

# REMUNERATION REPORT

## 1. Terms of Reference and Membership

The Remuneration Committee is composed of three independent Non-Executive Directors. During the financial year ended 31 January 2021 (FY 2021), the Remuneration Committee was composed of Marcantonio Stagno d'Alcontres (Chairman), Roderick Chalmers and Marcus John Scicluna Marshall. The Committee met twice during the year with all members in attendance.

In terms of the Remuneration Policy of the Group, the Remuneration Committee is responsible for reviewing and approving all remuneration packages of Executive Directors, Non-Executive Directors and Senior Management. The Remuneration Policy was approved by Shareholders at the 73rd Annual General Meeting held on 8 October 2020 with 25,154,915 votes in favour and 1,167 votes against and can be found on the Group's website [www.farsons.com](http://www.farsons.com). Any material amendment to the Remuneration Policy shall be submitted to a vote by the Annual General Meeting before adoption and shall in any event be subject to confirmation at least every four years.

As provided in the Remuneration Policy, the recommendations of the Remuneration Committee are submitted to the full Board for consideration and final approval. Individual Executive Directors recuse themselves from any participation in Board discussions concerning their own remuneration as appropriate. The Remuneration Committee is also responsible for drawing up and proposing to the Company's Board of Directors any amendments thought necessary to the Remuneration Policy for consideration and approval. Any amendments to the Remuneration Policy will require the approval of Shareholders in General Meeting.

## 2. Remuneration strategy and policy

The strategy of the Farsons Group is founded on creating and nurturing world class brands which inspire the trust and loyalty of consumers; championing customer relationships and building meaningful partnerships; engaging talent and empowering employees to deliver sustainable and quality driven operations; connecting with the community and embracing our social and environmental responsibilities; providing a fair return to shareholders so as to ensure long-term investment and profitable growth. It is believed that it is through the implementation and observance of the above principles that the Group will accomplish the vision of growing its local and international business within the food and beverage sector.

In order to achieve the above strategic outcomes, it is necessary that the Farsons Group attracts, retains and motivates the best available talent at all levels – from the most recently recruited trainee to members of the Board of Directors.

In order to be successful in this quest of attracting, retaining and motivating best in class talent, it is essential that the Group's Remuneration Policy provides market-competitive salaries and related benefits by reference to those provided by other entities operating in relevant and comparative market sectors. There is therefore a clear synthesis in the pay structures of the wider workforce and executives across the Group, and the Board believes that this approach serves the best long-term interests of all stakeholders.

The above principles apply equally to Remuneration Policy insofar as Directors are concerned. However, there is a need to distinguish between Executive and Non-Executive Directors, and further details are provided below.

## 3. Remuneration Policy – Executive Directors

Executive Directors are members of the Board who also have an executive role in the day-to-day management of the Company and the Group. Apart from Mr Louis A. Farrugia and Mr Michael Farrugia, for the purposes of this Remuneration Report and pursuant to Listing Rule 12.2A, the Group Chief Executive Officer is considered to be an Executive Director of the Company.

Insofar as Executive Directors are concerned, remuneration is made up of the following components:

- a **Fixed Pay** – Fixed or Base salary (including statutory bonus) – these are established by reference to the role, skills and experience of the individual concerned and appropriate market comparatives.
- b **Variable Pay** – which is made up of two components as follows:
  - i **Performance bonus** – a variable component established by reference to the attainment or otherwise of pre-established quantitative targets. Quantitative goals could include pre-set profit, EBITDA and/or sales targets.

**Discretionary bonus** – also a variable component, established by reference to the evaluation of qualitative goals which are reviewed from time to time. Typically, targets are directed towards the long-term interest and sustainability of the Group, and could include the effective implementation of specific business initiatives and capital expenditure programmes, environmental and other CSR/ESG goals and staff retention initiatives.

The variable components to the remuneration awarded to Executive Directors are established from year to year and the quantitative and qualitative targets included therein would change from time to time depending on the circumstances of the business and the then prevailing commercial environment.

There are no pre-set fixed relationships between fixed and variable remuneration – and these would vary between Executive Directors (and indeed senior management). Whereas quantitative awards are usually formulaic in their calculation, discretionary and qualitative awards necessarily involve the application of subjective judgment.

Other provisions that form part of the Directors' Remuneration Policy include the following:

- Claw Backs – there are no claw back provisions in place in respect of variable salary awards.
- Benefits – which would comprise those benefits normally available to senior executives comprising principally (a) the provision of a suitable (taxed and insured) company car, (b) standard executive health insurance and life assurance cover, (c) mobile phone and allowance (d) other incidental benefits. Executive Directors also receive an expense allowance in reimbursement of certain expenses incurred in the execution of their respective roles and duties.
- Fees – Executive Directors are also entitled to receive the fixed Director's fee payable to all Directors in their capacity as members of the Board (see below). This component is payable from the aggregate amount of emoluments approved by the Shareholders in General Meeting.
- Share Option schemes – to date it has not been the policy of the Group to introduce any form of share option scheme or other executive share awards.

The Board believes that the above components of Executive Director remuneration serve to contribute to the realization of the Group's long-term strategy and interest – and also serve to secure alignment between the interests of the Executive Directors and that of the Shareholders.

Members of the Board of Directors appointed under the provisions of Article 95 retire from office at least once every three years but remain eligible for re-appointment. Those members of the Board elected under the provisions of Article 96 shall retire from office at the end of the next Annual General Meeting following their election, and also remain eligible for re-election. With the exception of the Group Chief Executive (GCE), Executive Directors are all engaged without fixed term contracts. In terms of current labour regulations all are regarded as employees on indefinite contracts. Subject to satisfactory performance, the GCE is engaged on a (renewable) three-year contract.

With the exception of the Executive Chairman, no long-term pension plans are in place. Insofar as the Executive Chairman is concerned, in view of his 40+ years of service to the Group, the Board has (on the recommendation of the Remuneration Committee) approved arrangements whereby his wife would receive a deferred lifetime annuity in the sum of approximately €60,000 per annum in the event that the Chairman pre-deceases her.

#### 4. Remuneration policy – Non-Executive Directors

Non-Executive Directors are those members of the Board who do not have a role in the day-to-day executive management of the Company and the Group. Remuneration for Non-Executive Directors is determined by the Board of Directors as a whole and takes into account the skills required and those levels prevailing in the market for entities of a similar size and complexity.

The aggregate remuneration payable to Non-Executive Directors is approved by Shareholders in General Meeting pursuant to Article 81(1) of the Articles of Association of the Company and has two components:

- A fixed or base Director's fee which is established by reference to those levels prevailing in the market for entities of a similar size and complexity.
- A Board Committee fee for membership of the various established Board Committees. These Board Committee fees vary between Committees depending upon the relative workload and time commitment involved, and the skill sets, experience and professional knowledge required for the particular Committee concerned.
- From time-to-time circumstances arise whereby the Board of Directors (or members thereof) are faced in a particular year with significantly higher and complex workloads than would be the norm. Board members have in the past been awarded an additional fixed fee on an exceptional basis in recognition of these circumstances. Such additional awards would fall to be within the aggregate amount approved by the Shareholders in general meeting in terms of Article 81(1) of the Articles of Association of the Company.

Non-Executive Directors are not entitled to any contractual pension, termination or retirement benefits. However, they may be reimbursed certain expenses incurred in the discharge of their responsibilities and receive a fixed 'use of car' allowance.

## 5. Remuneration – Directors and Group Chief Executive

The following table provides a summary of the remuneration for the year ended 31 January 2021 for each individual Director and for the Group Chief Executive.

		Board & Committee Fees	Other	Fixed Pay	Variable Pay	Benefits & Allowances	Aggregate
		€	€	€	€	€	€
<b>Directors' Emoluments - Year ended 31 January 2021</b>							
Louis Farrugia	Executive Chairman	26,000		71,865	56,000	45,000	** 198,865
Norman Aquilina	Group Chief Executive			155,526	101,000	11,000	** 267,526
Michael Farrugia	Executive – Operations & Business Development	* 31,000		83,098	11,500	20,000	** 145,598
Marcantonio Stagno d'Alcontres	Vice Chairman – Non Executive	30,000				12,500	** 42,500
Roderick Chalmers	Non Executive	31,000	24,000			6,000	** 61,000
Dr Max Ganado	Non Executive	31,000					** 31,000
Baroness Christiane Ramsay Pergola	Non Executive	25,000					** 25,000
Marina Hogg	Non Executive	28,000				6,000	34,000
Marquis Marcus John Scicluna Marshall	Non Executive	* 35,000				6,000	41,000

\*includes subsidiary Board fees \*\*Company car provided

(a) the above table includes the remuneration and related benefits awarded to members of the Board of Directors and of the Group Chief Executive (GCE). Board related emoluments included in the above table requiring Shareholder approval under Article 81 total €311,500 (approved limit = €750,000). (b) During the year members of the Board and the GCE voluntarily waived the total sum of €28,443 due to them as part of the response to the business challenges arising from the Covid-19 pandemic. The amounts stated above are before deduction of these waived emoluments.

## 6. Shareholder involvement

Pursuant to Article 81 of the Memorandum and Articles of Association of the Company, remuneration (emoluments) payable to Directors with regard to their membership of the Board of Directors is always subject to the maximum aggregate limit approved by the Shareholders in General Meeting. This amount was fixed at an aggregate sum of €750,000 per annum at the 69th Annual General Meeting held on 28 June 2016.

Whereas remuneration paid to Executive Directors by virtue of their executive office (as opposed to membership of the Board) is not subject to the maximum aggregate limit stipulated under Article 81 as described above, with effect from FY 2021 and pursuant to the requirements of Listing Rules, the Remuneration Report of the Company shall form part of the Annual Report and shall provide full details of remuneration paid to all Directors. In accordance with Listing Rule 12.26L and 12.26M, the Remuneration Report will be subjected to an advisory vote by the Shareholders at each Annual General Meeting and shall be made available on the Company's website for a period of 10 years following the meeting.

## 7. Senior Management Remuneration

For the purposes of this Remuneration Report, "Senior Management" shall mean all members of the Group Senior Management Board as disclosed in this Annual Report. The Group's Human Resources department is responsible (apart from normal staff administration and training and upgrading of proficiency of technical and managerial personnel and workforce in general), for carrying out regular reviews of the compensation structure pertaining to Senior Management in the light of the Group's performance, economic

situation and market trends. One of the main objectives is to recruit and retain executives of high professional standards and competence who can enhance the Group's performance and assure the best operational and administrative practices.

The Group's Human Resources manager reports and makes recommendations periodically to the Board and the Remuneration Committee on the remuneration packages, including bonus arrangements, for achieving pre-determined targets.

The Remuneration Committee is required to evaluate, recommend and report on any proposals made by the Group Human Resources manager relating to management remuneration and conditions of service. The Committee considers that the current executive management remuneration packages are based upon the appropriate local market equivalents and are fair and reasonable for the responsibilities involved. The Committee also believes that the remuneration packages are such as to enable the Company to attract, retain and motivate executives having the appropriate skills and qualities to ensure the proper management of the organisation.

The Committee is also charged with considering and determining any recommendations from Management on requests for early retirement.

The terms and conditions of employment of senior executives are set out in their respective contracts of employment with the Company. As a general rule such contracts do not contain provisions for termination payments and/or other payments linked to early termination.

Senior Management is eligible for an annual performance bonus which is linked to agreed performance targets and their achievement. The Remuneration Committee is of the view that the relationship between fixed and variable remuneration and performance bonus are reasonable and appropriate. There are no claw-back provisions in respect of variable salary awards.

There are no executive profit sharing, share options or pension benefit arrangements in place. Non-cash benefits to which Senior Management are entitled comprise those normally available to senior executives including the provision of a suitable taxed and insured company car, standard executive health and life assurance cover, a mobile phone package and other incidental corporate benefits.

During the year under review the total emoluments relating to the Group Senior Management Board members were as follows:

	Fixed Pay	Variable Pay	Benefits & Allowances	Aggregate
	€	€	€	€
<b>Senior Management Remuneration – year to 31 January 2021</b>				
Senior Management Remuneration	701,846	197,900	105,727	1,005,473

(a) The above table includes the Remuneration and related benefits awarded to the members of the Group Senior Management Board (SMB). (b) During the year members of the SMB voluntarily waived the sum of €37,392 due to them as part of the response to the business challenges arising from the Covid-19 pandemic. The amounts stated above are before deduction of the sum waived.

## 8. Contents of the Remuneration Report

The contents of the Remuneration Report have been reviewed by the external Auditors to ensure that it conforms with the requirements of Appendix 12.1 to Chapter 12 of the Listing Rules.