

CORPORATE GOVERNANCE REPORT

Wates Group 2022



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For the year ended 31 December 2022, under The Companies (Miscellaneous Reporting) Regulations 2019, the company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2019 and available on the FRC website). The following paragraphs summarise how the Group has applied the principles over the past year.

The Group's website contains further supporting information on the Wates Principles (www.wates.co.uk/who-we-are/corporate-governance/).

Principle 1 – Purpose and leadership

We use a Guiding Framework to define our purpose, goals, and behaviours. Our overarching purpose is to inspire better ways of creating the places, communities, and businesses of tomorrow. By ensuring that this purpose is at the heart of everything we do, we will build on our reputation of being a truly progressive, trusted, and sustainable business. We believe that how we do business is as important as what we do. The behaviours that are expected of all our employees are summarised in the Guiding Framework and require everyone to demonstrate in their everyday decisions, language and actions that they care, are fair and always look for a better way to perform.

Our key performance priorities were introduced in 2021; these priorities describe the areas of focus to achieve the goals set out in the Guiding Framework.

In 2022, we updated and amended these priorities to reflect a renewed focus on innovation and to recognise that it is the customer that connects all of them.

The identified priorities are now safety; quality; diversity and inclusion; sustainability; innovation; and, through combining these previous five, the delivery of profit. Binding all these priorities together is a focus on meeting the requirements of the customer. (See Strategy report on page 14 for further details).

Each of these priorities has defined targets, which all business units in the Group are expected to work towards.

Although all of these priorities are important in their own right, they are also inter-linked and inter-dependent, helping Wates to achieve its collective aims as a business.

Our commitment to innovation was evidenced by the launch of our Technical Excellence Centre in 2022, which connects technical experts from across the business to improve building performance and optimise construction techniques.

In terms of our focus on the customer, new initiatives for 2022 included the launch of a new Customer Excellence programme to recognise the value we place on having truly collaborative relationships with our customers.

We are committed to ensuring both the safety of all the buildings with which we are involved, and of those who live in them. A review of current policies and procedures is underway to ensure that they encompass any changes required by the Building Safety Act 2022 and by any secondary legislation (as and when this comes into force), along with the 'golden thread' of information that is required to be created and updated throughout a building's lifecycle. Initial training on the key principles of the Act has been provided to our employees and we have been liaising with our supply chain, sharing our experience and good practice. Any legacy issues are being proactively managed alongside our customers and supply chain.

We have a renewed focus on quality following the Building Safety Act coming into force during 2022. We already have an established process to ensure the successful handover of compliant buildings through our Delivering the Promise programme, which supports our commitment to consistently providing the best value for our customers. We are using the new legislative requirements to ensure that our project delivery processes remain robust and that we remain able to prove compliant delivery on all of our projects.

Alongside this, we have been developing tools to better understand our performance around both delivery phase and post-handover defects, which in some cases could constitute a significant risk to the Group's reputation. As a result of this data we will be targeting defect reduction activities to improve our quality performance further.

We continue to hold our certifications to ISO 9001, 14001, 44001 and 45001, and during 2022 maintained our record of no non-conformities being raised by our external ISO auditors. This is a reflection of the maturity and governance of our integrated management system, the Operating Framework, as well as the high level of compliance of our project teams. The planning of our internal assurance activities was improved during 2022 and further integrated assurance improvements are planned for 2023.

In 2019 a new diversity and inclusion plan was introduced which defined the targets for the Group and explained the type of organisation that we wanted to become. In 2020, we announced a new suite of industry-leading Family Leave policies and held our first 'inclusion Month'. Now in its third year, the September 2022 'Inclusion Month' set out the ambition to move from the awareness phase to the action phase with the theme of allyship at work, which encouraged all individuals to make an allyship commitment. Key to this process was an understanding of social privilege and learning how to extend that understanding to a colleague. Other key initiatives on diversity during the year included the launch of a Mentoring Circles pilot scheme to help on-site female employees build stronger networks and benefit from specialist advice from senior leaders in the business.

As defined in our diversity and inclusion plan, we are committed to having a workforce that more accurately reflects society. We are continuing to make progress against the challenging targets we set ourselves to achieve by 2025. These are:

- 40% Female (2022: 30%, 2021: 29%)
- 20% BAME (2022: 14%, 2021: 13%)
- 3% Disability (2022: 3%, 2021: 3%)
- 5% LGBTQ+ (2022: 5%, 2021: 2%)

Recent initiatives, including the launch of a new Anti-Bullying and Harassment policy and the introduction of a Reverse Mentoring programme, were designed to help attract and develop talented candidates from a much wider and more diverse range of personal and professional backgrounds. In the longer term these are expected to help close the Group's gender pay gap, which is an area of continuing focus.

In 2021, we formalised a set of Flexible Working Principles, which focus on rethinking where, when and how work can be done in a way that maintains

or improves delivery for our customers, while also improving the lives and careers of employees. In 2022, as the pandemic diminished, we encouraged a return to the office, asking office-based employees to commit to spending the majority of the working week in the office, thereby furthering collaboration and effective team working. For information on how the Board engages with employees and considers their views see page 114 of the Section 172 Companies Act 2006 report.

In 2022 we launched a new Code of Conduct with the strapline 'doing the right thing without compromise' along with a digital Toolkit for employees. The new code sets the standards of behaviour expected from everyone in the business every single day and ensures that collaboration, engagement and communication with partners, contractors, suppliers and between colleagues takes place in a way that reflects the highest standards of integrity and ethical behaviour. It also demonstrates to the communities that we serve that they can trust us to do the right thing, while ensuring we have a reputation which makes us attractive to new customers and talent. Ultimately it will generate loyalty from those we work with, retaining customers and the best talent within the business.

As part of our continuing drive to become more sustainable, we have set challenging environmental sustainability targets. Progress against these targets is discussed in detail within the Sustainability Report on page 58. A key area of focus for 2022 was the roll-out of our Environmental Metrics app, a new internal reporting platform to simplify and improve environmental reporting across the Group's business units. Our commitment extends to helping our customers and partners deliver in this area, see pages 66 and 67 for further information.

Delivering social value is intrinsic to our purpose and to our goal of being a progressive and responsible employer. By considering social value in all our business decisions, including the way we employ staff, engage with communities and buy products and services, we can cultivate a more sustainable and inclusive society, demonstrating that good business done well can be a powerful force for good. For further information on our progress in this area, see the Social Value report on page 63.

Principle 2 – Board composition

The Board comprises a Chairman, whose responsibilities encompass leading and managing the Board, ensuring its effectiveness and the quality of its governance, and making sure that the family's values are reflected in the purpose, goals and behaviours of the Group. Together with the Chief Executive he ensures that the balance of responsibilities, accountabilities and decision-making across the Group are maintained effectively. They are augmented by a Chief Financial Officer, the Executive Managing Director of the Wates Construction Group, three independent non-executives and four family members (excluding the Chairman). Independent non-executive directors bring experience in property development, engineering, finance and audit, as well as perspectives and challenges from outside the sectors in which the Group operates. The size (eleven members in total) and composition of the Board is appropriate for a Group with turnover of £1.89bn, operating in five complementary market sectors and is comparable to the Boards of similar listed businesses.

In 2021, the Board considered the requirement to have detailed succession plans in place both for the Board and other members of the senior management team. Succession planning is evidenced by the announcement that Tim Wates will be appointed Chairman at the AGM in 2023, with Sir James Wates stepping down. We thank Sir James Wates for his service over the last 10 years. Additionally, following the departure of David Allen in July, Philip Wainwright acted as interim Chief Executive until the arrival of Eoghan O'Lionaird in February 2023.

The directors acknowledge that there is a lack of diversity on the Board, particularly in the context of the diversity and inclusion targets that were approved by the Board in 2019. The Board remains committed to developing a more diverse workforce, including at the most senior levels, and it demonstrated this commitment in 2021 by endorsing the CBI Change the Race Ratio campaign, which includes a drive to increase ethnic and racial diversity and inclusion in boardrooms and among senior leadership teams of businesses.

An independent evaluation of Board effectiveness was performed in 2022. The review assessed that the Board has the knowledge and experience required to support delivery of the strategy and that it has ensured that the Group has established ethical guidelines, purposes and values. In addition, it was noted that the Board has in place proper instructions and procedures for monitoring business risks in operations and that the Group's internal financial controls work well. The report highlighted areas of interest for future development which are currently being worked on, for example, succession planning for key roles in the management team.

A biography for each Board director can be found on the Group's website www.wates.co.uk/who-we-are/ and on pages 84 to 89.

Principle 3 – Director responsibilities

The Board has a programme of six principal meetings every year, plus an additional day for strategic planning. As part of every Group Board meeting, the governance of the Group is included as a standing agenda item. The Board's key areas of focus in 2022 are noted in the Section 172 Companies Act 2006 report on pages 113 to 117.

The Board receives regular and timely information on all key aspects of the business, including on health and safety, risks and opportunities, the financial performance of the business, strategy, operational matters, market conditions and sustainability. These are all supported by Key Performance Indicators (KPIs).

The Board approves an updated strategic plan for at least the next three years on an annual basis. For details of the output of the strategic plan see the Section 172 Companies Act statement on page 113.

In addition to approving the 2021 Annual Report and Accounts, in 2022 the Board approved the Group's annual Anti-Bribery and Corruption report, demonstrating its commitment to the prevention of bribery and corruption, and signed off both the annual Modern Slavery Statement and the Tax Strategy Annual Statement. The Board continues to be consulted in respect of the pension fund investment strategy on an ongoing basis.

During the year, the Board also considered the execution of a new £90m sustainability linked three-year Revolving Credit Facility, replacing the pre-existing facility which expired in March 2023.

The Board operates four standing committees: Audit Committee, Remuneration Committee, Nominations Committee and Sustainability Committee, details of which can be found on pages 123 to 125.

To support good governance, the Audit Committee regularly reviews the relationship with the external auditors and has a policy that, at least every ten years, the external audit will be considered for re-tender. The Group undertook a tender process in 2019 that resulted in BDO LLP becoming the statutory auditors.

Principle 4 – Opportunity and risk

The Board seeks out opportunity while mitigating risk. In 2022 the Board undertook a review of its principal risks as part of its commitment to continuous improvement. The Group's key operational risks and mitigations are outlined in the Strategic report (and are noted as 'Principal risks') on pages 94 to 106. The Board also considers all major projects (defined by their value and risk profile) and approves them before any bids are finalised.

While the Board has overall responsibility for ensuring the Group's systems of risk management and internal control are operating effectively, the Chief Executive is accountable to the Board for the effective management of risks and the identification of opportunities on a day-to-day basis. Individual members of the Executive Committee reporting to the Chief Executive are accountable for specific risks and opportunities within their remits. The Group re-established an Executive-level Risk Committee in the period – a sub-committee of the Executive Committee – as part of our governance structure (see page 125 for more information). Day-to-day risks are also managed by the Business Unit Boards at a divisional level and then consolidated and reported through the Executive Committee to the Group Board.

The Executive Committee considers risks as part of the routine management of the business. In 2021, alongside management of the latter stages of the COVID pandemic, there was a particular focus on the potential risk to the Group's current and future performance caused by cost inflation and constraints on the availability of labour, products and materials. This theme continued into 2022 and was exacerbated by rising interest rates and the war in Ukraine. The Board continues to review and monitor the management team's response to inflation and availability constraints, across all our businesses, and the potential impact on future performance. Other areas of focus in 2022 included the risks and opportunities arising from the Building Safety Act 2022, negotiation of a new Revolving Credit Facility, cyber security and the negotiation of contractual terms on large projects won in the year.

Following the introduction of the Wates Corporate Governance Principles for Large Private Companies the Executive Committee has formalised the process of consideration of opportunities, as well as risks. Some of the opportunities that have been considered at recent Committee meetings include: leveraging the Group's position as a trusted partner on a number of public and private sector frameworks; additional investment opportunities (as discussed within the Section 172 Companies Act Statement on page 113); maximising the integration of the Group's project and contract delivery capabilities and the potential impact of the Group's diversity and inclusion, social value and carbon reduction plans. In addition, the Committee is also considering the requirements of the Building Safety Act 2022, both in terms of the obligations it places on the Group and the opportunities it presents to grow the business and opportunities arising from the drive to improve the energy efficiency of new and existing buildings.

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COMMITTEE INFORMATION

Principle 5 – Remuneration

We aim to have remuneration policies which are fair and meritocratic. The structure and level of remuneration is set to enable us to attract and retain the best employees and motivate high performance at all levels in the organisation.

Our performance in 2021 returned to pre-pandemic levels and this allowed the Board to approve a return to pre-pandemic incentive arrangements for 2022. The Board also approved pay-rises from April 2022 and brought forward pay-rises scheduled for April 2023 to January 2023 in response to the cost of living crisis brought on by high inflation, energy price increases and rising interest rates.

Throughout 2021 and 2022, focus was on a redesign of the Group's future incentive arrangements for all employees. The new arrangement, which is a profit-share scheme, will ensure that all employees are aligned with the shareholders' objectives of delivering a sustainable, more profitable business.

We continue to publish our gender pay reporting externally. At 5 April 2021, the median gender pay gap across all Wates Group employees was 30.5% (5 April 2020: 32.9%). It is important to note that the COVID-19 pandemic had a significant impact on our pay practices in the second quarter of 2020 and a significant number of employees were excluded from the data as they were furloughed at the snapshot date. The diversity and inclusion plan includes changes that should lead to improvements in the gender pay gap. We intend to publish our 2022 report around the end of March 2023.

Principle 6 – Stakeholders

The Board is clear that good governance and effective communication are essential if the business is to fulfill our purpose and protect our brand, reputation and relationships with stakeholders, which include shareholders, customers, employees, suppliers, financial institutions, and the wider communities in which we work. In 2022, particular consideration was given to communication in relation to the departure of the Chief Executive and the commencement of a number of large projects.

The health and safety of the Group's employees and other stakeholders remains our number one priority and the directors regularly review performance in this area. The Board's commitment to creating a sustainable zero-harm working environment has resulted in an industry-leading performance for seven consecutive years. In addition, the Board is conscious of the importance of obtaining the support of the Group's customers and supply chain partners in delivering on our sustainability objectives. For further information see the Sustainability Report on page 58.

We continue to publish data as part of our duty to report on payment practices and performance. The speed with which contractors pay their suppliers is a 'hot' topic within the construction sector. One of the key metrics is the proportion of invoices paid within 60 days. The Prompt Payment Code requires members to pay at least 95% of invoices within 60 days. The Group predominately trades through two statutory entities that operate as main contractors and which report their payment performance externally. For the six-month period ending 31 December 2022, Wates Construction Limited has paid 97% of its invoices within 60 days (H2 2021: 96%) and Wates Property Services Limited has paid 98% of its invoices within 60 days (H2 2021: 98%).

Our engagement with stakeholders in 2022 was more important than ever as many of the decisions made by the Board had direct implications for them, and in particular for its employees. Stakeholder engagement is discussed in detail within the Section 172 Companies Act 2006 report on pages 113 to 117.

The role of the Board

The Board's primary responsibility is to promote the long-term success of the Group so that we fulfill our purpose of creating sustainable shareholder value and making a lasting contribution to society. The Board seeks to achieve this by setting out an overarching strategy, monitoring performance against strategic objectives, and reviewing the Executive Committee's implementation of the strategy.

A formal schedule of matters reserved for Board approval is maintained and reviewed regularly. This includes a determination of the Group's strategy and long-term direction, a review of health and safety performance, approval of budgets, capital expenditure, organisational changes (including new business ventures and the acquisition or disposal of assets) and changes in key

policies. The Board also monitors the effectiveness of the Group's systems of internal control, governance and risk management.

The Board delegates authority for all day-to-day management of the Group's affairs to the Executive Committee. In addition, certain governance responsibilities are delegated to Board committees, which support the Board in carrying out its duties. These committees are made up of independent non-executive directors, together with non-executive directors from the Wates family and provide the Board with independent oversight.

Group Board

Details of individual directors' attendance of Board meetings in 2022 are shown in the following table:

NAME OF DIRECTOR	MAXIMUM NO. OF PRINCIPAL BOARD MEETINGS DIRECTOR COULD ATTEND	NO. OF PRINCIPAL BOARD MEETINGS DIRECTOR ATTENDED	PERCENTAGE OF PRINCIPAL BOARD MEETINGS ATTENDED
Chairman			
Sir James Wates	6	6	100%
Executives			
David Allen, Chief Executive* (<i>resigned 16 August 2022</i>)	3	3	100%
Philip Wainwright, Chief Financial Officer	6	6	100%
Paul Chandler, Executive Managing Director, Wates Construction Group	6	6	100%
Non-Executives – Family			
Timothy Wates, Deputy Chairman	6	6	100%
Andrew Wates	6	6	100%
Charles Wates	6	6	100%
Jonathan Wates	6	6	100%
Non-Executives – Independent			
Susan Harris	6	6	100%
Jeremy Newsum	6	6	100%
Jonathan Oatley	6	5	83%

* The role of Interim Chief Executive was undertaken by the Chief Financial Officer from July 2022 to February 2023. Nick Jones attended Board and Audit Committee meetings from July 2022 to February 2023 in his capacity as Interim Chief Financial Officer.

Audit Committee

The Audit Committee's primary responsibilities are: the integrity of the Group's financial statements; the effectiveness of internal controls; the performance of the internal audit function; the performance and independence of the external auditors; risk management; and our compliance with legal and regulatory requirements.

The Committee has clearly defined terms of reference, which are reviewed annually and maintained by the Company Secretary. These outline the Committee's objectives and responsibilities relating to financial reporting, internal controls, risk management, and the application of appropriate accounting standards and procedures. Specific responsibilities include reviewing and recommending for approval the annual financial statements, reviewing the Group's accounting policies, estimates and judgements, reviewing the effectiveness of internal controls, internal audit and risk management processes and reviewing the scope and results of the external audit.

Susan Harris, a chartered management accountant, is Chair of the Audit Committee. During the year the Committee comprised two other Non-Executive directors: Andrew Wates, a director of the Wates family; and Jonathan Oatley, an Independent non-executive director. The Committee was supported by a number of Board and senior management attendees. The Board is satisfied that the recent and relevant financial experience and sector knowledge of both the Committee Chair and the Committee's members during 2022 followed the principles of good governance in relation to their collective skills, knowledge and experience. The Committee approves the internal audit plan of work annually and approves any changes to that plan as may be required throughout the reporting period. The Committee is satisfied that the Internal Audit team is appropriately resourced.

External Auditors

The Group appointed BDO LLP as external auditors on 1 November 2019. The Committee assesses the effectiveness of the external auditors' performance after the completion of the annual audit, including an assessment of their governance, independence and professionalism. In July 2022, the Committee evaluated the external auditors' performance in relation to the 2021 audit. Both management and the external auditors are committed to a positive working relationship that enhances the effective and efficient execution of the audit plan. The Audit Committee re-tenders the external audit service at least every ten years, in accordance with good practice.

As a private company, the Group is not subject to external restrictions in terms of the non-audit work that is provided by the external auditors, but for good governance we have chosen to implement our own policy in relation to their remuneration and the extent of their non-audit services, which are kept to a de minimis level.

Remuneration Committee

The Committee's primary objective is to set remuneration at a level that will enhance the Group's resources by attracting, retaining and motivating quality senior management who can deliver the Group's strategic ambitions within a framework that is aligned with shareholder interests.

The Committee firmly believes that the best people, remunerated effectively, with an emphasis on performance-related pay, strengthen the Group's ability to face challenges emanating from economic and market changes and help us deliver long-term sustainable value for all stakeholders.

In 2022, the Remuneration Committee comprised three non-executive directors and was chaired by Jonathan Oatley. Members of the Committee during the year included Jeremy Newsum, Independent Non-Executive Director and Timothy Wates, a director from the Wates family, supported by members of the Board.

Nominations Committee

The Board operates a Nominations Committee to ensure that it remains balanced and effective, that succession plans are in place and that its structure, composition and skillset remain aligned to the Group's strategic objectives. The Committee's primary objective is to identify and evaluate candidates for future appointments and, in doing so, it takes advice from independent external recruitment consultants. In 2022, the Committee was chaired by Sir James Wates until July and by Timothy Wates thereafter and comprised six members, of which three were independent non-executive directors (Susan Harris, Jonathan Oatley and Jeremy Newsum) and three were family directors (Sir James Wates, Timothy Wates and Andrew Wates).

Sustainability Committee

The Committee brings oversight and challenge to the Group's corporate responsibility programmes and explores the impact and opportunities that global trends might bring to the built environment sector. In 2022, the Committee was chaired by Jonathan Wates, a non-executive director from the Wates family, and its members included Susan Harris, an independent non-executive director, the Chief Executive and Chief Financial Officer, with invitations extended to the Group Safety, Health, Environment, Quality and Sustainability Director, the Environmental Sustainability Director, the Group Public Sector Director and other key members of the management team.

Executive Committee

The Executive Committee is responsible for the day-to-day management of the Group's business affairs. It is led by and chaired by the Chief Executive. The Committee is responsible for ensuring that the agreed strategy is implemented in a timely and effective manner.

The Executive Committee consists of individuals responsible for the strategic business units and key functions. A list is on page 90 and a biography for each Executive Committee member can be found on the Group's website www.wates.co.uk.

Executive Risk Committee

The Executive Risk Committee is a management sub-committee of the Executive Committee. It has a reporting line to, and also supports, the Audit Committee. The purpose of the Committee is to assist the Executive Committee and Audit Committee in overseeing the effectiveness of the Group's risk management framework and legislative and regulatory compliance programmes.

In 2022, the Committee was chaired by the Chief Financial Officer and comprised of members of the Executive Committee, with invitations extended to the Group Legal Director and Group Head of Assurance.



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