

Corporate Governance Statement

Hercules Site Services plc (“Hercules” or the Company”) will publish on its AIM Rule 26 website details of how it complies with the QCA Code and where it departs from the QCA Code and explanations of the reasons for doing so. This information is also set out below. The Company will review this information annually in accordance with the requirements of AIM Rule 26.

The following summary sets out how the Company applies the key governance principles defined in the QCA Code.

The Board of Directors is committed to developing and applying high standards of corporate governance appropriate to the Company’s size and stage of development. The Board of Directors has adopted the QCA Code, revised in April 2018 as devised by the Quoted Companies Alliance. The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. The QCA Code takes key elements of good governance and applies them in a manner which is workable for the different needs of growing companies.

The QCA Code is constructed around ten broad principles. The QCA Code states what are considered to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. These are listed below together with a short explanation of how the Company applies each of the principles.

Where the Company does not fully apply each principle an explanation as to why has also been provided:

Principle One: Business Model and Strategy

The Board has adopted a strategy for the Company’s development which is summarised below.

Overview

Hercules’ purpose is to be a responsible and innovative company that creates value for shareholders and wider society. The Company is a UK-based provider of labour and construction site services to blue-chip clients in the infrastructure sector. The Company’s offerings are underpinned by a focus on digital technology, utilising this to accelerate the recruitment, onboarding and monitoring processes of workers.

Future Growth Strategy

The Company intends to achieve growth through a variety of strategies:

- Organic growth through increasing its levels of business with existing clients and winning new clients in existing markets.
- Continue to cross-sell and expand the variety of services it offers, including site security and white-collar recruitment and placing permanent job roles.
- Expanding the use of the Company’s digital applications and comprehensive database of workers.
- Selective acquisitions to complement the Company’s current service offerings.
- The potential creation of subsidiary businesses that are owned by ambitious management teams to establish Hercules operations in geographies or business areas where the Company doesn’t traditionally operate.
- Growing the Company’s suction excavator fleet, which will increase to 30 in March 2023.

Principle Two: Understanding Shareholder needs and Expectations

The Board places a great deal of importance on communication with its stakeholders and is committed to establishing constructive relationships with investors and potential investors. The Company seeks to provide effective communication through Interim and Annual Reports, along with Regulatory News Announcements and trading updates.

Hercules maintains a dialogue with shareholders through formal meetings, such as the Annual General Meeting, which will provide an opportunity to meet, listen and present to shareholders. The Company is also open to receiving direct feedback from key stakeholders and will act where appropriate.

The key contact for shareholder liaison is Paul Wheatcroft. The investors section on the Company’s website provides up to date material information on the Company’s business.

Principle Three: Stakeholder Responsibilities

The Board recognises that the long-term success of the Company is reliant upon the efforts of the employees of the Company and its customers, stakeholders, suppliers and regulators. The Board has put in place a range of processes and systems to ensure that there is close Board oversight and contact with its key resources and relationships and seeks feedback from all applicable stakeholder groups whenever possible.

The Company draws upon a range of different resources and relationships to drive the business forward and ultimately deliver value to shareholders.

The Company works closely with the communities in which it operates, sharing its plans and ideas and listening to concerns and addressing any issues raised. Hercules is committed to its social responsibility, which is included within a number of the Company’s strategic framework agreements, where Hercules is contractually required to have positive input to creating social value.

The Board is responsible for monitoring the financial performance against budget and forecasts. The Board is also responsible for the formulation of the Company’s risk appetite, including the identification, assessment and monitoring of the Company’s principal risks. The Audit Committee has the delegated responsibility to the Company’s management to ensure an effective financial controls system is maintained for timely and accurate reporting.

The Company has established a risk assessment matrix, which categorises key risks and outlines the controls that are in place. This matrix is updated as changes arise in the nature of risks or the controls that are implemented to mitigate them, and the Board reviews risks on a regular basis.

Principle Four: Risk Management

The Board recognises the need for an effective and well-defined risk management process and oversees and regularly reviews the current risk management and internal control mechanisms.

The principal risks and uncertainties identified by management and how they are being managed is set out below. These risks are not intended to be an exhaustive analysis of all risks that may arise in the ordinary course of business.

Risk Description	Potential Impact	Mitigations
<p>1. Market downturn and cyclical nature of construction industry National and international economic downturns, including inflation, investor sentiment, availability and</p>	<p>A deterioration of economic and financial conditions, or global or deeper recession, could result in a significant fall in expenditure in the infrastructure and construction industry, which could potentially have a material adverse effect on our financial performance.</p>	<p>Diversification of markets, both in terms of sector and geography. Focus on longer-term partnerships and building on existing client relationships.</p>

<p>cost of credit, liquidity of global financial markets.</p> <p>Maintaining sustainable level of financial performance throughout construction industry market cycle.</p> <p>A significant portion of our business is derived from contracts indirectly funded by the UK government and its agencies.</p>	<p>Reductions in trading activity, asset impairments and lower profitability.</p>	<p>Debt facility of up to £10m provides headroom to withstand a market downturn.</p> <p>Long-term contracts in place relating to government commitments which tend to be more stable over economic cycle.</p> <p>Contracts in place with a number of large water companies, which are unrelated to the public sector. More revenue can be generated from the energy sector where significant property assets continually need to be maintained and repaired.</p>
<p>2. Work winning</p> <p>Failure to continue to win and retain contracts on satisfactory terms and conditions in our existing and new target markets if competition increases, customer requirements change, or demand reduces due to general economic conditions.</p> <p>Maintaining and developing long-term relationships with key clients and customers in order to win repeat business from those clients and customers and to cross-sell our other products and services to those clients and customers.</p>	<p>Failure to achieve targets for revenue, profit and return on capital employed.</p> <p>No guarantee that existing customer relationships will continue to grow or that key customers will not scale back their use of the Company or cease to contract with us altogether. Any failure to replace this revenue could have an adverse effect on operations and prospects.</p>	<p>Continual review of our existing and target markets to ensure we understand the opportunities that they offer.</p> <p>Continually increasing cross-selling opportunities in order to be the 'one-stop-shop' for service offering.</p> <p>Collaborative working with key clients to develop joint initiatives and programmes.</p> <p>Growth in Business Development function.</p>
<p>3. Concentration of key clients</p> <p>Each of our customers is subject to market conditions and general commercial exposures in the same way as us. There can be no guarantee that these companies will continue to trade or conduct business with Hercules.</p> <p>Strong negotiating positions of key clients can result in contracts with less favourable and more onerous terms.</p>	<p>If any of our key customers cease trading with us, whether due to engaging other businesses or due to a change in their own strategic direction, there could be a significant negative impact on our ability to generate revenues and operate profitably.</p> <p>Contract terms can include significant warranty and indemnity provisions and may include favourable termination rights for the customer.</p>	<p>We have gained exposure to many client Joint Ventures through its prior work. With this wide client base, this provides access to numerous projects across the UK.</p> <p>Early engagement with long-term customers on new schemes, offering innovative solutions to ensure involvement.</p> <p>Delivery of services in different ways, offering additional services and cross-selling, not offered by our competitors.</p>
<p>4. Health & Safety failure</p> <p>The Construction Industry sectors carry significant health and safety risks, including serious injury and fatalities.</p> <p>Causing a fatality or serious injury to an employee or member of the public through failure to maintain high standards or safety and quality.</p>	<p>Loss of employee, customer, supplier and other stakeholder confidence.</p> <p>Damage to brand reputation in an area that we regard as top priority. Negative impact on reputation could affect ability to win new business, affecting operating and financial performance.</p> <p>Potential investigations, prosecutions and/or civil or criminal litigation, each of which could be costly in terms of potential liabilities, settlements and management time.</p> <p>These liabilities may not be insurable or could exceed our insurance limits and therefore could have a material adverse effect on our operating results, business prospects and financial condition.</p>	<p>Board-led commitment to achieve zero accidents.</p> <p>Visible management commitment with safety tours, safety audits and safety action groups.</p> <p>Launch of Be Safe Work Safe behavioural based safety programme and Hercules Observations reporting both good practice and close calls across the whole business.</p> <p>Additional experienced H&S personnel recruited to join the H&S Team.</p> <p>Implementing management systems that conform to Occupational Health & Safety Systems (ISO 45001).</p> <p>Comprehensive employee training programmes.</p>
<p>5. Attraction and retention of key management and employees</p> <p>Inability to recruit, retain and motivate high-quality senior management and other personnel with relevant extensive experience and knowledge to create innovative, diverse and flexible workforce.</p>	<p>Failure to maintain satisfactory performance in contract execution.</p> <p>Failure to deliver strategic objectives and business targets for growth, in turn potentially resulting in an adverse effect on operations, financial conditions and prospects.</p>	<p>Introduction of the share option scheme and other bonus schemes to incentivise and retain key staff members.</p> <p>Promotion of internal candidates to provide job progression within the business.</p>

	A raise in general wage may be expected in industry, increase in costs of pensions, and health and other insurances, could adversely affect us due to increased mobility of the workforce and pressure to match or better the level of salaries and/or benefits expected in the market.	Employee engagement, personal development and leadership programmes developed and implemented to encourage and support employees achieve their full potential.
6. Labour and skills shortages Dependence on ability to locate suitably skilled labour for clients.	Projects could become more drawn out or expensive, leading to failure to generate anticipated revenue in anticipated timeframes.	Development and construction of Hercules Construction Academy to attract and upskill the next generation into the construction industry. Upskilling existing employees through Hercules Apprenticeship Scheme and Personal Development Programmes. Attracting labour from overseas via Sponsor Licence.
7. Availability and pricing of materials Shortage of building materials. Price of materials affected by inflation to the UK economy.	Uncertainty around the price of materials affects our ability to submit tenders at an appropriate price level. Failure to win tenders could adversely affect revenue and financial performance. Increased materials costs has negative effect on margins for some contracts, resulting in reduced profitability. Delays to projects due to shortage of materials could affect cashflow. Without long-term agreements for the supply of materials and there can be no guarantee that we will not be adversely affected by shortages or increased cost of materials which could lead to increased costs, delays in completing projects and reduced profitability.	Spreading the risk by purchasing materials from a number of external suppliers allowing greater control of the availability and price. Working on long-term agreements for supply of materials?
8. Contract performance and dispute Failure to manage our contracts to ensure that they are delivered on time and to budget.	Failure to achieve project objectives could lead to contract losses, delays, reputational damage and reduced repeat work. Unbudgeted expenses and delays could impact margins, affect cashflow, and potentially result in disputes with customers.	Ensuring understanding of all risks through the bid appraisal process and applying rigorous policies and processes to manage and monitor contract performance. Ensuring we have high-quality people delivering projects. Ensure high standard delivery with the 'Right First Time, Every Time' approach. Promoting collaborative workshops with customers to discuss design development and programming and raise early warnings as a mechanism throughout contracts. Month-by-month engagement until final account is agreed, reducing risk of disputes. Agreed set of KPIs and ongoing reviews, support visits from operations managers, along with client liaison, to proactively engage on any issues.
9. Regulatory risk management Violations of laws, rules or regulations, or from non-compliance with internal policies or procedures or with the organisation/s business standards, including as a result of new laws or changes in legislation.	Losing the trust of our clients, suppliers and other stakeholders resulting in adverse effects on our ability to deliver against our strategy and business objectives. Increased costs of running the business to achieve compliance. Substantial damage to our brand and/or potential fines for compliance failure. Reduce the attractiveness of investment	Regular and thorough review of our systems, policies and relevant regulations to ensure compliance with obligations, including bi-annual legislation reviews. Frequent external regulatory audits to confirm processes and procedures are compliant. Constant communication and lessons learned feedback loop to ensure continual improvement.

		<p>Maintain training programmes to ensure our people fully understand requirements.</p> <p>Operating and encouraging the use of anti-bribery and corruption and whistleblowing policies.</p>
<p>10. Financial Risk</p> <p>Civil projects risk: Exposure to civil projects consists mainly of movements in contract value, where variations are requested, and material costs.</p> <p>Liquidity risk: Ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash asset safely and profitably.</p> <p>Credit risk: Principal financial assets are trade debtors and cash. Principal credit risk arises from trade debtors and accrued income.</p>	<p>Failure to continue in business or to meet liabilities.</p>	<p>Contract values are kept under review by Directors, with work certified at each stage. Prices agreed in advance with suppliers for materials and variations.</p> <p>Short-term flexibility achieved by significant working capital facility. Short term cash flow forecasting is 3 months ahead on weekly basis. Facility is capped at £10m currently allowing us to draw down 50-90% immediately on all invoices raised.</p> <p>Directors review customer payment history, third party credit references, and keep up a constant dialogue with all key customers.</p>

Principle Five: A Well-Functioning Board of Directors

The Board is considered to be well balanced and is comprised of Henry Pitman (Non-Executive Chairman), Brusk Korkmaz (Chief Executive Officer), Paul Wheatcroft (Chief Financial Officer), Richard Kilner (Independent Non-Executive Director), Ahmet Iplikci (Non-Executive Director) and Robin Stevens (Independent Non-Executive Director). Richard Kilner and Robin Stevens are considered to be independent.

The Board will meet at least six times per annum, or any other time deemed necessary for the good management of the business. The Board has established an Audit Committee, Nominations Committee and Remuneration Committee. The time commitment formally required by the Company is an overriding principal that each Director will devote as much time is required to carry out the role and responsibilities that the Director has agreed to take on.

The Directors are subject to re-election intervals as prescribed in the Articles.

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

Principle Six: Appropriate Skills and Experience of the Directors

The Company has put in place a board structure that provides a breadth and depth of skills and experience to deliver the strategy of the Company for the benefit of shareholders over the medium to long-term.

The Board assesses the experience, knowledge and expertise of potential Directors before any appointment is made and adheres to the principle of establishing a Board which comprises Directors with a blend of skills, experience and attributes appropriate to the Company and its business.

The Board currently consists of six Directors, who are supported by an experienced senior management team.

The Board members are kept up-to-date on a regular basis on key issues and developments pertaining to the Company as well as their responsibilities as members of the Board.

Principle Seven: Evaluation of Board Performance

Internal evaluation of the Board and its individual Directors is seen as an important next step in the development of the Board. This will be undertaken on an annual basis and led by the Chairman in the form of peer appraisal, questionnaires and discussions to determine the effectiveness and performance in various areas, as well as the Directors' continued independence and capacity. The criteria against which effectiveness is considered will be aligned to the strategy of the Company and management forecasts and budgets that are already in place.

In addition, succession planning for the Board and senior management team will be undertaken by the Board as a whole, where appropriate.

Principle Eight: Corporate Culture

The Board recognises that its decisions regarding strategy and risk will impact the corporate culture of the Company as a whole and that this will impact the performance of the Company. The Board is very aware that the tone and culture set by the Board will greatly impact all aspects of the Company as a whole and the way that employees behave. The importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives.

The Board assessment of the culture within the Company at the present time is one where there is respect for all individuals, there is open dialogue within the Company and there is a commitment to provide the best service possible to all the Company's stakeholders.

In addition, the Company takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all business dealings and relationships wherever they occur. The Company implements effective systems to counter bribery and corruption and as part of this it has adopted an anti-bribery and anti-corruption policy. The policy provides guidance to those working for the Company on how to recognise and deal with bribery and corruption issues and the potential consequences and applies to all persons working for the Company or on its behalf in any capacity, including employees at all levels, Directors, officers, consultants and agents.

The Company has a share dealing policy regulating trading and confidentiality of inside information for the Directors and other persons discharging managerial responsibilities (and their persons closely associated) which contains provisions appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during closed periods which will be in line with the Market Abuse Regulation). The Company takes all reasonable steps to ensure compliance by the Directors and any relevant employees with the terms of that share dealing policy.

Principle Nine: Maintenance of Governance Structures and Processes

Ultimate authority for all aspects of the Company's activities rests with the Board with the respective responsibilities of the Non-Executive Chairman and Chief Executive Officer arising as a consequence of delegation by the Board. The Chairman is responsible for the effectiveness and leadership of the Board, promoting a culture of openness and debate by facilitating the effective contribution of Non Executive Directors in particular and ensuring constructive relations between the Executive and the Non-Executive Directors. The Chairman is also responsible for ensuring that the Directors receive accurate, timely and

clear information. Management of the Company's day-to-day business resides with the Chief Executive Officer.

Non-Executive Directors are appointed not only to provide independent oversight and constructive challenge to the Executive Directors but also chosen to provide strategic advice and guidance. There is a rigorous and transparent procedure for the appointment of new Directors to the Board. The search for Board candidates will be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board.

The Board has also established committees with formally delegated duties and responsibilities and with written terms of reference. The committees comprise solely of Non-Executive Directors. From time to time, other committees may be set up by the Board to consider specific issues, when the need arises.

Audit Committee

The Audit Committee's role is to assist the Board with the discharge of its responsibilities in relation to internal and external financial reporting, audits and controls, including reviewing the Company's annual and half-yearly financial statements, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and the tendering process and reviewing the effectiveness of the Company's corporate governance, internal audit and controls, risk management, whistle-blowing and fraud-prevention systems. The ultimate responsibility for reviewing and approving the Company's annual report and accounts and its half-year reports remains with the Board.

The Audit Committee is chaired by Robin Stevens and its other members are Richard Kilner and Henry Pitman. The Board has satisfied itself that has recent and relevant financial experience, and that the committee as a whole has competence relevant to the sector in which the Company operates. The Audit Committee will normally meet not less than three times in each financial year and at such other times as the chair of the committee requires. It will have unrestricted access to the Company's auditors. As a matter of course, the Company's Chief Executive Officer and Chief Financial Officer will be invited to attend Audit Committee meetings.

Remuneration Committee

The Remuneration Committee is chaired by Richard Kilner and its other members are Robin Stevens and Ahmet Iplikci. The Remuneration Committee's role is to assist the Board to discharge its responsibilities in relation to the remuneration of the Company's Directors and senior management team, including share and benefit plans and make recommendations as and when it considers it appropriate, taking necessary expert advice to benchmark remuneration levels with those of comparable companies. The Remuneration Committee meets as and when required, but at least twice each year.

Nominations Committee

The Nomination Committee leads the process for board appointments and make recommendations to the Board. The Nomination Committee will evaluate the balance of skills, experience, independence, and knowledge on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. The Nomination Committee meets as and when necessary, but at least once each year. The Nomination Committee is chaired by Ahmet Iplikci and its other member is Henry Pitman.

Principle Ten: Shareholder Communication

The Board is committed to maintaining good communication and having constructive dialogue with its shareholders. The investors section of the Company's website provides all required regulatory

information as well as additional information shareholders may find helpful including: information on Board members, advisors, significant shareholdings, a historical list of the Company's announcements, its corporate governance information, the Company's publications including historic annual reports and notices of annual general meetings, together with share price information.

The Company also takes a proactive approach to investor relations initiatives with ongoing support from Newgate, the Company's Financial PR Adviser.

Institutional shareholders and analysts have the opportunity to discuss issues and provide feedback at meetings with the Company. Through Newgate, the Board also allow all investors to attend company investor presentations virtually and to submit questions to the management. In addition, all shareholders are encouraged to attend the Company's annual general meeting or any other general meetings that are held throughout the year when possible.

Henry Pitman
Non-Executive Chairman
31 January 2023