

As the franchisee for Zara and Zara Home, the group is responsible amongst other things for the recruitment and management of staff, the accounting, stock control, as well as the security and upkeep of the premises. Operations within the three stores are at the same time conducted in close liaison with the brand owner, Inditex, which is very much involved in the placement of orders for stock. Inditex ensures that the range of merchandise being offered in Malta represent its current offerings of the two brands.

As expected, the COVID pandemic had a material impact on our Zara and Zara Home business. Sales picked up slowly after the stores closure in March and April 2020, impacted inter alia by the severe downturn in tourism. Our stores were subsequently closed again for six weeks from March to April 2021 in line with the directives issued by the Maltese Health Authorities to reduce the spread of the pandemic. Naturally, this had a negative effect on

our sales for the year, maintaining the downturn experience in 2019/20 also as a result of COVID. During this difficult period, management continued to support all members of staff at our Zara and Zara Home by paying them their full salaries, supported in part by the Government's COVID related payroll subsidies.

I am pleased to report that the business strategy we have adopted during this period, which is in line with that promoted by Inditex S.A. worldwide, is reaping positive results. Inditex have invested heavily on their online offering and as a result we have experienced a significant increase in our online sales. Our Zara online sales have increased by over 100% over last year, representing 23% of our total sales during the financial year. This compares very favourably with the results reported by Inditex S.A. of 70% and 32% respectively. Our total online sales have now reached €2.9 million, which confirms the strength of this business model. With respect to the online sales of Zara Home, these have also increased by over 173% over the previous year. This strong performance clearly shows that online business will be an integral part of our future in the fashion industry.

Another important addition to the Zara and Zara Home business model is the introduction of two important systems known as the Radio Frequency Identification (RFID) and the Single Inventory Integration (SINT). RFID is an efficient system where stock is counted and monitored real-time, so that we have control of our stock items on a real-time basis. This greatly reduces wastages of clothing and economizes on storage facilities. The daily automated counting of stock items, where these stock items are placed within the shops and/or stores, and stock replenishment, greatly improves the efficiency of our operation. The recently introduced SINT operation relates to the supply chain since online orders are directly supplied by the local store. These two systems further strengthen our competitive advantage by integrating the stores with the online offering, enabling these parallel supply systems to reinforce one another. This results in a stronger customer experience, improved



ZARA €2.9m
ZARA ONLINE SALES
2020-21

 **100%**
INCREASE IN ZARA
ONLINE SALES
ON PREVIOUS YEAR

**ZARA
HOME** €1.2m
ZARA HOME ONLINE SALES
2020-21

 **173%**
INCREASE IN ZARA HOME
ONLINE SALES
ON PREVIOUS YEAR



Zara online sales have increased by over 100% over last year, representing 23% of our total sales





€111.3m

SUPERMARKET TURNOVER
2020-21



10.9%

INCREASE IN
SUPERMARKET TURNOVER
ON PREVIOUS YEAR



€18.1m

FRANCHISE OPERATION TURNOVER
2020-21



7.5%

DECREASE IN
FRANCHISE OPERATION TURNOVER
ON PREVIOUS YEAR

management of stores, inventory, supply chain and sales conversion. In line with the strategic direction of Inditex S.A., the integration between our digital and in-store offerings serves to reinforce our long-term growth drivers - higher returns with lower capital.

Financial performance of FY 2021

As stated earlier in this annual report, the group's turnover increased by 7.9% during this financial year. Pama and Pavi supermarkets contributed the bulk of this increase because of their strong performance, notwithstanding the reductions in rental income. Our supermarket and associated retail sales amounted to €111.3 million, representing an increase of 10.9% over FY2020. In turn, our Zara and Zara Home sales registered a turnover of €18.1 million which represents a decrease of 7.5% over the previous year, which had also been impacted by the pandemic.

During the financial year under review, overall gross profit percentages decreased from 15.7% (FY 2020) to

15.4%. This reduction reflected the ten-week waiver of all rentals and a reduction in franchise operations in-store sales, that typically carry higher margins.

Management has sought to keep tight control over its administrative, sales and marketing expenses particularly during a difficult economic environment. However, there were one-time expenses that the group had to incur in order to safeguard the health and safety of both our employees and customers. As a result of this, our overall expenses increased marginally by 2.3% from €4.4 million last year to €4.5 million this year.

The group's overall employment cost, including direct employees included in cost of sales, amounted to €8.2 million (including Government employment subsidies, which amounted to €0.6 million) when compared to €8.6 million in FY 2020. The combined impact of increased turnover and COVID related measures led to increased staffing in our supermarkets, while staffing was reduced through natural wastage within our franchise operations. The staff complement during the financial year averaged 380 persons.



Our supermarket and associated retail sales amounted to €111.3 million, representing an increase of 10.9% over FY2020.



€10.6m

GROUP'S PROFIT AFTER TAX
2020-21



9.4%

INCREASE IN GROUP'S
PROFIT AFTER TAX
ON PREVIOUS YEAR



€8.5m

GROUP'S BANK BORROWINGS
NET OF CASH IN HAND
2020-21



42.5%

DECREASE IN GROUP'S
BANK BORROWINGS
NET OF CASH IN HAND
ON PREVIOUS YEAR



€13.1m

GROUP'S CASH FLOW FROM
OPERATING ACTIVITIES
2020-21

Credit card readers

Receipt printer

Customer's screen

Barcode scanner

Cashier's screen



The implementation of the new IT system also entailed the changing of all cash point devices

The group's net finance costs continued to decrease from €1.6 million in FY 2020 to €1.3 million in FY 2021. Taxation for the year amounted to €4.3 million, representing an effective tax charge of 28.9% (28.2% in FY 2020). After deducting taxation, PG Group registered a profit for the year of €10.6 million, when compared to €9.7 million the previous year, representing an increase in profits of 9.4%.

The group also generated a net positive cash flow from operating activities amounting to €13.1 million. This healthy cash flow enables management to continue to reduce the group's indebtedness as well as maintain the distribution of regular dividends to its shareholders. It also constitutes a platform for future expansion.

As at 30 April 2021, the group had bank borrowings net of cash in hand of €8.5 million. This compares very favourably with the €14.9 million net debt as at 30 April 2020, reflecting a reduction of 42.5%.

Dividends

It is the policy of the Board of Directors to distribute two interim dividends during each financial year, and to plan its financial commitments in a manner that attaches priority to the payment of such dividends. In line with this policy, the Board distributed in total a net dividend of €5.2 million in respect of FY 2021; €2 million in December 2020 and €3.2 million in July 2021. The two dividends represent a gross yield of 3.7% on the market value of the company's average share price during the last four months of the financial year.

Implementation of new IT system

As we had already mentioned in previous annual reports and even during our annual general meetings with the shareholders, two years ago the group embarked on an ambitious project to implement an integrated IT platform



€5.2m

NET DIVIDEND DISTRIBUTED
TO SHAREHOLDERS
2020-21



3.7%

GROSS YIELD ON MARKET VALUE OF
COMPANY'S AVERAGE SHARE
PRICE DURING LAST 4 MONTHS OF
FINANCIAL YEAR

to replace the legacy systems that supported our operations for many years. This project had to be planned and executed whilst the supermarket operation was still ongoing and without any downtimes and disturbances to our customers. I am pleased to report that this project is now at an advanced stage of overall completion, and our new systems went live on 1 May 2021. Clearly this is a major achievement for our people since they have successfully replaced the core engine of the group's supermarket

business whilst our operations were driving forward at a fast pace. And we have managed to do this without any disruptions to our customers.

From the beginning of the project, we set up a small group of people led by my colleagues Malcolm Camilleri (Deputy CEO) and Mark Seguna (Head Information Technology) to source externally proven supermarket IT solutions, evaluate them and make their recommendations to the Board.

SUPERMARKET INSIGHTS



70,000
PRODUCTS AVAILABLE



4,425
BRANDS AVAILABLE



352
SUPPLIERS



50
CASH POINTS



9,800
SQUARE METRES OF
RETAIL SPACE



14,159
RUNNING METRES OF SHELVING



110
RUNNING METRES OF
FRESH COUNTERS



1,700
PARKING SPACES



4.6 million
FOOTFALL

During the board meeting of the 14 November 2019, the Board approved an IT solution which is currently being used by CONAD in all their supermarkets throughout Italy. The decision to go for this solution was primarily because this was a proven but relatively young system written specifically for supermarkets similar to ours. I have to say that we have found a lot of support from the service providers themselves and from the IT officials within CONAD, and for this, I would like to thank them.

From the beginning of the project we decided to minimise our customization of the selected systems to safeguard ease of future maintenance and upgrades, and decided where necessary to adopt new procedures ourselves. This was no easy process and it involved a lot of people within our organisation, to map out the new

processes, to understand them and operate them effectively.

After the effort of the project team and the individuals within the different departments and the supermarket stores and cashiers, we managed to introduce a state of the art IT engine that is capable of taking us forward in the years to come, enhancing our existing supermarkets and facilitating the opening of new ones. This new system integrates the two supermarkets together as one, and helps us to adopt one loyalty card instead of one for each supermarket. There are many more modules that we shall be adopting in the coming months which are going to be more visible to our customers. These new modules will be more visual such as the 'self-checkout counters', the 'mobile app' and others. We are



sure that these new additions will greatly enhance our customers' experience when they come to shop from our supermarkets.

Environmental, Social, and Governance (ESG)

Many companies and boards are actively looking at introducing certain ESG criteria as part of their primary objectives and KPIs. The European Commission is currently planning to introduce a directive dealing specifically with these ESG criteria.

Environmental, Social, and Governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors and clients use to screen potential investments. Environmental criteria consider how a company performs as a 'steward of nature'. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, succession plans, business continuity plans and shareholders' rights.

Environmental criteria includes how a company uses energy, how much waste it generates, pollution, natural

resource conservation, and treatment of animals. The criteria can also be used in evaluating any environmental risks a company might face and how the company is managing those risks.

On the other hand, social criteria look at the company's business relationships. How do we interact with our suppliers? Does the company donate a percentage of its profits to the local community or encourage employees to perform any volunteer work? Do the company's working conditions show high regard for its employees' health and safety? Does the company take care of the other stakeholders' interests into consideration when doing business deals?

With regard to governance, our various stakeholders are interested to know that a company uses accurate and transparent accounting methods and that they are given an opportunity to vote on important issues. They may also want assurances that companies avoid conflicts of interest in their choice of board members, do not use political contributions to obtain unduly favourable treatment and, of course, don't engage in illegal practices. The governance criteria also deal with the composition of the Board and how it interacts with the Chief Executive Officer and his senior management team.



The Fruit & Veg section was enlarged and renovated in April 2021



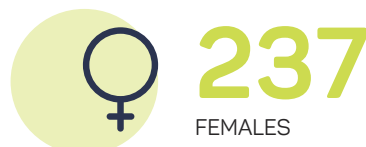
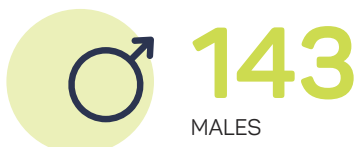
Ta' Spiru barber shop opened at Pama in March 2021

ESG is a journey and cannot be done in one or two years. It is a process adopted by the company to make it a better corporate citizen and to plough back part of its annual earnings into the society where it operates. Nowadays, institutional investors are more and more looking positively at those companies that engage themselves in ESG initiatives and contribute towards the society of which they form part.

At PG Group, from an early stage, we had recognized the importance of being a 'good corporate citizen' and the need to contribute part of our annual profits back into the Maltese society. In actual fact the group, inclusive of its ultimate beneficial owner Mr Paul Gauci, has over the years contributed both financially as well as by way of shares of the group to well-known charitable institutions; those that are doing invaluable work with the emarginated in our society. We feel this is our duty.

The group currently employs three hundred and eighty (380) people coming from 38 different nationalities. More than seventy two percent (72%) are Maltese and the remaining twenty eight percent (28%) come from various countries both the European Union as well as third country nationals. The gender balance is split between 62% females and 38% male. The group treats all employees equally and there are no salary or other forms of discrimination based on gender, beliefs or nationality.

At our Zara outlet, we have introduced a scheme where we take back used garments, shoes and home accessories that are no longer needed. Rather than create additional






The Health Shop, Chinese and Deli counters at Pama, all received a facelift during this financial year

 **1.3m**

ELECTRICITY UNITS GENERATED
BY SOLAR PANELS AT PAMA
SHOPPING VILLAGE

 **30%**

OF ELECTRICITY UNITS CONSUMED
AT PAMA SHOPPING VILLAGE COME
FROM SOLAR PANELS

waste, these items are applied to assist social organisations such as the Malta Hospice Movement to continue their work donating to people in need and helping people at risk of exclusion. In this scheme we collect clothing (not necessarily in perfect condition) and home textiles, shoes, accessories and jewellery. Items that cannot be donated or reused are packaged for recycling.

However, we recognize the need to do more, especially in the area of the environment.

Where possible, we have installed photovoltaic panels to save on fuel generated electricity and we plan to install more on the Pavi supermarket complex. Currently, the PV panels at PAMA complex generate 1.3 million electricity units which represents 30% of our electricity consumption. We will be investing in another photovoltaic system at the Pavi supermarket complex in the next couple of years and we aim to reduce our electricity consumption by more than 50%. This project has been delayed as it can only be implemented once an additional floor of carparking space is built at this complex.

We exercise care in our management of the large amounts of carton waste generated in our operations. The major part of this waste is compressed and sent for re-cycling.

Notwithstanding this, our biggest challenge and our immediate investment has to be towards the reduction of the plastic water bottles. Between the two supermarkets we distribute approximately 10 million plastic water bottles every year. These water bottles have become a feature of our everyday offering. We are conscious however that all this plastic is harming our environment and that we have to find alternatives. A positive step forward was taken with the implementation of the new IT systems, which permits customers to convert their free water

Three new brands, Kiko, Lipsy and Mango, were introduced at PAMA Shopping Mall



entitlement to points without having to apply separately. The demand for water nevertheless remains high, and we will be looking to distribute this water to our customers possibly through other means such as reusable containers. We have already purchased a significant amount of these reusable and refillable containers to replace our current one-time plastic bottles. Our target is to reduce one-time plastic bottles by 10% every year.

With respect to the governance criteria, the PG Group is satisfied with the progress attained during the last few years. We have a board of directors that is mainly composed of non-executive directors and that meets on a monthly basis, exercising an oversight function on the senior management. The board of directors creates the

strategy of the group and ensures that this strategy is implemented within the agreed time frames. Presently, the board of directors is updating all the policies of the group in order to ensure that these reflect best practice and safeguard the integrity and stability of our group.

Way forward

During this financial year the group has encountered a number of challenges and we have been able to overcome them quite successfully. The results we are publishing confirm this. At the same time, we are actively looking at opportunities to grow our business in the areas related to our core operation. We have been evaluating a number of different investment





opportunities and we hope to be in a position to conclude some of them in the months to come.

In the meantime, the food supermarket business and the strength of the Zara and Zara Home brands that we represent have helped us to report very satisfactory results. We are pleased to report that this trend has continued during the first quarter of this financial year. Nonetheless we must be prudent looking forward since the economy has been negatively impacted by the Covid-19 pandemic and by other factors that are beyond our control, which might have a long term impact on the Maltese economy and consumers' behavior. The long-term success of this group will depend on our ability to cope with the different challenges we face and the future investments we need to make.

Before concluding I would like to take this opportunity to once again thank all our employees for their dedication and hard work during this difficult period. I would also like to thank all our customers for trusting us and do their shopping with us. Last but not least, I would also like to express my gratitude to our board of directors for their continuous guidance and support. Our group's success belongs to all these people.

Charles Borg
Group Chief Executive Officer



8,328

RETAIL SPACE IN SQUARE METRES AT
PAMA SHOPPING VILLAGE AND PAVI
SHOPPING COMPLEX



47

NUMBER OF OUTLETS AT
PAMA SHOPPING VILLAGE AND
PAVI SHOPPING COMPLEX