

Company number: 01977948

WATES CONSTRUCTION LIMITED

Annual Accounts and Reports

for the year ended

31 December 2019

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DIRECTORS AND ADVISORS

Directors

D.O. Allen
S.J. Beechey
H.P. Bunch
P. Chandler
D.K.E. Morgan
S.J. Potter
P.C. Rowan
P.M. Wainwright

Company Secretary

P. M. Wainwright

Independent Auditors

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Chartered Accountants and Statutory Auditors
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Bankers

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Wates Construction Limited Annual Accounts and Reports 2019

STRATEGIC REPORT

The directors present their Strategic report which is followed by the Directors' report and the audited consolidated accounts for the year ended 31 December 2019.

Principal activities

The principal activities of the Wates Construction Group (the "Group") and parent company are providing customer-led construction products and services to the public and private sectors. The Group operates principally in the UK.

Approach

The Group's long-term aim is to become an ever more sustainably profitable business by investing in the development of our people, by building and nurturing collaborative and trusting relationships with our customers, suppliers and partners, and by maintaining high levels of financial resilience. Our work is guided by the purpose of inspiring better ways of creating the places, communities and businesses of tomorrow.

Safety and wellbeing

Keeping our people safe from harm and creating a healthy and safe environment wherever we operate remains our number one priority. The progress we have made since the launch of our Group-wide Zero Harm campaign continued in 2019, allowing us to maintain our industry-leading health and safety performance. Our Wates FM, Wates Residential and Wates Smartspace businesses all reported zero reportable incidents (RIDDOR) throughout the year – a record we are keen to replicate across the Group. There were 10 RIDDORS across the Group in 2019. Accident Frequency Rate (AFR) was 0.031. To be fully well our people must be in good mental health. The levels of absenteeism due to mental health issues and the high rate of suicide in the construction industry are matters which should concern us all. We are proud of the steps that we have taken to address stress, for example by training 273 employees as mental health first-aiders.

Financial performance

Financially, 2019 was a positive year for the Group in a challenging market. Political uncertainty reduced demand for some of our services. Encouragingly, there have been signs of stabilisation following the election of the Johnson government. The business achieved increased turnover during the year and entered 2020 with a record forward order book of £5.9bn (2018: £5.4bn).

Turnover, including the Group's share of joint ventures' and associates' turnover, increased to £1.53bn (2018: £1.48bn). Profit before tax and before taxation of joint ventures and associates, increased significantly to £18.4m (2018: £9.6m). The Group's net assets increased to £119.0m (2018: £107.8m) and ended the year with cash of £131.3m (2018: £103.4m).

Housing

The Group we see today is very different from the firm begun by the Wates family in 1897. However, our commitment to helping meet the nation's need for shelter remains as steadfast as when our founder Edward Wates was building the first Wates homes in South East London. We are now involved in a broad range of residential activities, from the delivery of private rental apartments in Wembley; to the wholesale regeneration of social housing estates, working in partnership with local authorities such as Havering, Camden and Barking to help them meet their growing housing needs; to creating new homes through our joint ventures with housebuilders. In a hugely positive and award-winning year for our Residential business, we saw the first house sale completions at our Daedalus development in Hampshire. Our partnership with Orbit to build over 600 homes at Erith Park was awarded 'Best Regeneration Project' at the Inside Housing Development Awards, and there was more success, this time in Wales - for Cardiff Living, our partnership with the City of Cardiff – which was awarded the Best Starter Home Scheme Gold Award at the What House? Awards.

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STRATEGIC REPORT continued

Our goals

In 2019, Wates established three goals to guide everything we do. The goals commit us to becoming even more progressive, trusted and sustainable. To help us achieve these goals, we have set ambitious targets to reduce the waste, carbon and impacts on nature created by our work, and to create an inclusive workplace so we can increase the diversity of our team so it is more representative of the communities we have the privilege of working in. We will only be able to achieve our goals by listening to and collaborating with our customers, our suppliers and with some of our rivals. Our intention is that these dialogues will create more open and productive relationships, improving our ability to meet and exceed customer expectations and making our business attractive to the talented people of all types and backgrounds who we'd like to join our team.

Section 172 Companies Act 2006

This report sets out how the Directors of Wates Construction Limited comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Board's decision making throughout 2019. The report for Wates Group Limited (the "Wates Group") has been included in these financial statements as the Directors of the Company consider that the key decisions made are consistent with those included within the Wates Group report.

The Role of the Board

The Board's primary responsibility is to promote the long-term success of the Wates Group by creating and delivering sustainable shareholder value as well as contributing to wider society. The successful delivery of the long-term plans relies on key inputs and positive relationships with a wide range of stakeholders. The Board seeks to achieve this by setting out its strategy, monitoring performance against the Wates Group's 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 for operational relevance. This includes the determination of the Wates Group's strategy and long-term direction, reviewing health and safety performance, approval of budgets, capital expenditure, organisational changes (including new business ventures, the acquisition or disposal of assets) and changes in key policies. The Board also monitors the effectiveness of the Wates Group's systems of internal control, governance and risk management.

The Board delegates authority for all day-to-day management of the Wates 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.

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STRATEGIC REPORT continued

Board Governance

The Board has chosen to apply the Wates Corporate Governance Principles for Large Private Companies for the year ended 31 December 2019. These principles provide a code of corporate governance for large private companies to raise awareness of good practice and over time to help to improve standards of corporate governance. They also support directors to meet the requirements of Section 172 Companies Act 2006 by providing guidance on the following areas:

- Purpose and leadership;
- Board Composition;
- Director responsibilities;
- Opportunity and risk;
- Remuneration; and
- Stakeholders.

The Corporate Governance Report, which evidences how the Wates Group applies the principles, is included in the Wates Group Limited financial statements and is also available on the Wates Group's website at www.wates.co.uk.

Activities of the Board in 2019

The Board operates a forward agenda of standing items appropriate to the Wates Group's operating and reporting cycles. Items requiring Board approval or endorsement are defined clearly. Other items are for monitoring or reviewing progress against strategic priorities, risk management or the adequacy of internal controls.

Engaging with stakeholders to deliver long term success is a key area of focus for the Board and all decisions take in to account the impact on stakeholders. Views of stakeholders are gathered in Board papers and inform the decisions made in Board meetings. Obviously, stakeholders are impacted by, or benefit from, decisions made by the Board in different ways. However, it is the Board's priority to ensure that the Directors have acted both individually and collectively in the way that they consider, in good faith, would be most likely to promote the success of the Wates Group for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs a-f of Section 172 of the Companies Act 2006. These details are set out below:

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STRATEGIC REPORT continued

Section 172	Decisions / interactions
<p>a) <i>The likely consequence of any decision in the long-term;</i></p> <p>and</p> <p>e) <i>The desirability of the company maintaining a reputation for high standards of business conduct.</i></p>	<p>The Board annually approves the five-year plan (2020-2024) and monitors its implementation throughout the year using detailed reports on operating and financial performance. This includes monitoring progress against key strategic programmes (both short-term and long-term) as well as considering the allocation of capital to support the rolling five year-business plan. The Board has agreed a set of targets for the acceptable level of financial resilience and liquidity and reviews the Wates Group's forecast funding requirements, debt capacity and financing options that are required to deliver the desired resilience targets. In March 2019, the resilience was enhanced by the Wates Group signing up to a larger and extended £120m Revolving Credit Facility (expiring in 2023).</p> <p>In approving the strategy, the Directors also consider external factors such as competitor behavior, the performance of the construction industry, as well as the evolving economic, political and market conditions.</p> <p>The Directors take the reputation of the Wates Group seriously which is not limited to only operational and financial performance. The Board has committed to having a workforce that more accurately reflects society and as part of a new approved Diversity and Inclusion Plan, has developed challenging targets to achieve this by 2025. The Board has also approved the Wates Group's policies on anti-slavery and human trafficking and anti-bribery and corruption (which can all be found on the Wates Group's website www.wates.co.uk). The Board has also considered the data, and narrative, relevant to the Wates Group's Gender Pay Reporting in preparation for external publication, including proposed improvement plans to enhance performance.</p>
<p>b) <i>The interest of the company's employees.</i></p>	<p>The Directors understand the importance of the Wates Group's employees to the long-term success of the business and are proud that the Wates Group is certified to a Gold standard by Investors in People.</p> <p>The health and safety of the Wates Group's employees (and other stakeholders) remains its main priority and the Directors review the performance in this area at each scheduled meeting. The Board's commitment to creating a sustainable Zero Harm working environment has resulted in an industry-leading performance for three consecutive years.</p> <p>The Wates Group regularly communicates to its employees through presentations, internal group-wide emails and newsletters. In 2019, communication channels have been enhanced as new social media channels and blogs on our intranet give our employees the opportunity to interact with members of the Board and other key management personnel. The Wates Group's annual roadshow, which is open to all employees, is the forum by which the Chief Executive informs and updates staff on the Wates Group's performance, plans and future outlook and provides employees with an opportunity to ask questions, or to seek clarification, on the Wates Group's purpose, goals and direction. A biannual employee survey is undertaken to allow colleagues to provide honest feedback about their experience working at Wates. Alongside regular calls, twice a year, the Wates Group's senior leadership team convene to share knowledge, disseminate good practice and to discuss strategic priorities.</p>

Wates Construction Limited Annual Accounts and Reports 2019

STRATEGIC REPORT continued

Section 172	Decisions / interactions
b) <i>The interest of the company's employees (continued).</i>	<p>In 2019, the Wates Group invested c.£1.5m in learning and development and delivered 8,072 staff training and e-learning days. Our award winning We're Safer Together – Lead and Drive the Change! Safety programmes were delivered to 430 of our leaders in 2019 and supported the continuing improvement in our safety performance. Workplace health and mental wellbeing continue to be priorities and in 2019 the Wates Group was awarded Bronze in MIND's Wellness Index Awards. By the end of 2019, we have established a Mental Health First Aider network of 273 trained employees and 30 Regional Mental Health First Aider Champions. The Early Careers pipeline remains an important feature of our resourcing strategy, with 139 colleagues on a structured training programme. We have retained 84% of the trainees who have joined us over the last five years.</p> <p>In 2019, the Board approved a new executive incentive arrangement that more aligns with the shareholders' requirement for long-term value generation and sustainability. We are embarking on a second phase which aims to ensure that the principles of the executive remuneration review are applied to the wider employee population.</p>
c) <i>The need to foster the company's business relationships with suppliers, customers and others.</i>	<p>The Board regularly reviews how the Wates Group maintains positive relationships with all of its stakeholders, including suppliers, customers and others.</p> <p>Our shareholders and other Board members are key industry and business contributors. Sir James Wates CBE holds a number of key positions in the sector including: Chairman of the CBI Construction Council; Chairman of the BRE Trust; Past Chairman of CITB and Past President of CIOB. He also, on behalf of the Business Secretary, chaired an industry group on corporate governance for large privately-owned companies (which the Wates Group has adopted this year). Timothy Wates is also Chairman of the Coast to Capital Local Enterprise Partnership.</p> <p>The Directors monitor how the Wates Group engages with its customers by performing regular customer engagement surveys which determine the Net Promoter Score (NPS) of the Wates Group. This process is run by an external company to ensure the results are independent. The results of these surveys are reviewed by the Board on a monthly basis and the findings are used to improve customer engagement.</p> <p>The Directors understand the importance of the Wates Group's supply chain in delivering the long-term plans of the Wates Group. One of the ways we can ensure effective relationships with our supply chain is to pay them on time. The Wates Group has signed up to the Prompt Payment Code and one of the key metrics within this is ensuring that at least 95% of invoices are paid within 60 days. At the end of 2019, Wates Construction Limited (the Wates Group's main trading subsidiary) had improved its performance to 96% (2018: 90%).</p> <p>The Wates Group's principal risks and uncertainties set out risks that can impact the long-term success of the Wates Group and how these risks interact with our stakeholders. The Directors actively seek information on the interaction with stakeholders to ensure that they have sufficient information to reach appropriate conclusions about the risks faced by the Wates Group and how these are reflected within the long-term plans.</p>

Wates Construction Limited Annual Accounts and Reports 2019

STRATEGIC REPORT continued

Section 172	Decisions / interactions
<p>d) <i>The impact of the company's operations on the community and environment.</i></p>	<p>The Wates Group's Guiding Framework, implemented by the Board in 2019, defines the motivating purpose of 'together, we inspire better ways of creating the places, communities and businesses of tomorrow' and the Wates Group's goals of being more trusted, sustainable and progressive. All initiatives that are considered by the Board are reviewed alongside the Guiding Framework to ensure that they are in line with the Wates Group's purpose, goals and behaviours.</p> <p>Alongside our industry leading health & safety targets and processes, during the year, the Directors set targets (for 2025) as part of its Environmental Strategy and Engagement campaign:</p> <ul style="list-style-type: none"> - <i>Waste:</i> Zero waste from Wates operations - <i>Energy:</i> Zero carbon from operations and operational vehicles - <i>Nature:</i> Make a positive impact on nature through our operations <p>Further information on the Wates Group's initiatives with respect to the environment can be seen in the Sustainability Report (included in the Wates Group Limited accounts).</p> <p>On all large contracts, the Wates Group hosts local community events including 'Meet the Buyer' to engage with local stakeholders, including local supply chain partners. In 2019, the Wates Group achieved its target (cumulative) spend of £20m with social enterprises (SEs) by 2020. Since the engagement with SEs began in 2007, over £35m of social value has been created.</p> <p>The Wates Group continued to contribute to Wates Giving, the charitable programme of the Wates Family Enterprise Trust. In 2019, this support amounted to £1.5m (2018: £1.5m) taking the total amount given since 2008 to £14.3m. The programme's focus themes are: life opportunities for young people, housing and homelessness and sustainability.</p> <p>The Directors take very seriously their responsibility of ensuring the Wates Group is a good corporate citizen. Business creates wealth that, through taxes, delivers the investment which, if properly managed by politicians, leads to a fairer and more prosperous society. In 2019, the Wates Group contributed taxes, all within the UK, whether borne by the Wates Group or collected on behalf of HMRC of £161.2m (2018: £138.2m). We are proud of the part we play in our industry's contribution through its economic activity.</p>

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STRATEGIC REPORT continued

Section 172	Decisions / interactions																																																				
d) <i>The impact of the company's operations on the community and environment (continued).</i>	<table><tr><th></th><th>Notes</th><th>2019 £000s</th><th>2018 £000s</th></tr><tr><td colspan="4">Taxes paid in the period (note 1)</td></tr><tr><td colspan="4">Taxes borne by the Wates Group</td></tr><tr><td>Corporate income tax</td><td></td><td>6,204</td><td>5,759</td></tr><tr><td>Employment-related taxes</td><td>2</td><td>29,480</td><td>28,949</td></tr><tr><td>Other taxes</td><td>3</td><td>5,715</td><td>7,693</td></tr><tr><td></td><td></td><td>41,399</td><td>42,401</td></tr><tr><td colspan="4">Taxes collected for HM government (in addition to taxes borne above)</td></tr><tr><td>Employment-related taxes</td><td>4</td><td>67,046</td><td>63,508</td></tr><tr><td>VAT</td><td>5</td><td>52,740</td><td>32,272</td></tr><tr><td></td><td></td><td>119,786</td><td>95,780</td></tr><tr><td colspan="4">Total tax contribution (taxes generated by the Wates Group from Wates Group activity)</td></tr><tr><td></td><td></td><td>161,185</td><td>138,181</td></tr></table> <p>Notes</p> <ol style="list-style-type: none">1) All taxes are paid in the UK; none in other jurisdictions2) Employer national insurance contributions, income tax paid on benefits in kind and apprenticeship and CITB levies3) Business rates, insurance premium tax, stamp duty land tax, irrecoverable Vat, fuel duty and vehicle and other taxes4) Income Tax and employee national insurance contributions deducted from salaries and wages5) Net Vat collected and paid		Notes	2019 £000s	2018 £000s	Taxes paid in the period (note 1)				Taxes borne by the Wates Group				Corporate income tax		6,204	5,759	Employment-related taxes	2	29,480	28,949	Other taxes	3	5,715	7,693			41,399	42,401	Taxes collected for HM government (in addition to taxes borne above)				Employment-related taxes	4	67,046	63,508	VAT	5	52,740	32,272			119,786	95,780	Total tax contribution (taxes generated by the Wates Group from Wates Group activity)						161,185	138,181
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f) <i>The need to act fairly as between members of the company.</i>	<p>The Wates Group is 123 years old and now includes the fourth generation of family ownership. The business remains 100% family owned. The Wates Group interfaces with family shareholder members on a regular basis through away days, corporate events, interaction with the Wates family office and through the Wates Group Board meetings which contains five Wates family members, alongside six non-family independent non-executives and executive directors.</p> <p>The current shareholders are committed to handing over to the next generation an even stronger, more sustainable business. This commitment is supported by the Guiding Framework which demonstrates how the shareholders seek to work with stakeholders to maintain the Wates Group's success well into the future.</p>																																																				

Wates Construction Limited Annual Accounts and Reports 2019

STRATEGIC REPORT continued

Principal risks and uncertainties

Risk	Mitigation
A. Health and safety The Wates Group is involved in activities and environments that have the potential to cause serious injury to its stakeholders, or to damage property, the environment or our reputation. We are reliant on a largely subcontracted workforce to operate to our high standards and procedures.	The health and safety of people is the primary focus of the Wates Group. In order to control risk and prevent harm, the Wates Group is focused on achieving the highest standards of health and safety management. This is achieved by establishing effective health and safety procedures and ensuring that effective leadership and organisational arrangements are in place to operate these procedures. We monitor significant health concerns, including most recently the coronavirus Covid-19 outbreak, maintaining contingency plans to operate and manage our operations and respond proportionately to any emerging risks, whilst always ensuring the health of all of our stakeholders with whom we interface.
B. Market risk Demand for the services of the Wates Group is cyclical and may be vulnerable to sudden economic downturns, a lack of confidence in the housing market and the broader economy, reductions in government and private sector spending, regulatory developments (including building and fire regulations) and increases in costs.	The Wates Group's strategic focus is on those market sectors in which a competitive advantage is maintained and that have the most potential for profitable growth. To limit the impact of exposure to any one sector, the Wates Group has diversified its product and service offering across different market sectors. Members of our leadership team participate in political, economic and regulatory forums to maintain effective working relationships with the government and regulatory authorities.
C. Brexit The impact of a 'no deal' at the end of the Brexit transition period continues to create uncertainty in the UK economy. This may result in clients delaying, curtailing or cancelling proposed and existing projects. It may also increase the level of counter-party, credit and currency risk faced by the Wates Group.	The Wates Group continues to monitor the impact of the UK's transition negotiations as the government works positively to secure a negotiated deal with the EU. We have developed plans to respond to a range of potential scenarios, including the impact of a 'no deal' at the end of the transition period. This includes specific plans that cater for changes in market conditions, complications with the movement and availability of our workforce, pressure on the supply chain, delays in delivery of materials and components, changes in exchange rates and pricing impact of increased tariff and commodity costs. The Wates Group has analysed the forward order book and does not see a significant impact on current or future projects. The Wates Group does not deliver any contract, projects or services to any other country in the EU.

Wates Construction Limited Annual Accounts and Reports 2019

STRATEGIC REPORT continued

Principal risks and uncertainties continued

Risk	Mitigation
<p>D. Competition</p> <p>The construction sector is highly competitive with low margins. If it does not compete effectively in its market sectors, the Wates Group runs the risk of <i>losing market share</i>. While service quality, capability, reputation and experience are considered in client decisions, price often remains one of the <i>determining factors</i> in contract awards.</p>	<p>The Wates Group mitigates competitive risk by seeking to target projects where it has a competitive advantage and can manage its costs and risks. The risk profile of every bid is assessed at the estimation stage to determine whether it is in line with the strategic objectives of the Wates Group before approval to tender is given. The Wates Group is highly selective at bid stage and will only take on work that it can <i>deliver effectively</i>.</p>
<p>E. Project Delivery</p> <p>Execution of projects involves professional judgement in estimating, planning, design and construction, often in complex environments. The Wates Group's projects could encounter difficulties that could lead to cost and time overruns, lower revenues, litigation or disputes.</p>	<p>The Wates Group's activities are guided by an Operating Framework that mandates rigorous policies and procedures throughout the project lifecycle. These, combined with comprehensive management oversight, the risk management process, project reviews, independent internal and external audits, peer reviews and customer feedback help mitigate the risk to successful project delivery. We monitor significant external issues that could impact project delivery such as Brexit and Covid-19 and maintain appropriate contingency plans.</p>
<p>F. Liquidity (Financial Risk)</p> <p>Liquidity risk is the risk that the Wates Group will not be able to meet its <i>financial obligations as they fall due</i> and could affect our ability to invest, win work or pay dividends.</p>	<p>The Wates Group manages liquidity such that it always has sufficient liquidity to meet its liabilities when due. The Wates Group continually monitors and stress tests its liquidity position. Funding arrangements are reviewed regularly and approved by the Wates Group Board.</p>
<p>G. Appointing and retaining talent</p> <p>The success of the Wates Group is dependent on being able to attract and retain people that have the necessary experience and expertise. Competition for high quality people is intense.</p>	<p>The Wates Group knows that its people are at the heart of its on-going success. It seeks to offer market-competitive remuneration (<i>which is reviewed regularly</i>), <i>training and career</i> development opportunities, and to be an attractive and engaging employer. The Wates Group is an Investors in People Gold accredited employer.</p>
<p>H. Systems, Data, Cyber Security & GDPR</p> <p>A loss of our key systems through a lack of resilience or an information security breach or attack, could impact the successful delivery of our projects and lead to a loss of confidential data, damaging our reputation and brand.</p>	<p>Robust controls and procedures are in place to monitor the performance of our systems and to identify and mitigate external threats. The Wates Group is continually developing and upgrading its IT infrastructure, software and cyber threat and assessment capabilities. We continue to develop and enhance our data protection procedures in line with regulations. The controls and procedures are subject to regular independent internal and external audit.</p>

Wates Construction Limited Annual Accounts and Reports 2019

STRATEGIC REPORT continued

Principal risks and uncertainties continued

Risk

Mitigation

I. The Environment

The sector in which we work faces huge challenges as it works to reduce its impact on nature and the environment. There is a risk that our business activities have a harmful impact on the environment and do not positively address the accelerated pace of climate crisis. Our Clients are placing greater responsibility on us to protect the environment and reduce our carbon footprint and waste, where we have to demonstrate we are making the required changes. There could be a risk that we don't have the right investment or resources, including through our supply chain, to meet these challenges from our clients.

The Wates Group has committed to a series of bold, ambitious and deliberately stretching targets for creating Zero Harm to the environment and for having a positive impact on nature. These targets set out where we need to be by 2025 outlining our commitment to eliminate harm to the environment and positively impact nature. Our targets focus on achieving Zero waste from Wates operations, Zero Carbon from Wates operations and commercial vehicles and achieving a positive impact on Nature from our operations by 2025.

Wates Construction Limited Annual Accounts and Reports 2019

STRATEGIC REPORT continued

Analysis of Financial Key Performance Indicators

Group Performance

Group turnover, including the Group's share of joint ventures' and associates' turnover increased to £1.53bn (2018: £1.48bn). Total operating profit before interest and tax increased significantly to £15.6m (2018: £8.6m). Pre-tax profit increased significantly to £18.4m (2018: £9.6m).

The forward-order book finished the year at £5.9bn (2018: £5.4bn).

Construction

Construction turnover, including its share of joint ventures, was £922.7m (2018: £849.0m), 8.7% up on 2018.

The business stuck firmly to its strategy, targeting those sectors and geographical regions where Wates has the greatest experience and expertise and enjoying continued success with repeat customers and frameworks. The growth of capabilities in cost-planning, more sophisticated building design management processes, offsite manufacturing and closer engagement with the supply chain have all helped to drive down costs and increase efficiencies, something the business will continue to build upon in 2020.

Significant projects and outstanding work included starting construction on Parliament's Northern Estate Programme, securing the Aquatic Centre for Sandwell Council in Birmingham and working on 24 schools - 21 through the Department for Education (DfE) framework.

Following a challenging 2018, notable for the collapse of Carillion, SES focused in 2019 on improving efficiency, reducing overheads and driving profitability while delivering a sustainable level of turnover and avoiding loss-making projects. The collapse of clients including Interserve at the beginning of 2019 and Clugston towards the end of the year presented a significant challenge to performance. Despite these, SES demonstrated its resilience and continued to perform strongly, strengthening its balance sheet, increasing cash as well as winning a number of prestigious industry awards. Carillion's failure was well-managed and saw SES pick up more direct work with major clients giving a strong orderbook into 2020. The business also expanded its offsite capabilities, moving its Prism business to new, larger premises in Coventry to meet the increased demand in work.

Residential Developments

Turnover for Residential Developments, including its share of joint ventures, increased by 9.9% to £126.7m (2018: £115.3m). House building through joint ventures and public sector collaborations (Wates Residential acting as developer) delivered 290 (2018: 252) residential units. The business also operates as a contractor for public sector clients and has worked on residential projects in the year containing 240 (2018: 981) residential units.

Property Services

Property Services turnover, including its share of associates, was £478.3m (2018: £515.5m), 7.2% down on 2018. The reduction in turnover is due to a rephasing of workload in planned maintenance from a number of existing customers. This reduction is only temporary and we forecast our turnover to increase again in 2020, as we have a growing customer base and a record order book of over £1bn.

In 2019, Property Services maintained in excess of 500,000 homes in the social housing sector and managed facilities in more than 300 non-residential buildings.

Smartspace undertook 660 projects across the UK in the retail, logistics, pharmaceutical, banking and public sectors.

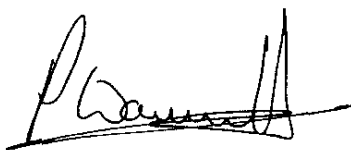
Wates Construction Limited Annual Accounts and Reports 2019

STRATEGIC REPORT continued

Cash flow

The Group's cash position improved throughout the year. At 31 December 2019, the gross cash balance was £131.3m (2018: £103.4m). Inflows from Group operating activities (£35.6m) and dividends received from joint ventures and associates (£0.8m) were partially offset by net outflows from investments in joint ventures (£2.6m), purchase of fixed assets (£2.1m) and dividends paid (£4.2m).

Approved by the Board of Directors on 5 June 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P. M. Wainwright', with a horizontal line drawn underneath it.

P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2019

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2019, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the **Wates Corporate Governance Principles for Large Private Companies** (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website).

These new corporate governance reporting requirements apply to company reporting for financial years starting on or after 1 January 2019 and Companies are able to adopt the Wates principles as an appropriate framework when making a disclosure regarding corporate governance arrangements. This report set out how the Directors of Wates Construction Limited have adopted the disclosure in our 2019 Report and Accounts and set out below is how we have applied the Principles over the past year throughout our work. The report for Wates Group Limited has been included in these financial statements as the Directors of the Company consider that the application of the Principles are consistent with those included within the Wates Group report.

The Wates 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

The focus of the Board and Executive Committee has been the implementation of the Wates Group's Guiding Framework "Creating Tomorrow Together" which defines our purpose, goals and behaviours.

The new framework has been communicated to the workforce through our annual leadership conference, roadshows and through a series of workshops where employees have been encouraged to contribute ideas as to how the Wates Group can practically deliver the goals and behaviours defined within the framework.

To drive the Wates Group towards achieving its goals of becoming more "progressive" and "trusted", a new Diversity and Inclusion Plan, alongside the recruitment of a new Wates Group Head of Diversity & Inclusion, has been introduced in 2019. The Wates Group is committed to having a workforce that more accurately reflects society and has developed challenging targets to achieve this by 2025:

- 40.0% Female (2019: 21.1%)
- 20.0% BAME (2019: 12.3%)
- 3.0% Disability (2019: 0.8%)
- 5.0% LGBTQ+ (2019: 1.6%)

Further targets include 50% of early career intakes being female and 5% of new recruits being career returners. The plan commits to overhauling our parental leave and flexible working policies, improving the gender pay gap and collaborating across the sector to help drive sector-wide change.

As part of the Wates Group's drive to become more "sustainable", the Wates Group has set targets as part of its Environmental Strategy and Engagement Campaign:

- Waste Target: Zero waste from Wates operations by 2025
- Energy Target: Zero carbon from all Wates operations and operational vehicles by 2025
- Nature Target: Making a positive impact on nature through our operations by 2025

The Wates Group is well advanced in developing action plans and engaging with our workforce. The next steps will be to provide the necessary training to be able to deliver these targets, as well as engaging with our wider stakeholders.

Wates Construction Limited Annual Accounts and Reports 2019

CORPORATE GOVERNANCE REPORT continued

Principle 2 – Board Composition

The Board comprises a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Wates Group are effectively maintained, as well as a Chief Financial Officer, Group MD Construction Group, three Independent Non-Executives and five family members (including the Chairman). This size and composition is appropriate to our large yet focused business. Independent Non-Executive Directors bring experience in property development, engineering, finance and audit, in addition to perspectives and challenge from outside the sectors in which the Wates Group operates.

In November 2019 Susan Harris decided to join the Board as an Independent Non-Executive Director and Chair of the Audit Committee. Susan has extensive Non-Executive experience at Cooperative Bank, Schroders and Co, Bank of Ireland UK, FNZ (UK), Abcam Plc, Barclays UK Retirement Fund and Mencap. She is currently chairing the Audit and Assurance council of the Financial Reporting Council (FRC).

We acknowledge that there is a relative lack of diversity on the Board, in particular when compared to the Diversity and Inclusion targets that were approved by the Board this year. The Board is committed to developing a more diverse workforce, including at the most senior levels.

The Board has initiated a formal effectiveness review in 2019, facilitated by an independent external advisor. The Board Effectiveness Review assessed that the Board was competent and well run and had the potential to become even more effective by clearly aligning its agenda to strategic development, encouraging all directors to share their thoughts, observations and instincts for the benefit of all, and engaging the whole Board more routinely in the active management of investor relations.

A biography for each Board Director can be found on the Wates Group's website: www.wates.co.uk/who-we-are/.

Principle 3 – Director Responsibilities

The Board has a programme of nine principal meetings every year, plus two additional days for strategic planning. As part of every Wates Group Board meeting, the governance of the Wates Group is included as a standing agenda item. The Board's key areas of focus in 2019 are in the Section 172 Companies Act 2006 report on pages 4 to 9.

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

As part of the 2018 annual strategy process, the Board identified a list of strategic priorities that were to be reviewed by management throughout 2019. The output of this work has been a key area of focus for the Board. Some specific outputs have included the rebranding of Wates Living Space to Wates Property Services, which now incorporates our Facilities Management offering under the brand Wates FM, a cost rationalisation project across the Wates Group's operations, as well as a review of the Wates Group's organisational structure and investment profile.

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. A review was performed in the year and decided that it was an appropriate time to perform a tender for the Wates Group's audit services. The tender process involved several external audit firms (including PricewaterhouseCoopers LLP) and it was decided that the Wates Group would change to BDO LLP. BDO's sector experience and excellent third-party audit quality ratings were an important factor in the Board's decision to change auditors.

Principle 4 – Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk. The company's key operational risks and mitigations are outlined in the Strategic Report (and are denoted as 'Principal Risks' below). The Board also considers all major projects (as defined by their value and risk profile) and approves them before any bids are finalised.

Wates Construction Limited Annual Accounts and Reports 2019

CORPORATE GOVERNANCE REPORT continued

The Wates Group Risk Committee (as delegated by the Board) also considers further risks as part of the day to day management of the business:

- Health & Safety (Principal risk)
- Market risk (Principal risk)
- Project delivery (Principal risk)
- Margin pressure / competition (Principal risk)
- Systems, Data, Cyber Security & GDPR (Principal risk)
- Pension fund liabilities (Principal risk)
- Appointing and retaining talent (Principal risk)
- Brexit transition (Principal risk)
- Liquidity (Principal risk)
- The Environment (Principal risk)
- Legal and regulatory compliance
- Quality
- Reacting to a decline in land and house prices
- Reputation
- Investment constraint

The Risk Committee, consisting of Executive Committee members and business unit and functional leads, ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner. Its focus in 2019 was on monitoring the effectiveness of the Wates Group's approach to risk identification, classification and mitigation.

The formal introduction of the Wates Principles has highlighted a need for the Committee to focus on Opportunities as well as Risks and this has now been incorporated in to the quarterly Committee meetings. Some of the opportunities that have been considered include leveraging our extensive frameworks, further investment opportunities, benefits of cost rationalisation and also the potential impact of amendments to our Diversity & Inclusion and Environmental plans.

Principle 5 – Remuneration

The Remuneration Committee's primary objective is to set remuneration at a level that will enhance the company's resources by securing and retaining quality senior management who can deliver the Wates Group's strategic ambitions in a manner consistent with both its purpose and the interests of its shareholders.

An independent review was performed in 2018, which highlighted that the Wates Group's remuneration policy for executives is consistent with companies of a similar size and complexity, as well as other companies operating within the construction sector. However, the review also highlighted that the incentive arrangements for executives could be structured in a way that more aligns with the shareholder's requirement for long term value generation. The Remuneration Committee engaged with external reward specialists throughout 2019 and a new executive incentive arrangement has been introduced that meets this requirement. The directors' remuneration is disclosed on page 39 (note 5). In 2019, management also embarked on a second phase which aims to ensure that the principles of the executive remuneration review are applied to the wider employee population.

Wates Construction Limited Annual Accounts and Reports 2019

CORPORATE GOVERNANCE REPORT continued

In 2018, the Wates Group reported its Gender Pay Reporting for the first time which highlighted some specific areas of focus for 2019 and beyond. The new Diversity and Inclusion plan includes changes that should start to show improvements in this area.

After the departure of David Barclay in September 2019, Jonathan Oatley has been appointed as the Chair of the Remuneration Committee.

Principle 6 – Stakeholders

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our purpose and to protect the company's brand, reputation and relationships with all our stakeholder community including shareholders, customers, employees, suppliers and the local communities in which we work.

2018 saw the introduction of the Duty to Report on Payment Practices and Performance and the Wates Group's results for that year highlighted some areas on which the Wates Group needed to improve in how it paid its supply chain. In 2019, the sector has focused on the number of invoices paid within 60 days as it is a requirement of The Prompt Payment Code, to which many main contractors are members, to pay at least 95% of invoices within 60 days. The Wates Group has two entities that operate as a main contractor and report their payment performance externally. For the six-month period ending 31 December 2019, Wates Construction Limited has improved its performance from 90% to 96% and Wates Property Services Limited has remained consistent with previous periods at 94% (H1: 95%).

The Wates Group communicates to its employees through presentations, internal group-wide emails, newsletters, social media channels and blogs on our intranet. An annual employee 'Roadshow', delivered in a number of locations around the country, provides a briefing on the Company's performance, gives an update on any initiatives that are being introduced and allows individuals to raise questions and concerns. The key focus of this year's Roadshow was the formal introduction of The Guiding Framework, announcing that the Group would be performing a review of its cost base to ensure that the Wates Group was structured appropriately for the future and to give a summary of the work that was being performed to develop the new Diversity and Inclusion strategy.

Social media channels and the blogs on our intranet, give our employees the opportunity to interact with members of the Board and senior management. In 2019, the Board started to send summaries of key themes from the Wates Group Board meeting via our internal social media platform. Annual employee engagement surveys are performed to highlight areas of improvement in communication of the Wates Group's purpose. The Board considers the results of all employee engagement surveys a good barometer of the workforce's confidence in the Wates Group's strategic direction, optimism in the future and career opportunities.

The Wates Group is certified to Gold standard by Investors in People – an important external validation of the company's policies and performance in leading, supporting and managing employees well for sustainable results.

The Wates Group performs customer engagement surveys which determine the Net Promoter Score (NPS) of the Wates Group – this process is run by an external company to ensure independence. NPS performance is being reported to the Board on a monthly basis. The findings are used to improve customer engagement with knowledge being shared across all of our business.

On all large contracts, the Wates Group hosts local community events including 'Meet the Buyer' to engage with local stakeholders. The Wates Group has also developed environmental targets with respect to waste, energy and nature that are to be developed throughout 2020.

The company's website (www.wates.co.uk), intranet and social media channels provide extensive and up-to-date news on recent developments.

Wates Construction Limited Annual Accounts and Reports 2019

DIRECTORS' REPORT

The directors present their Annual accounts and reports for the year ending 31 December 2019. This report must be read in conjunction with the Strategic report on page 3.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

D.O. Allen
S.J. Beechey
H.P. Bunch
P. Chandler
D.K.E. Morgan
S. J. Potter
P.C. Rowan
P.M. Wainwright

Directors' indemnities

Certain directors benefited from a qualifying pension scheme indemnity provision during the financial year ending 31 December 2019 and one director benefits from this at the date of this report.

Dividend

The directors proposed and paid a dividend of £4.2m during 2019 (2018: £nil).

Health & Safety

The Board remains committed to the effective management and monitoring of health and safety and to providing a safe working environment for all employees and partners and to keeping members of the public with whom the Wates Group comes into contact free from harm. The Wates Group's Zero Harm campaign 'we're safer together' remains a key strategic priority to further enhance the Wates Group's health and safety performance and to develop the leadership skills and behaviours required to achieve a positive and high performing culture.

Employees

The Wates Group recognises the importance of engaging employees to help them make their fullest contribution to the business, which is fundamental to achieving the Wates Group's strategy and long-term objectives. Wates uses a variety of media to inform employees about the Wates Group's development and prospects and seeks and listens to employees' views and opinions.

The Wates Group's annual Roadshow, which is open to all employees, is the forum by which the Chief Executive informs and updates staff on the Wates Group's performance, plans and future outlook and provides employees with an opportunity to ask questions, or to seek clarification, on the Wates Group's purpose, goals and direction. A biannual employee survey is undertaken to allow colleagues to provide honest feedback about their experience working at Wates. Twice a year, the Wates Group's senior leadership team convene to share knowledge, disseminate good practice and to discuss strategic priorities. Informal meetings are held at business unit and regional levels and further communication is effected through the use of a group wide intranet and enterprise social network, electronic bulletins, notice boards, social media, the Wates Group's website and blogs from contributors from all parts of the Wates Group.

The Wates Group is committed to improving the skills of employees through training and development and through nurturing a culture in which employees feel valued for their contribution and motivated to achieve their full potential. Statistics relating to the average number of people employed by the Wates Group during the year can be found in note 4 to the accounts.

Wates Construction Limited Annual Accounts and Reports 2019

DIRECTORS' REPORT continued

Equal Opportunities

The Wates Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit.

The Wates Group has for many years focused on fostering a diverse and inclusive working environment and has implemented specific development programmes to assist business leaders in engaging further with their teams and in demonstrating the contribution that each individual can make to the success of the Wates Group. The Wates Group is committed to growing a diverse pool of talent for purposes of long-term succession planning.

The Wates Group gives full and fair consideration to applications for employment made by disabled people and encourages and assists the recruitment, training, career development and promotion of disabled people. The Wates Group endeavours to retain and adjust the environment of employees who become disabled during the course of their employment.

Corporate Responsibility

Corporate responsibility continues to remain an integral part of the Wates Group's business and long term strategic aspirations. The Wates Group's approach, priorities and objectives in the corporate responsibility arena, specific to the environment and communities in which we work, are published, communicated and embedded within the business as part of the Wates Group's overarching strategic objectives.

Research and Development

The Wates Group is dedicated to the research and development of innovative construction methods and techniques, focusing on areas such as enhanced safety, project delivery, the development and integration of new materials and working techniques, energy efficiency and information modelling.

Donations

During the year the Group made charitable donations amounting to £1.5m (2018: £1.5m). No political donations were made in 2019 or 2018.

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- Each director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Wates Construction Limited Annual Accounts and Reports 2019

DIRECTORS' REPORT continued

Post balance sheet events and Going concern

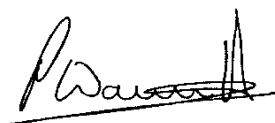
On 23 March, the Prime Minister ordered people to stay in their homes to slow the rate of infection from Covid-19 and enforced a nationwide lockdown that constitutes the most significant set of restrictions on British life in living memory.

As part of the Wates Group's response to the Covid-19 outbreak, the directors have reviewed the forecast future performance based on their current expectation of performance. This expectation reflects a slowdown in activity throughout the second quarter of 2020 as sites / contracts become less efficient due to maintaining adequate social distancing, delays in accessing required materials and adhering to the industry mandated Site Operating Procedures.

Due to the potential volatility at the company level, Wates Group Limited intends to provide sufficient operational and financial support to the company, to the extent that it is required to enable them to meet their liabilities as and when they fall due for a period of at least 12 months from the date of approval of the financial statements for the company for the year ended 31 December 2019. The Wates Group has prepared a cash flow forecast for 12 months from the date of approval of these financial statements and the Wates Group considers it has sufficient cash reserves to continue trading, whilst meeting the financial covenants set within its Revolving Credit Facility. In March 2020, the Wates Group maximised the draw down on its £120m Revolving Credit Facility to give greater financial resilience.

Whilst these conditions might cast doubt upon the company's ability to continue as a going concern, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Approved by the Board of Directors on 5 June 2020 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2019

Statement of Directors' Responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in UK and Republic of Ireland' and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the ultimate parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Wates Construction Limited Annual Accounts and Reports 2019

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF WATES CONSTRUCTION LIMITED

Opinion

We have audited the financial statements of Wates Construction Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2019 which comprise the Consolidated profit and loss account, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Company balance sheet, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated cash flow statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Wates Construction Limited Annual Accounts and Reports 2019

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF WATES CONSTRUCTION LIMITED CONTINUED

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Wates Construction Limited Annual Accounts and Reports 2019

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF WATES CONSTRUCTION LIMITED CONTINUED

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements


Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Charles Ellis (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
5 June 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Wates Construction Limited Annual Accounts and Reports 2019

Consolidated Profit and Loss Account

For the year ended 31 December 2019

	Notes	2019 £000s	2018 £000s
Turnover:			
Group and share of joint ventures and associates		1,527,740	1,474,202
Less share of turnover of joint ventures and associates		(3,920)	(12,772)
Group turnover: continuing operations	2	1,523,820	1,461,430
Cost of sales		(1,367,305)	(1,318,522)
Gross profit		156,515	142,908
Administrative expenses		(141,411)	(136,157)
Profit on sale of investment in joint venture		572	-
Group operating profit	3	15,676	6,751
Share of post-tax (loss)/profit from joint ventures and associates	10	(253)	1,134
Total operating profit - Group and share of joint ventures and associates:		15,423	7,885
Analysed between:			
Total operating profit before interest and tax		15,627	8,574
Net interest payable -- joint ventures and associates		(192)	(789)
Taxation -- joint ventures and associates		(12)	100
Interest receivable	6	2,960	1,672
Profit before taxation		18,383	9,557
Analysed between:			
Profit before taxation and taxation of joint ventures and associates		18,395	9,457
Taxation -- joint ventures and associates		(12)	100
Tax on profit	7	(3,214)	(2,974)
Profit for the financial year		15,169	6,583

The above results have all been derived from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 £000s	2018 £000s
Profit for the financial year	15,169	6,583
Currency translation difference on foreign currency net investment	232	(471)
Share of other comprehensive income of joint venture	-	559
Other comprehensive income for the year	232	88
Total comprehensive income for the year	15,401	6,671

The profit and total comprehensive income for the financial years set out above is all attributable to equity shareholders of the Company.

Wates Construction Limited Annual Accounts and Reports 2019

Company number: 1977948

Consolidated Balance Sheet

As at 31 December 2019

	Notes	2019 £000s	2018 £000s
Fixed assets			
Intangible assets - Goodwill	8	48,536	52,013
Tangible assets	9	4,778	4,396
Investments in joint ventures and associates	10	4,655	3,154
Other investments	10	381	466
		58,350	60,029
Current assets			
Stocks	11	29,712	18,709
Debtors			
- due within one year	12	415,346	381,655
- due after more than one year	12	34,981	18,528
		450,327	400,183
Cash at bank and in hand	13	131,319	103,353
		611,358	522,245
Creditors: amounts falling due within one year	14	(520,486)	(449,816)
Net current assets		90,872	72,429
Total assets less current liabilities		149,222	132,458
Creditors: amounts falling due after more than one year	15	(21,321)	(15,900)
Provisions for liabilities	16	(8,921)	(8,779)
Net assets		118,980	107,779
Capital and reserves			
Called up share capital	19	28,000	28,000
Profit and loss account	19	90,980	79,779
Shareholders' funds		118,980	107,779

The notes on pages 31 to 52 form part of these accounts

Approved by the Board of Directors on 5 June 2020 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2019

Company number: 1977948

Company Balance Sheet

As at 31 December 2019

	Notes	2019 £000s	2018 £000s
Fixed assets			
Tangible assets	9	1,025	194
Investments	10	82,544	73,894
		83,569	74,088
Current assets			
Stocks	11	29,505	18,420
Debtors			
- due within one year	12	339,662	317,914
- due after more than one year	12	27,765	15,198
		367,427	333,112
Cash at bank and in hand	13	105,474	80,176
		502,406	431,708
Creditors: amounts falling due within one year	14	(433,645)	(375,063)
Net current assets		68,761	56,645
Total assets less current liabilities		152,330	130,733
Creditors: amounts falling due after more than one year	15	(16,977)	(9,928)
Provisions for liabilities	16	(8,921)	(8,779)
Net assets		126,432	112,026
Capital and reserves			
Called up share capital	19	28,000	28,000
Profit and loss account	19	98,432	84,026
Shareholders' funds		126,432	112,026

The notes on pages 31 to 52 form part of these accounts

The profit for the year dealt with in the accounts of the parent company was £18,606,000 (2018: £6,562,000).

Approved by the Board of Directors on 5 June 2020 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2019

Consolidated Statement of Changes in Equity

At 31 December 2019

	Called up share capital £000s	Cash flow hedge Reserve £000s	Profit and loss account £000s	Total equity £000s
At 31 December 2017	28,000	(559)	73,667	101,108
Profit for the financial year	-	-	6,583	6,583
Currency translation difference on foreign currency net investment	-	-	(471)	(471)
Share of the other comprehensive income of joint venture	-	559	-	559
Total comprehensive income	-	559	6,112	6,671
Dividends paid on equity shares	-	-	-	-
At 31 December 2018	28,000	-	79,779	107,779
Profit for the financial year	-	-	15,169	15,169
Currency translation difference on foreign currency net investment	-	-	232	232
Total comprehensive income	-	-	15,401	15,401
Dividends paid on equity shares	-	-	(4,200)	(4,200)
At 31 December 2019	28,000	-	90,980	118,980

Dividends of £4,200,000 were declared in 2019 and paid on 28 March 2019.

Company Statement of Changes in Equity

At 31 December 2019

	Called up Share Capital £000s	Profit and loss Account £000s	Total equity £000s
At 31 December 2017	28,000	77,464	105,464
Total comprehensive income	-	6,562	6,562
Dividends paid on equity shares	-	-	-
At 31 December 2018	28,000	84,026	112,026
Total comprehensive income	-	18,606	18,606
Dividends paid on equity shares	-	(4,200)	(4,200)
At 31 December 2019	28,000	98,432	126,432

The total comprehensive income of the Company for each of the two years ended 31 December 2019 is its profit for these financial years.

Wates Construction Limited Annual Accounts and Reports 2019

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Notes	2019 £000s	2018 £000s
Net cash inflow/(outflow) from operating activities	20	35,645	(60,392)
Cash flows from investing activities			
Disposal of tangible fixed assets		6	220
Proceeds from sale of joint ventures		250	-
Proceeds from sale of properties with equity loans		111	34
Purchase of tangible fixed assets		(2,092)	(1,149)
Loans paid to joint ventures		(2,650)	(1,600)
Loans repaid by joint ventures		65	2,345
Dividends received from joint ventures and associates		831	1,386
Net cash (outflow)/inflow from investing activities		(3,479)	1,236
Cash flows from financing activities			
Equity dividends paid		(4,200)	-
Net cash outflow from financing		(4,200)	-
Net increase/(decrease) in cash and cash equivalents		27,966	(59,156)
Cash and cash equivalents at beginning of year		103,353	162,509
Cash at bank and in hand		131,319	103,353

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts

As at 31 December 2019

1. Accounting policies

The principal accounting policies, which have all been applied consistently throughout the year and the preceding year, are set out below.

i) General information and basis of accounting

Wates Construction Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The address of the registered office is given on page 2. The nature of the Group's operations and its principal activities are set out in the Strategic report.

These accounts have been prepared under the historical cost convention, modified by the revaluation of the financial instruments, in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Wates Construction Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling. Foreign operations are included in accordance with the policies set out below.

Wates Construction Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate accounts, which are presented alongside the consolidated accounts. Exemptions have been taken in relation to financial instruments, intra-group transactions and remuneration of key management personnel.

In accordance with Section 408 of the Companies Act 2006, no separate profit and loss account has been presented for the Company. However the profits for the year and the prior year have been disclosed with the Company balance sheet.

ii) Basis of consolidation

The consolidated accounts include the accounts of Wates Construction Limited and its subsidiary undertakings up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to accounts of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these accounts in respect of business combinations effected prior to the transition to FRS 102 on 1 January 2014.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

1. Accounting policies continued

iii) Going concern

The activities of the Wates Group, along with the factors that may affect its future performance and position are set out in the Directors' report.

As at 31 December 2019, the company had cash, no debt, access to secured bank facilities (through the Wates Group Limited facility) and a strong forward secured order book. The directors regularly review the working capital requirements of the company and Group while reviewing sensitivities to future performance.

As part of the Wates Group's response to the Covid-19 outbreak, the directors have reviewed the forecast future performance based on their current expectation of performance. This expectation reflects a slowdown in activity throughout the second quarter of 2020 as sites / contracts become less efficient due to maintaining adequate social distancing, delays in accessing required materials and adhering to the industry mandated Site Operating Procedures. Activity levels are forecast to improve throughout the third quarter of 2020, however, are not forecast to return to pre Covid-19 levels in 2020.

Due to the potential volatility at the subsidiary level, Wates Group Limited intends to provide sufficient operational and financial support to the subsidiaries, to the extent that it is required to enable them to meet their liabilities as and when they fall due for a period of at least 12 months from the date of approval of the financial statements for the subsidiaries for the year ended 31 December 2019. The Wates Group has prepared a cash flow forecast for 12 months from the date of approval of these financial statements and the Wates Group considers it has sufficient cash reserves to continue trading, whilst meeting the financial covenants set within its Revolving Credit Facility. In March 2020, the Wates Group maximised the draw down on its £120m Revolving Credit Facility to give greater financial resilience.

The Wates Group recognises the economic and trading uncertainties resulting from Covid-19 and has deemed it appropriate to consider a range of potential scenarios of escalating impact and duration. Whilst, the cash flow impacts of these scenarios are materially different to the current forecast, the Wates Group considers that it would be able to continue trading for at least 12 months from the date of approval of the financial statements by implementing appropriate cash mitigation measures.

Whilst these conditions might cast doubt upon the company's ability to continue as a going concern, after making enquiries and considering the factors and sensitivities outlined above for a range of scenarios, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

iv) Turnover

Turnover represents the value of work done on contracting activities, which is recognised on a percentage of completion basis with reference to costs incurred to date as a proportion of total costs, rendering of services which is recognised as the service is performed, sales of residential properties and development properties that are legally completed within the year.

Turnover excludes the value of intra-group transactions and Value Added Tax. The Group's share of turnover of joint ventures and associates is disclosed separately in the consolidated profit and loss account.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

1. Accounting policies continued

v) Pre-contract costs

Tender costs on construction contracts are written off to the profit and loss account up until the point it is probable that the Group will be awarded the contract. For certain large multi-year frameworks, pre-contract costs are capitalised where it is sufficiently probable that the contract will be obtained.

vi) Research and development

Research and development costs are written off as incurred.

vii) Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life of 20 years. The useful life of goodwill is based on the long-term nature of the contracts and history of the subsidiary undertakings and businesses acquired. Provision is made for any impairment.

viii) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on the following tangible fixed assets in equal annual installments over the estimated useful lives of assets so as to write off the cost less the estimated residual values over the following periods:

Freehold land and buildings	50 years
Short leasehold land and buildings	period of lease
Plant and equipment	2 to 10 years

ix) Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(a) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price.

Non-current debt instruments, which meet the conditions set out in paragraph 11.9 of FRS 102, are subsequently measured at amortised cost using the effective interest method.

Debt instruments that have no stated interest rate and are classified as payable or receivable within one year and which meet the above conditions are initially measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

1. Accounting policies continued

ix) Financial instruments continued

(b) Investments

Equity loans and unquoted investments are stated at cost less impairment.

(c) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(d) Derivative financial instruments and hedging in a joint venture

The derivative financial instruments of a joint venture, in which the Group has an investment, are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The joint venture has entered into an interest rate swap and designated this as a cash flow hedge for a highly probable forecast transaction. The effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit and loss account.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is recognised in the profit and loss account immediately.

x) Joint ventures and associates

A joint venture is a jointly controlled entity in which the Group holds a long-term interest with one or more other parties where a contractual arrangement has established joint control over the entity. An associate is an undertaking in which the Group has a long-term interest, usually from 20 per cent to 50 per cent of the equity voting rights and over which it exercises significant influence.

In Group accounts, investments in joint ventures and associates are accounted for using the equity method. Investments in joint ventures and associates are initially recognised at the transaction price (including transaction costs), including advances, and are subsequently adjusted to reflect the Group's share of the profit or loss and other comprehensive income of the joint venture or associate. Goodwill arising on the acquisition of joint ventures or associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in joint ventures or associates.

Where the Group trades with a joint venture or associate, the proportion of turnover and profit in respect of the proportion of the joint venture or associate owned by the Group is eliminated on consolidation. Such turnover and profit is taken when the assets purchased by the joint venture are sold by it.

In the Company's accounts, investments, including those in joint ventures and associates, are accounted for at cost less impairment.

xi) Stocks

Stocks are stated at the lower of cost, including attributable overheads, and estimated selling price less costs to sell, which is equivalent to net realisable value.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

1. Accounting policies continued

xii) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit and loss account immediately.

Non financial assets

An asset is impaired where there is objective evidence that, as a result one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part.

Where indicators exist for a decrease in impairment loss on assets other than goodwill, the prior impairment loss is tested to determine reversal. An impairment is reversed to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the estimated value of the future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

xiii) Contracts

The principal estimation technique used by the Group in attributing profit on contracts to a particular accounting period is the preparation of forecasts on a contract-by-contract basis. These focus on costs to completion and enable an assessment to be made of the final outturn on each contract. Consistent contract review procedures are in place in respect of contract forecasting.

Profit on contracts is only recognised when the Group is satisfied that the risks on a contract have been mitigated to a suitable level so that the forecast profit can be measured reliably. As a number of risks are not mitigated until a contract has been successfully delivered and final accounts are agreed, an element of profit is not recognised on contracts until the contract is nearing completion. Provision is made for all losses incurred to the accounting date together with any further losses that are foreseen in bringing contracts to completion.

As certain agreements can run over a considerable number of years and cover a number of individual separable projects, the agreement is treated as a number of individual projects. Each individual project then follows the group accounting policies for the type of activity being delivered.

Variations and claims are recognised once there is sufficient certainty over the probability that they will be received and the amount to be received can be measured reliably.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

1. Accounting policies continued

xiii) Contracts continued

For contracts that are delivered as a service and when the services performed are an indeterminate number of acts over a specified period of time (for example for services such as responsive maintenance and facilities management), revenue is recognised on a straight line basis. For responsive maintenance contracts where the contract can be split in to individual separable projects (and revenue can be directly attributed to that project), each project is accounted for on a percentage completion basis.

Amounts recoverable on contracts which are included in debtors are stated at cost, plus attributable profit, to the extent that this is reasonably certain after making provision for contingencies, less any losses incurred or foreseen in bringing contracts to completion, and less amounts received as progress payments. Costs for this purpose include valuation of all work done by subcontractors, whether certified or not, and all overheads other than those relating to the general administration of the relevant companies. For any contracts where receipts exceed the book value of work done, the excess is included in creditors as payments on account.

xiv) Residential developments

For residential development, profits are recognised on a site-by-site basis by reference to the expected outturn result for each site. Profit is recognised on the basis of actual property sales to date compared to forecast final sales and the total actual and forecast costs for each development site.

For contracts that are delivered as a service and when the services performed are an indeterminate number of acts over a specified period of time (for example for services such as responsive maintenance and facilities management), revenue is recognised on a straight line basis. For responsive maintenance contracts where the contract can be split in to individual separable projects (and revenue can be directly attributed to that project), each project is accounted for on a percentage completion basis.

Amounts recoverable on contracts which are included in debtors are stated at cost, plus attributable profit, to the extent that this is reasonably certain after making provision for contingencies, less any losses incurred or foreseen in bringing contracts to completion, and less amounts received as progress payments. Costs for this purpose include valuation of all work done by subcontractors, whether certified or not, and all overheads other than those relating to the general administration of the relevant companies. For any contracts where receipts exceed the book value of work done, the excess is included in creditors as payments on account.

xv) Residential developments

For residential development, profits are recognised on a site-by-site basis by reference to the expected outturn result for each site. Profit is recognised on the basis of actual property sales to date compared to forecast final sales and the total actual and forecast costs for each development site.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

1. Accounting policies continued

xvi) Taxation

Current tax is provided at the amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

Where the amount attributed for tax purposes to assets (other than goodwill) and liabilities that are acquired in a business combination differs from their fair value, deferred tax is recognised to reflect the future tax consequences with a corresponding adjustment to goodwill.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax expense or income is recognised in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense.

Current and deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends to settle on a net basis.

Research and development credits receivable are included in operating profit and are taxed within current tax. Current tax is then paid net of research and development credits receivable.

xvii) Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

xviii) Retirement benefits

The Company participates in the Wates Pension Fund, a defined benefit scheme operated by a fellow subsidiary, Wates Group Services Limited. Sufficient information is not available for the Company to use defined benefit accounting and so the Company accounts for the scheme as a defined contribution plan. Information about the scheme is disclosed in the accounts of the ultimate parent company and Wates Group Services Limited.

With effect from 1 January 2001, the scheme has been closed to new members. Pension costs paid by the Company are disclosed in note 4.

In the ordinary course of business, we sometimes transfer employees (TUPE) and take on obligations relating to local government pension schemes. The largest scheme in which a subsidiary of the group participates, in respect of certain employees, is the West Midlands Pension Fund, a defined benefit scheme administered by the City of Wolverhampton Council for employees of approximately 600 active employers. This scheme is part of the Local Government Pension Scheme. Sufficient information is not available for the Group to use defined benefit accounting and so the Group accounts for this scheme as a defined contribution plan. Information about the scheme is disclosed in the accounts of the City of Wolverhampton Council on www.wolverhampton.gov.uk and in the accounts of the scheme available on www.wmpfonline.com.

The Group also operates defined contribution schemes. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

1. Accounting policies continued

xix) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets are translated at the rates of exchange at the balance sheet date. Exchange differences arising on the translation of opening net assets and on the results of overseas operations are reported in other comprehensive income and accumulated in equity.

Other exchange differences are recognised in the profit and loss account in the period in which they arise.

xx) Dividends

Dividends to the company's shareholders are recognised when dividends are approved for payment.

xxi) Significant areas of judgement and uncertainty

The estimates and associated assumptions used in the preparation of the accounts are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of revision and future periods if the revision affects both current and future periods.

The most critical accounting policies and significant areas of judgement and estimation arise from the accounting for contracts and assessments of the carrying value of residential land and development.

Contract accounting requires estimates to be made for contract costs and income. In many cases, these contractual obligations span more than one financial period. Also the costs and income may be affected by a number of uncertainties that depend on the outcome of future events and may need to be revised as events unfold and uncertainties are resolved.

Management bases its judgements of costs and income and its assessment of the expected outcome of each contractual obligation on the latest available information, which includes detailed contract valuations and forecasts of the costs to complete. The estimates of the contract position and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal review procedures. The impact of any change in the accounting estimates is then reflected in the accounts.

The carrying value of the residential land and development assets of the Group is supported by detailed viability reviews, which are updated regularly.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

2. Group turnover

	2019 £000s	2018 * £000s
Analysis by class of business:		
Construction	922,699	846,549
Residential Developments	125,345	107,506
Property Services	475,776	507,375
Group total	1,523,820	1,461,430

* Comparative figures have been restated to reduce Property Services turnover by £5,600,000.

	2019 £000s	2018 * £000s
Analysis of Group turnover:		
Construction contracts	1,303,073	1,211,172
Rendering of services	178,553	217,194
Sale of residential properties	42,194	33,064
Group total	1,523,820	1,461,430

* Comparative figures have been restated to reduce Construction contracts turnover by £5,600,000.

Group turnover is materially within the United Kingdom.

3. Group operating profit

	2019 £000s	2018 £000s
<i>This is stated after charging/(crediting)</i>		
Amortisation of goodwill	3,477	3,478
Auditors' remuneration*		
- audit of these accounts	145	127
Auditors' remuneration		
- audit of subsidiary accounts	136	155
Cost of stock recognised as expense	37,617	30,229
Depreciation of tangible assets		
(including loss on disposal £12,000 (2018: £7,000))	1,704	2,065
Foreign exchange gain	280	(471)
Hire of plant and machinery	5,295	7,271
Operating lease payments	4,556	5,052
Research and development taxation credits	(2,241)	(1,169)
Research and development	10,500	7,108

Remuneration receivable by the Company's auditors other than that shown above is disclosed in the accounts of the parent company, Wates Group Limited, which is required to prepare consolidated accounts.

* excludes fee payments made through joint ventures

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

4. Staff numbers and costs

The average number of persons employed by the Group and company (including directors) during the year, analysed by category, was as follows:

	Group 2019 Number	Group 2018 Number	Company 2019 Number	Company 2018 Number
Operations	2,557	2,704	1,433	1,313
Administration	898	863	443	404
	3,455	3,567	1,876	1,717

	2019 £000s	2018 £000s	2019 £000s	2018 £000s
The aggregate payroll costs for the Group were as follows:				
Wages and salaries	200,176	195,995	136,745	121,884
Social security costs	23,420	23,187	16,186	14,757
Other pension costs	25,373	19,544	20,560	14,472
	248,969	238,726	173,491	151,113

The Group pension operating cost for the year was £8,116,000 (2018: £4,778,000) in respect of defined benefit arrangements (see page 36) and £17,257,000 (2018: £14,766,000) in respect of defined contribution arrangements.

5. Remuneration of directors

	2019 £000s	2018 £000s
Directors' emoluments	2,215	1,980
Amounts receivable under long-term incentive scheme	1,626	-
Contributions to money purchase scheme	54	84
	3,895	2,064

The above emoluments exclude payments made to directors of the ultimate parent company, which are shown in that company's accounts.

Four (2018: four) directors have retirement benefits accruing under defined contribution schemes.

	2019 £000s	2018 £000s
Highest paid director		
- emoluments	433	384
- amounts receivable under long-term incentive scheme	418	-
- contributions to money purchase scheme	10	18

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

6. Interest receivable

	2019 £000s	2018 £000s
Interest receivable:		
Group undertakings	2,593	1,316
Bank	162	121
Other	205	235
Interest receivable	2,960	1,672

7. Tax on profit on ordinary activities

a) Analysis of the charge in the year

	2019 £000s	2018 £000s
Current tax		
UK corporation tax on the profit for the year	2,877	2,494
Adjustments in respect of previous years	154	439
Total current tax	3,031	2,933
Deferred tax		
Origination and reversal of timing differences	135	98
Adjustments in respect of previous years	48	(57)
Total deferred tax charge	183	41
Total tax on profit	3,214	2,974

During the year beginning 1 January 2020, the net reversal of deferred tax assets is not expected to increase the corporation tax charge for the year significantly as the net reversal will be offset by lower current tax in respect of timing differences. There is no expiry date on timing differences.

b) Factors affecting the total current tax charge for the year

The total tax charge for the year is lower (2018: higher) than the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2019 £000s	2018 £000s
Profit before taxation	18,383	9,557
Add/less share of loss/(profit) after tax of joint ventures and associates taxed as separate entities	(46)	469
Group profit before tax	18,337	10,026
Group profit at standard rate of corporation tax in the UK of 19% (2018: 19%)	3,484	1,905
Effects of:		
Permanent disallowable costs	496	981
Group relief	(677)	-
Decrease in tax rate / timing differences	(291)	(294)
Adjustments in respect of previous years	202	382
Group total tax charge for the year	3,214	2,974

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

8. Intangible assets – goodwill

Group	£000s
Cost 1 January 2019 and 31 December 2019	69,550
Amortisation:	
At 1 January 2019	17,537
Provided during the year	3,477
At 31 December 2019	21,014
Net book amounts:	
At 31 December 2019	48,536
At 31 December 2018	52,013

The net book value of goodwill at 31 December 2019 includes amounts and remaining amortisation periods regarding the following acquisitions:

Wates Property Services Limited - £15,474,000 – 11.4 years

Purchase Group Limited Group - £6,204,000 – 14.9 years

Parts of the Shepherd Group £26,858,000 – 15.8 years

9. Tangible assets

Group	Short leasehold land and buildings £000s	Plant and Equipment £000s	Assets in the course of construction £000s	Group total £000s
Valuation or cost:				
At 1 January 2019	1,669	14,114	145	15,928
Additions	192	1,638	262	2,092
Disposals	(27)	(924)	-	(951)
At 31 December 2019	1,834	14,828	407	17,069
Depreciation:				
At 1 January 2019	527	11,005	-	11,532
Provided during the year	313	1,379	-	1,692
Disposals	(27)	(906)	-	(933)
At 31 December 2019	813	11,478	-	12,291
Net book amounts:				
At 31 December 2019	1,021	3,350	407	4,778
At 31 December 2018	1,142	3,109	145	4,396

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

9. Tangible fixed assets continued

Company	Plant and equipment £000s	Assets in the course of construction £000s	Total £000s
Cost:			
At 1 January 2019	2,574	145	2,719
Additions	761	262	1,023
At 31 December 2019	3,335	407	3,742
Depreciation:			
At 1 January 2019	2,525	-	2,525
Provided during the year	192	-	192
At 31 December 2019	2,717	-	2,717
Net book amounts:			
At 31 December 2019	618	407	1,025
At 31 December 2018	49	145	194

At the balance sheet date the Group had committed to incur capital expenditure of £172,000 (2018: £nil).

10. Joint ventures and other investments

Group	Joint ventures £000s	Associates £000s	Total Joint ventures and associates £000s	Equity loans £000s	Total other investments £000s
At 1 January 2019	2,826	328	3,154	466	466
Additions	2,650	-	2,650	-	-
Repayments	(815)	(81)	(896)	(111)	(111)
Share of (loss)/profit	(297)	44	(253)	26	26
At 31 December 2019	4,364	291	4,655	381	381

The prior year figure for other investments has been reduced by £328,000 to reallocate the interests in associates to the revised heading of interests in joint ventures and associates. The investment in joint ventures includes loans amounting to £4,021,000 (2018: £1,600,000). Repayments includes dividends received from joint ventures and associates of £831,000 (2018: £1,386,000).

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

10. Joint ventures and other investments continued

Joint ventures

The Group holds the following interests in the ordinary share capital of the following companies:

	Interest	Registered Office
Annington Wates (Cove) Limited	50.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW
HWR Nominee Ltd	50.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW

The Group holds the following interests in limited liability partnerships:

	Interest	Registered office
Havering and Wates Regeneration LLP	50.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW
HWR Phase 1 Stage 1 LLP	50.0%	
Signature Wates Residential LLP	50.0%	
Laurus Living Space LLP	50.0%	Sale Point, 126-150 Washway Road, Sale, Manchester M33 6AG

Associates

The Group holds the following interests in the ordinary share capital of the following companies:

	Interest	Registered office
Countrywise Repairs Limited	49.0%	Monson House, Monson Way, Tunbridge Wells, Kent TN11 1LQ
QSH Propco Limited	15.0%	2 Merus Court, Meridian Business Park, Leicester LE19 1RJ
Quality Social Housing Management Limited	15.0%	

The Group holds the following interest in a limited liability partnership:

	Interest	Registered office
QSH Property LLP	7.5%	2 Merus Court, Meridian Business Park, Leicester LE19 1RJ

Equity loans

These comprise amounts advanced to homebuyers to assist in their purchase of the Group's residential properties under equity share schemes. The loans, with a cost of £381,000 (2018: £466,000), are repayable together with a share in the capital appreciation when the underlying property is sold. Included in this total are interest free loans with a cost of £94,000 (2018: £144,000) which are repayable if the properties are not sold by 2021. The loans are secured by a charge over the property. Loans with a cost of £287,000 (2018: £322,000) were interest free until 2016 when a fee of 1.75 percent per annum is receivable, rising annually by the Retail Price Index plus one percent.

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As at 31 December 2019

10. Joint ventures and other investments continued

Company	Shares in Group undertakings £000s	Interests in joint ventures £000s	Total £000s
As at 1 January 2019	72,294	1,600	73,894
Capital contribution	6,000	-	6,000
Additions	-	2,650	2,650
Repayments	-	-	-
As at 31 December 2019	78,294	4,250	82,544

During the year the Directors of the company approved the recapitalisation of a subsidiary company to the value of £6m. This was achieved by way of cancellation of intercompany debt owed by the subsidiary company.

The cost of shares in Group undertakings is £78,294,000 (2018: £72,294,000).

The investment in joint ventures includes loans amounting to £4,250,000 (2018: £1,600,000). Repayments includes dividends received from joint ventures of £nil (2018: £1,386,000).

For the year ending 31 December 2019 the following subsidiary companies were entitled to exemption from audit of individual company accounts under Section 479A of the Companies Act 2006:

Wates Group Properties Limited (company number 01852973)
Wates Maintenance Services Limited (company number 0316928)
Wates Regeneration (Coventry) Limited (company number 04897433)
Wates Construction Services Limited (company number 04341437)
Purchase Group Limited (company number 05322443)

The Group's subsidiary undertakings are set out on pages 50 to 51.

11. Stocks

	Group 2019 £000s	Group 2018 £000s	Company 2019 £000s	Company 2018 £000s
Raw materials and consumables	207	289	-	-
Residential land and work in progress under development	29,505	18,420	29,505	18,420
	29,712	18,709	29,505	18,420

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Notes to the Accounts continued

As at 31 December 2019

12. Debtors

	Group 2019 £000s	Group 2018 £000s	Company 2019 £000s	Company 2018 £000s
Amounts falling due within one year				
Trade debtors	86,799	83,823	63,076	58,264
Amounts recoverable on contracts	171,753	158,096	107,971	104,945
Amounts owed by group undertakings	137,464	129,097	137,297	129,759
Amounts owed by subsidiary undertakings	-	-	18,598	18,322
Amounts owed by joint ventures and associates	439	1,485	439	1,485
Corporation tax	2,863	1,991	3,074	2,626
Deferred taxation (note 17)	1,452	1,287	344	220
Other debtors	5,489	507	5,211	154
Prepayments and accrued income	9,087	5,369	3,652	2,139
	415,346	381,655	339,662	317,914
Amounts falling due after more than one year				
Amounts recoverable on contracts	31,999	15,199	27,765	15,198
Deferred taxation (note 17)	2,982	3,329	-	-
	34,981	18,528	27,765	15,198
	450,327	400,183	367,427	333,112

13. Cash and cash equivalents

	Group 2019 £000s	Group 2018 £000s	Company 2019 £000s	Company 2018 £000s
Restricted cash	4,870	-	4,870	-
Cash at bank	126,449	103,353	100,604	80,176
	131,319	103,353	105,474	80,176

Restricted cash represents money held in a proceeds account from property sales for a development site. The lower of 90% of the sales proceeds received and the full construction costs incurred to date are released from the account on receipt of a signed certificate from the site partner. The remaining balance will be distributed in full between the partners in accordance with the profit share agreement six months after the final unit sale on the site. A reconciliation of the changes in net debt has not been included as the Group had no debt in the current or prior year so all movements are cash in nature.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

14. Creditors: amounts falling due within one year

	Group 2019 £000s	Group 2018 £000s	Company 2019 £000s	Company 2018 £000s
Advance payments on account of contracts	135,518	87,111	134,581	84,641
Trade creditors	96,094	86,178	57,324	47,046
Amounts owed to subsidiaries	-	-	4,801	4,597
Amounts owed to group undertakings	22,325	21,058	22,324	20,233
Other taxes and social security	13,909	18,251	11,951	13,930
Other creditors	2,804	3,580	2,075	2,678
Accruals	248,991	232,876	200,589	201,938
Deferred income	845	762	-	-
	520,486	449,816	433,645	375,063

15. Creditors: amounts falling due after more than one year

	Group 2019 £000s	Group 2018 £000s	Company 2019 £000s	Company 2018 £000s
Trade creditors	-	1,827	-	-
Accruals	18,015	10,005	16,977	9,928
Deferred income	3,306	4,068	-	-
	21,321	15,900	16,977	9,928

16. Provisions for liabilities

	Group 2019 £000s	Group 2018 £000s	Company 2019 £000s	Company 2018 £000s
At 1 January	8,779	3,833	8,779	3,833
Utilised during the year	(100)	(1,626)	(100)	(1,626)
Charged to profit and loss account	242	6,572	242	6,572
At 31 December	8,921	8,779	8,921	8,779

All provisions are construction related and are the Group's and company's estimates of the amounts which are expected to be paid when finalised, generally more than one year after the balance sheet date.

Wates Construction Limited Annual Accounts and Reports 2019

Notes to the Accounts continued

As at 31 December 2019

17. Deferred taxation asset

	Group 2019 £000s	Company 2019 £000s
At 1 January	4,617	220
(Credited)/charged to profit and loss account	(183)	124
At 31 December	4,434	344

Deferred tax is provided as follows:

	Group 2019 £000s	Group 2018 £000s
Depreciation in excess of capital allowances	789	761
Other timing differences	3,645	3,855
Deferred taxation	4,434	4,616

	2019 £000s	2018 £000s
Deferred taxation asset under one year	1,452	1,287
Deferred taxation asset over one year	2,982	3,329
	4,434	4,616

	Company 2019 £000s	Company 2018 £000s
Depreciation in excess of capital allowances	335	211
Short-term timing differences	9	9
Deferred taxation asset under one year	344	220

18. Financial instruments

The carrying values of the Group's financial assets and liabilities, other than those measured at the undiscounted amount receivable or payable, are summarised by category below:

Group	2019 £000s	2018 £000s
Financial assets		
Debt instruments measured at amortised cost		
• Loans receivable from joint ventures	4,460	3,050
Equity instruments measured at cost less impairment		
• Equity loans (note 10)	381	466
Interest income		
Total interest income for financial assets at amortised cost	192	226

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Notes to the Accounts continued

As at 31 December 2019

19. Called up share capital and reserves

	2019	2018
	£000s	£000s
Group and Company		
Issued and fully paid: 28,000,000 Ordinary shares of £1 each	28,000	28,000

The company has one class of ordinary shares which carry no right to fixed income.

The profit and loss reserve represents cumulative profits or losses, net of dividends paid.

20. Reconciliation of Group operating profit to cash generated by operations

	2019	2018
	£000s	£000s
Group operating profit including joint ventures and associates	15,423	7,885
Profit on sale of investment in joint venture	(572)	-
Profit on sale of properties with equity loans	(26)	-
Depreciation and amortisation	5,181	5,489
Joint ventures and associates	253	(1,694)
Increase in stocks	(11,003)	(875)
Increase in debtors	(50,537)	(53,075)
Increase/(decrease) in creditors	75,404	(21,392)
Increase in provisions	142	4,946
Cash from/(used in) operations	34,265	(58,716)
Interest received	2,960	1,672
Corporation tax paid	(1,580)	(3,348)
Net cash inflow/(outflow) from operating activities	35,645	(60,392)

21. Operating lease commitments

	2019	2018
	£000s	£000s
Group total future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	3,997	4,180
Between one and five years	5,198	7,207
After five years	-	1,337
	9,195	12,724

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Notes to the Accounts continued

As at 31 December 2019

22. Contingencies

There are claims arising in the normal course of trading that are in the process of negotiation. In some cases these negotiations may be protracted over several years. Provision has been made for all material amounts which the directors consider will become payable on account of claims. There are contingent liabilities in respect of guarantees under buildings and other agreements entered into in the normal course of business.

23. Related party transactions

Turnover in respect of the value of contracting work done for and land sold to joint ventures in the year ended 31 December 2019 was £2,305,000 (2018: £5,873,000).

Amounts were due to the Group from joint ventures and associates at 31 December 2019 of £4,460,000 (2018: £3,050,000). Interest at market rates is receivable in respect of loans, which are unsecured, due from joint ventures.

24. Ultimate parent company

The Company's ultimate parent company is Wates Group Limited (controlling party), which is incorporated in Great Britain and registered in England and Wales. No other group financial statements include the results of the Company.

The consolidated financial statements for Wates Group Limited are available to the public and may be obtained from Wates House, Station Approach, Leatherhead, Surrey, KT22 7SW.

25. Post balance sheet events

On 23 March, the Prime Minister ordered people to stay in their homes to slow the rate of infection from Covid-19 and enforced a nationwide lockdown that constitutes the most significant set of restrictions on British life in living memory.

Whilst these conditions might cast doubt upon the company's ability to continue as a going concern, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements (see note 1 iii) for further details).

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Notes to the Accounts continued

As at 31 December 2019

Subsidiary Undertakings

At 31 December 2019

Except where otherwise stated:

- All subsidiary undertakings are incorporated in the United Kingdom and registered in England and Wales;
- The registered office of all subsidiary undertakings is Wates House, Station Approach, Leatherhead, Surrey KT22 7SW;
- The Wates Group Limited interest is 100% in the issued share capital of the subsidiary undertakings listed below included in the consolidated accounts.

Wates Construction International LLC (incorporated in Abu Dhabi; ownership interest 49%; registered office - Sultan International Holdings, 20th Floor, Sheikh Sultan Bin Hamdan Building, Corniche PO Box 3486, Abu Dhabi, United Arab Emirates)

Wates Construction Services Limited *

Wates Financial Services Limited *

Wates Group Properties Limited *

Wates Homes (Cambridge) Limited

Wates Homes Limited

Wates Interiors Limited *

Wates Property Services Limited *

Wates Maintenance Services Limited *

Wates PFI Investments (Projects) Limited *

Wates PFI Investments (QED) Limited *

Wates PFI Investments Limited *

Wates Regeneration (Coventry) Limited

Wates Regeneration (South Acton) Limited

Wates Regeneration (Tavy Bridge) Limited

Wates Smartspace Limited

G Purchase Construction Limited

GW 217 Limited

Purchase Group Limited

Purchase Home Improvements Limited

Purchase Homes Limited

Purchase Support Limited

Relocation and Inventory Services Limited *

SES (Engineering Services) Limited *

Third Wates Investments Limited *

Woodside Lands Limited

*Owned directly by Wates Construction Limited

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Notes to the Accounts continued

As at 31 December 2019

The consolidated income and expenditure, assets and liabilities and cash flows of the subsidiary undertakings of the Group include the Group's shares of the following unincorporated jointly controlled assets:

	Interest	Address
American Community School Expansion	24.5%	Eastern International LLC, Bel City Gate Tower, 11 th Floor, Al Wahda Street, PO Box 1596, Sharjah, United Arab Emirates
American Community School Landscaping	24.5%	
CFB Building	24.5%	
Qasr Al Hosn Fort	24.5%	
Qasr Al Hosn Fort and NCCC Main Contract Works	24.5%	