

Company number: 01977948

WATES CONSTRUCTION LIMITED

Annual reports and accounts

for the year ended 31 December 2023



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Directors and advisors

Directors	S.J. Beechey H.P. Bunch P. Chandler P.C. Griffin D.K.E. Morgan S.J. Potter P.C. Rowan E. Tate P.M. Wainwright
Company secretary	P. M. Wainwright
Independent auditors	BDO LLP Chartered Accountants and Statutory Auditors 55 Baker Street London W1U 7EU
Bankers	HSBC UK Bank plc 1 Centenary Square Birmingham B1 1HQ
Registered office	Wates House Station Approach Leatherhead Surrey United Kingdom KT22 7SW
Telephone	01372 861000
Website	www.wates.co.uk

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Strategic report

The directors present the Strategic report which is followed by the Corporate governance report, the Directors' report and the audited consolidated accounts for 'Wates Construction Limited and its subsidiaries (together the "Group")' for the year ended 31 December 2023.

Principal activities

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

Business overview

The Group comprises of three business areas: Construction Group, Property Services and Residential.

Construction Group

The Construction Group is made up of two complementary parts: Construction and SES Engineering Services, formerly Integrated Construction Services. Our construction businesses work with public and private sector partners across the UK, delivering sustainable, innovative projects.

Across the combined construction businesses in 2023, we had 1,854 employees.

Transformation has been the watchword across the Construction Group throughout 2023, as we aimed to be fit and agile to meet our customers' changing needs, and embrace sustainable advanced technologies that will drive profitable growth and bring new opportunities for our people.

During the year we embarked on two major transformation programmes, for our preconstruction and delivery activities, with the aim of embracing innovation, boosting productivity and driving efficiency.

We were also engaged in bringing clarity and alignment across the Construction Group. In the first half of 2023 we realigned both our construction and engineering businesses regionally into North and South divisions and introduced a Major Projects division, reflecting our success in securing several significant high-value projects.

We further reconfigured our integrated construction services offer. By bringing Wates Building Services, Wates Drylining Services and our offsite manufacturing facility, Prism, together under the well-respected SES Engineering Services banner, we have a market-leading engineering business that continues to support Wates Construction, the wider Wates Group, and external customers.

Construction

Our Construction business works across all regions of the UK with public and private sector partners to create sustainable buildings that provide lasting legacies for communities.

In the public sector, we have strengthened our longstanding partnerships in areas such as education, healthcare, justice and the emergency services. In recent years, we have secured places on some of the most valuable and high-profile public sector frameworks, enabling us to help our clients transform public services.

Performance highlights during 2023 included completions on some of our most complex and challenging projects. These include the Lucent building behind London's iconic Piccadilly Circus lights; the conversion of the Sandwell Aquatics Centre from a 2022 Commonwealth Games arena to a community leisure centre; the sixth school completed as part of the Department for Education's Schools Rebuilding Programme and 11 & 12 Wellington Place in Leeds. This was the first building outside London and the fourth in the country to achieve an excellent five-star NABERS design-reviewed target rating for energy and operational efficiency.

New contract wins are the lifeblood of any construction business. We secured new work throughout the year, including within the exciting redevelopment of Canada Water in East London, while also winning a place on

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competitive public sector frameworks, most notably the Ministry of Justice's (MoJ) £2.5bn constructor services roster.

We were delighted with recognition at the UKREiF awards, where we were named Contractor of the Year. Meanwhile, our project at the Abbey Centre in Camden, North London was Highly Commended at both the IHEEM Awards and Building better Healthcare Awards

SES Engineering Services

SES Engineering Services is a design-driven provider of bespoke mechanical and electrical solutions, building services, drylining services; and our Coventry based state-of-the-art manufacturing facility, Prism.

The overarching mission of the business is to champion the widespread adoption of modern methods of construction (MMC) and other technical innovations, to help our clients achieve greater efficiency and deliver more sustainable outcomes. In particular, we are focused on increasing the use of our Prism facility wherever possible and to encourage the application of emerging digital engineering technologies.

In 2023, with the aim of delivering on this mission, the business underwent a significant restructure, with Rob Clifford appointed Managing Director and four distinct divisions created: North; South; Major Projects; and Specialist Services.

Paul Chandler – Executive Managing Director, Wates Construction Group

"Our resilience in tough times has been clear in 2023, when we have experienced challenges resulting from the impact of inflationary cost rises on our supply chain. Throughout these difficult months, our teams across the Construction Group have delivered fantastic and increasingly complex projects across the UK. Robust client and supply chain partnerships have also helped us weather this storm and we have emerged in good shape. Divisional reshaping and alignment of our two businesses and a strategy that will see us embracing the latest technology and adopting key accelerators to drive growth, ensures we are in a strong position for the future."

Property Services

Wates Living Space (housing maintenance); Wates Facilities Management (private facilities management services) and Wates Smartspace (fit out and refurbishment) – come together to form Property Services. With more than 1,700 specialists we maintain, manage and refurbish properties across the private and public sectors.

Wates Living Space

Living Space, is providing strategic asset management solutions to properties right across England. This includes planned and responsive maintenance projects, with a particular focus on fire safety, zero-carbon retrofitting and housing disrepair. Taken together, we maintain more than 500,000 homes for our customers every year.

Sustainability is a key priority for us and our customers, and this year we have strengthened our position as a market leader in domestic zero carbon retrofit. Through our Wates Retrofit offering, we are working with housing providers to install energy saving measures in homes.

In 2023, we delivered close to £40m of decarbonisation work. This means we have completed retrofit enhancements on more than 2,000 homes so far with a further 3,000 homes to upgrade in our pipeline, driving sizable reductions in residents' fuel bills. We have also helped our customers to secure another £100m in funding from the Social Housing Decarbonisation Fund (SHDF) Wave 2.1.

We're also specialists in fire safety and equipment installations, as well as mechanical and electrical compliance. With fire safety rightly still high on the agenda following the Grenfell Tower fire and subsequent cladding issues, our fire safety team helps our clients ensure their properties are safe for residents in line with the latest Building Safety Act requirements.

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Wates Facilities Management

With our engineering and technical excellence, we deliver the full range of modern facilities management services to our wide range of clients to ensure their buildings are run effectively and efficiently.

We provide self-delivered mechanical and electrical and total FM services to customers in the public and private sectors. Our specialist teams also help clients future proof their assets with the latest technology-based solutions to aid building optimisation, supporting their journey towards greater sustainability and a net zero future.

The past year has been one of consolidation and growth for the business. We increased our revenue by 16% with most of the growth coming through contract renewals and extensions. This includes our next generation maintenance partnership with JLL, which has already been extended just one year into our £40m seven-year deal. We have also secured notable contracts with Yorkshire Building Society, QinetiQ and East Midlands Ambulance Service.

In addition to expanding our contract with them, HMRC named us as its 'Best Sustainability Supplier of the Year' for developing an innovative ESG strategy and energy management system, reducing CO2 emissions by over 40,000kg per year.

The work with HMRC is just one example of how we help our clients develop effective sustainability strategies. In addition, we now have a net zero tracker in place that monitors all the decarbonisation work we have undertaken for clients.

Wates Smartspace

We're trusted by some of the UK's best-known companies and institutions to manage, reconfigure, and refurbish their property portfolios. Our key customers include Marks and Spencer (M&S), the Government Property Agency; His Majesty's Revenue and Customs, the Ministry of Justice and the UK's top four high street banks. This includes Lloyds Banking Group, with whom we have worked for 15 years.

Our fit-out and refurbishment business, Smartspace, operates nationwide, improving our customers' buildings, boosting their value and making them better spaces to be in. It's vitally important to us that we deliver to the highest standards and maintain exceptional customer service.

The business has grown its profitability consistently since 2020 as the demand for expert, high-quality fit-out and refurbishment work has accelerated to keep up with the changing nature of how people work, live, and do business.

David Morgan – Executive Managing Director Wates Property Services

"We have had an excellent year, delivering solid profitability and a strong pipeline of work with a record order book of £2.1bn. All the markets in which we operate are positive, supporting our organic growth plans. I am excited for what the future holds as our teams continue to innovate and find better ways of working. There's significant government funding for retrofitting homes and we are market leaders in this space. There's also a big drive to modernise workspaces and improve their energy efficiency and our facilities management and fit-out businesses are making significant progress in their efforts to bring commercial decarbonisation to the fore. With such buoyant markets, a fantastically skilled and committed team, and our laser focus on customer experience and innovation, I have every confidence that we will continue to go from strength to strength."

Residential

Our residential business is a market-leading housing developer and contractor, operating primarily in London, the South of England, and Wales. We partner with, invest in, and develop, build and sell homes alongside local authorities, housing associations and other public bodies to build thriving communities with sustainability and social value at their core.

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At Wates, we constantly strive to find better ways to create the places, communities, and businesses of tomorrow. This year, we have continued our commitment to provide high-quality, safe and low-energy homes in beautiful, landscaped surroundings that local people can be proud of where they live, and nature can flourish.

Our developments are also supported by an unrivalled programme of social investment, designed to leave a long-term legacy for the communities in which we work.

Despite a difficult operating environment and the ongoing economic headwinds we face, 2023 was still a year of growth for our residential business with a forward order book that has increased from £2.0bn to £2.2bn.

Helen Bunch – Executive Managing Director Residential

“At Wates, the environment and communities we create are as important as the homes we build, and this year has been no different. Our success in delivering innovative homes using the latest energy-efficient technologies makes me proud of Wates’ commitment to a sustainable environment. The modular homes we are delivering in Cardiff are having a life-changing effect on hundreds of families currently in temporary accommodation. Having a place they can now call home means a sustainable life – both in health and economic terms.”

Sustainability

Wates is becoming an increasingly sustainable business, embedding practices and behaviours that help us have a positive influence on the environment and make a greater contribution to wider society.

The construction sector is currently responsible for 25% of all UK greenhouse gas emissions – rising to 40% if you include transport related emissions. Our sector is the UK’s largest consumer of natural resources, is responsible for over 30% of all its waste, and is a significant contributor to the decline of biodiversity through urbanisation. Companies such as Wates have a pivotal role to play in tackling global warming and reversing biodiversity loss.

Construction is also an important employer and builds critical assets for our society. As one of the largest privately-owned construction companies, we have the opportunity to make long-term investments to support people and organisations critical to future prosperity, in the communities where we work.

Our policies are aligned with the United Nation’s Sustainable Development Goals (SDGs) which were designed to be a blueprint to achieve a better and more sustainable future for all. The SDGs were adopted by all 193 Member States of the United Nations in 2015.

The 17 SDGs are widely used by companies as a common framework to guide their business strategies, goals and activities. They provide a powerful aspiration for improving our world, laying out what society needs to focus on and what actions we need to take collectively.

Environment

2023 saw the launch of our Environmental Sustainability Plan which sets out our short and long-term targets to drive sustainable outcomes for current and future generations. It is focused on three strategic themes:

- Optimising the use of materials and avoiding waste through resource efficiency
- Reducing our Greenhouse Gas (GHG) emissions
- Driving positive outcomes for the natural environment

It is designed to help our businesses focus on short-term targets so that we can make real, measurable progress whilst keeping an eye on our progress towards key long-term goals. This means we can simultaneously consider both the short and long-term environmental impact of the projects we work on and the buildings we design, build, and maintain. Taken together, this helps us become a better partner on our customers’ own sustainability journeys.

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Social Value

At Wates, we believe that the creation of social value in the communities where we work is as important as the construction of buildings and infrastructure. Our ambition is to embed social value within every project we work on.

In 2020, we launched our five-year social value strategy: Creating Opportunities. The strategy has three key areas of focus, each with its own ambitious set of targets. These are: challenging inequality; inspiring and educating young people about the built environment sector; and supporting and scaling up social enterprises.

Our focus on these three areas helps people understand and access the high quality opportunities our sector offers, right across the country.

Sustainable Innovation and Resource Efficiency

Innovation is key if the construction industry is to meet the challenging targets it has been set in relation to energy efficiency and reducing carbon emissions.

We have pledged to produce zero waste from our operations by 2045, and we are making progress towards that ambitious target.

Principal risks and uncertainties

References within this section of the report are to Wates Group Limited (the “Wates Group”), being the wider group of which Wates Construction Limited and its subsidiaries are a member of, the financial statements for which may be obtained from the address stated in note 26.

Managing our risks

Effective risk and opportunity management is at the heart of the Wates Group’s principles of good corporate governance (see principle 4 within Corporate Governance Report on page 32). We conduct our business responsibly, safely and legally, in line with the goals and behaviours set out in our strategic priorities. Led by the Wates Group Board and Executive Committee, we will continue to manage our risks and opportunities with a structure and rigour in line with these principles and values.

Governance





The Wates Group Board has overall responsibility for ensuring the Wates Group’s systems of risk management and internal control are operating effectively. The Board is supported by the Audit Committee in the discharge of these responsibilities.

Throughout the year, the Audit Committee carries out a formal cycle of reviews of principal risks and opportunities, monitors emerging trends and works with the key risk owners on determining appropriate mitigations where required. This work is accomplished alongside an ongoing programme of embedding operational risk management.








Our approach to risk management is both top-down, from the Board and its Sub-Committees, and bottom-up from executive management and the individual business units. This approach ensures an ongoing dialogue is in place across the Group, so we can continually scan the horizon to identify emerging risks.

Key actions in the year

As part of the Wates Group’s commitment to continuous improvement, the Wates Group Board continues to carry out periodic reviews of principal risks. These risks fall into four categories, as follows:

-  strategic/opportunities
-  external
-  operational
-  business-as-usual

The evolution of Wates Group's strategic priorities (see the Strategy on page 7 of the Wates Group annual report) is also reflected in the risk framework. Delivering value for our customers and shareholders is underpinned by the following strategic priorities:

-  safety
 -  inclusion and diversity
 -  innovation
 -  customers
 -  quality
 -  people
 -  sustainability
- Taken together, these priorities deliver profit

The Wates Group continues to operate the Executive-level Management Group which, throughout the year, carries out a formal cycle of reviews of principal risks and opportunities, monitors emerging trends and works with the key risk owners on determining appropriate mitigations where required. This work is accomplished alongside an ongoing programme of embedding operational risk management.

As the Wates Group's strategic direction continues to evolve, we continue to re-evaluate and monitor key risks and opportunities in the light of new legislation, market trends and disruptors. To remain competitive, we also benchmark our business performance against that of our competitors. We are, furthermore, committed to strengthening our environmental, social and governance activity and aligning our people risk with culture and wellbeing.

We have increased our focus on the physical and transitional climate change risks within our operations, as we understand more about what to expect in future years and the mitigation activities that will be required. Climate change has also presented the Wates Group with significant opportunities for growth in activity levels. See 'Sustainability Report' on pages 82 to 92 of the Wates Group annual report. Mitigating these risks and taking advantage of these opportunities will require close management and recognition of third-party and supply chain management risks.

Reputational risk remains a key imperative for the Wates Group and is discussed both explicitly as part of our principal risks activity and as a part of each principal risk. We are proactively managing and prioritising our response to the Building Safety Act and keeping abreast of any changes in building regulations to support our strong reputation for delivering high quality work and this is borne out in our review of governance, legal and regulatory compliance risks and opportunities.

Principal risks and uncertainties

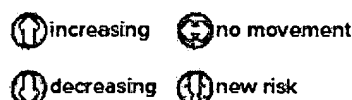
Principal risks are defined as those which could affect our strategic ambitions, future performance, prospects or reputation. Our principal risks are set out in the tables below, which include a summary of key information including the type of risk (as categorised within our risk management framework), key mitigations and controls, alignment to our strategic priorities, and risk movements and trends. Within the Wates Group, we discuss emerging risks and opportunities as part of our ongoing risk governance and reporting regime. We also conduct

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horizon-scanning exercises to maintain a medium and longer-term view of potential disruptors or emerging risks to our business.

Risk movement:



As the most significant area of risk and uncertainty, the Wates Group has continued to pay close attention to the external macro-economic and political factors impacting our strategy, operations and performance. The continuing war in Ukraine and ongoing political and economic volatility at both a UK and global level are the key factors which have contributed to ongoing challenges and uncertainty. We are actively monitoring these risks and have taken appropriate actions to mitigate their impact on our business such as earlier procurement and changing to a greater proportion of UK sourced materials.

Wage and cost inflation have remained priorities, with these impacting not only our employees but also the profitability of both our long-term construction contracts and house building operations. We have carefully analysed and responded to the impact of inflation, supply chain disruption and sub-contractors' liquidations, labour shortages, energy price volatility and interest rates, including the impact on the UK housing sector, project viabilities and generally suppressed economic growth.

Our ability to maintain profitability on long-term construction contracts and house building schemes is continuously monitored while cost inflation and productivity challenges continue to be a factor. Inflation poses serious challenges to interest rates and project viability as well as market growth, whilst the unprecedented increase in energy costs over the last twelve to eighteen months, exacerbated by the war in Ukraine, continued to impact the cost of materials.

The combination of inflation, high energy prices and market turmoil led the Bank of England to raise interest rates successively in 2022 and the first half of 2023. While interest rates have peaked in the second half of 2023, a slowdown in the housing sector has been evident throughout 2023. Housing sales volumes continue to be challenged by frequent mortgage product changes, reduced mortgage affordability and weaker confidence. In addition, the recent declines in real wages coupled with high interest rates have impacted general consumer spending. Taken together with the wider uncertainty around the UK economy and the impending national elections, this will likely affect pricing on new-build housing.

In contrast, we have seen an increase in demand for social housing retrofit work driven by EPC regulatory requirements and other safety and building upgrades following the Grenfell Tower fire as well as opportunities to leverage asset optimisation and renewables integration in a more joined up manner.

With government support for wider capital investment in social housing, education, justice and health expected to continue, we are in a strong position to offset any reduced activity in private housing with accelerated demand in the public sector. Furthermore, a development of a new public / private partnership model is increasingly seen as a vehicle for an acceleration of investment into social infrastructure.

Despite the headwinds, there remains considerable demand for services in the built environment. The political imperative to levelling up, building new homes and investing in infrastructure, as well as prioritising the energy efficiency of new and existing homes to support the UK's movement towards net zero, will provide a counterbalance to the economic impacts on the sector and present significant opportunities for the Wates Group in the medium term.

The Wates Group has a strong forward order book, which, together with its continued financial resilience, will support the business as we manage and respond to further changes in the geo-political and economic

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environment.

However, delays in the planning system and the overall political challenge to planning policy is set to continue and will have significant implications for the housing sector. We will continue to assess and manage the impact of the Building Safety Act and the Building Regulation changes, which we see both as a future opportunity and a risk, given the early stages of the implementation of this new legislation.

See further detail in our Section 172 statement on page 22.

In the period we have continued to undertake the following:

Political, geo-political and macro-economic factors



The Wates Group closely monitors current political, geo-political and economic environment and any emerging future trends which could potentially impact our business plans, client engagement or operational delivery in order to allow for an effective and timely preparation of our response strategy.

<p>Risk: The Wates Group fails to anticipate and appropriately respond to significant external events. Political, geo-political or macro-economic factors could all impact the Group's performance, reputation or long term viability, or result in lost opportunities for growth.</p>	<p>Key mitigating actions the Wates Group has taken or will undertake in 2024:</p> <ul style="list-style-type: none"> • All our delivery mentioned is within the United Kingdom. • Conduct regular reviews, analysis and reporting of external political • (e.g. forthcoming UK General elections, war in Ukraine etc.) and economic • (e.g. the Bank of England Base Rate) factors to Board and Executive Committee to support decision making and medium and long term strategy planning. • Deepen relationships with our customers, manufacturers, distributors and sub-contractors with a focus on market intelligence to inform decisions. • Form specialist working groups to devise scenario analysis and response plans. • Closely monitor government policy; encourage leadership participation in economic and regulatory forums. • Manage the ongoing risks and impacts related to retrospective elements of the Building Safety Act. • Monitor legislative changes in Building Regulations using relevant industry bodies and experts to ensure our design is fully compliant and the risk is appropriately managed risk within each contract. • Continue to monitor the impact of housing market volatility. • Make use of SME adviser panels to provide support and guidance. • Review and strengthen our bid procurement strategy, with a focus on contract values and contract selection. • Devise and monitor detailed procurement plans to manage the supply • of materials through our supply chain and to make use of cross-project procurement opportunities. • Use external market data to engage clients on cost pressure issues. • See Environment on page 84 of the Wates Group annual report for detail of our sector leading strategies in response to the Government's net zero targets and the opportunities to lead and support our customers and supply chain in this area.
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Strategy and transformation

Having a clear and coherent strategy aligned to the Wates Group's established purpose, goals and behaviours is critical to our future sustainability. Our purpose and strategic priorities are at the heart of our operations.

<p>Risk: The Wates Group fail to define and deliver an effective Group strategy which is supported by both Group purpose and strong market fundamentals, adversely impacting the long-term growth, ambition and sustainability of our business.</p>	<p>Key mitigating actions the Wates Group has taken or will undertake in 2024:</p> <ul style="list-style-type: none"> • Appointed Group Strategy Director in a Senior Executive position. • Undertook a full strategy review in 2023 which will be communicated in early March 2024. This will be supported by detailed action plans with quarterly progress reviews and associated KPI monitoring. • There is an ongoing review of the Group purpose involving employees from across the Group, Senior Management, Board and Shareholders. This will be finalised and rolled out in 2024. • Maintain robust Board oversight, with the aim to provide clear direction and challenge to the Group strategic development and an implementation of its plans. • Ensure key stakeholders are appropriately consulted and engaged on the design and development of strategic initiatives which are materially important to them. • Ongoing market research as well as competitor and trend analysis in order to provide insights into strategic opportunities. • Continue ongoing reviews of short, medium and long-term market disruptors. • Focus future investments on those strategies that deliver significant shareholder and business value. • Maintain a diverse customer base and product range, allowing us to respond to strategic opportunities and new challenges with agility. • Ensure that Group initiatives are delivered efficiently and effectively and support our strategic direction. • Deliver 'divisionalised' strategies for individual business units in line with the opportunities for growth identified in different sectors. • Focus on environmental, social and governance issues as the bedrock of our strategic thinking, with climate change in particular at the forefront of our research, innovation and commitments.
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Performance and competition

The Wates Group continues to face competitive challenges in an increasingly complex and fast-moving economic landscape, with costs, margin and supply chain pressures impacting the sectors in which we operate. To maintain our strong forward order book we focus on our customers and seek to innovate wherever possible to serve them better. We remain highly selective in the work we bid for and take on. We therefore consider risks related to performance and competition currently to be well managed.

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<p>Risk: The Wates Group fails to manage its business and financial performance, to compete effectively in line with its strategy, or to maximise opportunities for growth. This could impact its reputation, profitability, market share and long-term sustainability as a business.</p>	<p>Key mitigating actions the Wates Group has taken or will undertake in 2024:</p> <ul style="list-style-type: none"> • The detailed 2023 strategy process included horizon scanning for each part of the Group. This involved reviewing current and potential markets for future areas of opportunity and potential risks and including the conclusions to these reviews as part of the strategy. • Focus Board oversight on performance, strategy and opportunity. • Ensure a risk-based approach is used for the strategically important bids, contracts and investments with clear mitigation measures for high value/ high risk contracts in particular. • Remain highly selective in our bid and contract engagement and continue to target areas where we have competitive advantage. • Regularly review markets, trading opportunities, competitor strategy and activity, and develop response plans to support our strategic ambition. • Undertake market scanning and competitor analysis to inform our focus and ensure our strategic priorities align with our customers' requirements. • Support innovation, particularly in relation to climate change and in the areas where long term market and customer trends can be leveraged. • Focus on opportunity areas, such as social housing, net zero developments, low carbon buildings and energy efficient retrofits. • Work to retain and attract high performing, forward thinking talent underpinned by a new Group People strategy. • Build on post completion project reviews to capture learnings for continuous improvements.
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People, culture and wellbeing



A key strategic imperative is to attract, retain and develop the best and most diverse pool of talent. Having the necessary resource capability with the right knowledge, skill and behaviours to drive and deliver business growth is critical to our future success.

We care about employee wellbeing and are committed to creating an inclusive culture in which all employees are treated fairly and feel they belong. Embedding this culture is key to ensuring we deliver our strategic priorities.

<p>Risk: The Wates Group fails to deliver on elements of its people strategy or elements of our strategy prove ineffective, thereby impacting talent acquisition and retention. This could harm its ability to grow and innovate within the business.</p> <p>The Wates Group fails to embed its</p>	<p>Key mitigating actions the Wates Group has taken or will undertake in 2024:</p> <ul style="list-style-type: none"> • Implement the People Strategy with action plans and measures of success approved by the Board. • Utilise external insights and expertise for market analysis and benchmarking. • Perform regular reviews of remuneration packages to ensure market competitiveness. • Evaluate the implementation of the new MyShare, profit-share scheme which aligns employee reward to individual business performance. • Embed oversight of succession planning, remuneration policy and standards with our Nomination Committee and Remuneration Committee.
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values in its culture, which could derail the delivery of its people strategy, impacting its reputation, talent retention, and strategic ambitions.	<ul style="list-style-type: none"> • Build capability through investment in learning and leadership development, while attracting talent to build resource, skills and talent pipelines. • Maintain our commitment to building an inclusive workplace with a market leading policy framework. • Promote use of our employee networks to support our Group inclusion and diversity agenda. • Maintain the Wates Group's Investors in People Gold accreditation subject to a review in 2024. • Enlist in both the FTSE Women Leaders Review and the Parker Review which track the number of ethnic minority directors who sit on boards in 50 of the largest private companies in the UK. • Reinforce our commitment to health and wellbeing through our Employee Assistance, Mental Health First Aid, and Peppy Programmes. • Support Group Ethics and Compliance through our established Code of Conduct and regulatory compliance programmes, with Safecall and SpeakUp processes in place for colleagues and supply chain partners to raise concerns. • Reinforce the Code of Conduct. • See further detail in the People report on page 24 of the Wates Group annual report.
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Health and safety

The health and safety of all stakeholders is and always will be the Wates Group's number one priority. We are proud of our excellent health and safety record which is critical to our values and reputation.

The Wates Group's activities have the potential to cause death or serious injury to stakeholders, could damage property and the environment, and furthermore harm our reputation as a result. We are also reliant on a large subcontracted workforce, which creates additional monitoring challenges. This is built into our Operating Framework, governance, and reporting protocols. We are committed to demonstrating the highest standards of health and safety management. See further detail in our Safety report on page 18 of the Wates Group annual report.

Risk: An incident results in death or serious injury, or damage to assets or property, leading to adverse financial or reputational consequences to the Wates Group, including potential criminal liabilities.	Key mitigating actions the Wates Group has taken or will undertake in 2024: <ul style="list-style-type: none"> • Maintain and look to improve on our health and safety performance through a strong safety culture, supported by a robust framework of health and safety operating procedures. • Use critical metrics and stringent action plans to ensure strong governance and oversight is maintained at each level throughout the Wates Group driving ownership and personal accountability. • Contingency plans in place for efficient and effective incident response including robust investigation; ensure these are reviewed and tested on a regular basis. • Continue to strengthen our extensive suite of assurance and compliance activities to help us evaluate our performance. • Conduct leadership and business briefings and workshops; provide updated guidance to support management understanding.
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	<ul style="list-style-type: none"> • Improve analytical dashboard reporting and quality of data input. • Monitor extreme weather events caused by climate change such as strong winds, heavy rainfall, and heat stress as part of our health and safety risk assessments and link this to our Climate Change risk management and TCFD reporting (see page 93 of the Wates Group annual report). • Strive for continuous improvement across all areas of health and safety. • Promote increased use of modern methods of construction (MMC).
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Projects and service delivery

Within the Wates Group, we use our professional judgement in estimating, planning, designing and constructing our projects, often in complex environments. Each project could encounter difficulties that lead to cost and time overruns, litigation or disputes.

Our activities are guided by an Operating Framework that mandates rigorous policies and procedures throughout a project's lifecycle. We seek to always deliver quality and are focused on customer service as a key strategic priority. In recent years, we have also focused significantly on innovation to improve our service delivery and we support our customers through our Customer Excellence programme.

Risk: The Wates Group fails to deliver its projects and services efficiently and effectively or fails to maximise customer engagement opportunities, which could impact its financial position, reputation and its potential for future growth.	Key mitigating actions the Wates Group has taken or will undertake in 2024: <ul style="list-style-type: none"> • Continue to focus on innovation in our delivery through better use of offsite MMC, our Technical Excellence Centre, introduction of the Group-wide optimised processes and the availability of Wates Sustainable Technology Services (WSTS) and the Wates Innovation Network (WIN) Portal to support customer solutions. • Build on our significant project assurance programmes, including peer reviews and customer feedback, which help mitigate the risks to successful project delivery and keep us focused on learning and continuous improvement. • Use our well-defined Operating Framework, which includes comprehensive management oversight and risk management processes, to support successful project delivery. • Maintain strong third line assurance through our Internal Audit department. • Maintain stringent management oversight and project governance reporting, focussing on safety, productivity and quality through our Delivering the Promise programme. • In the light of enhanced risk exposure due to bigger size of projects undertaken, closely scrutinise financial judgements made on projects, supported by compliant revenue and profit recognition policies. • Provide strong customer engagement to manage contracts effectively and profitably. • Maintain robust supply chain management protocols, including for due diligence and onboarding. • Develop effective crisis and incident management processes, enabling efficient incident response.
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	<ul style="list-style-type: none"> • Continue to evaluate the impact of climate-related extreme weather events, such as localised flooding of project sites or wider transport infrastructure issues and consider this as an underlying risk that could lead to programme delays. Contingency plans must remain robust to mitigate against any adverse impacts from such events. • See political and economic risk on page 120 of the Wates Group annual report for external issues impacting project delivery.
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Third party and supply chain management

A robust supply chain is critical to the Wates Group's ability to deliver quality projects and services. We work with preferred suppliers and operate stringent due diligence and onboarding processes which set clear standards of operation. These processes include appropriate training and relationship management. The impacts of the current political and economic environment on our supply chain are significant, especially with regard to availability and cost management. We maintain a sustainable procurement strategy and robustly monitor all aspects of our supply chain framework.

Risk: The Wates Group fails to monitor and manage its supply chain and third-party relationships effectively or fails to maximise the opportunities it creates. This failure could impact its standards, legal and regulatory compliance obligations, and the effective delivery of projects and services, resulting in reputational and financial damage.	Key mitigating actions the Wates Group has taken or will undertake in 2024: <ul style="list-style-type: none"> • Robustly manage its core preferred supplier network with the agility to adapt to complex and evolving economic and political factors. • Review its sustainable procurement strategy, with a revision of detailed mapping to source components. • Continue to monitor contractual risk and supply at a Business Unit level. • Maintain due diligence clearance and onboarding checks to support Group standards. • Use our supply chain framework to set out legal and operational compliance requirements across the supply chain network. • Assess performance on an ongoing basis through KPI monitoring, supply chain procurement plans and insolvency monitoring as part of an oversight and governance framework. • Continue to carry out assurance checks on areas of legal and regulatory compliance, with a Working Group in place supported by our internal Group Legal team. • Support improvements to data analysis and reporting by updating our 'demand planning' and supply chain database. • In the light of increased supplier insolvencies, subject all third-party suppliers to due diligence processes, financial risk and fraud checks as well as ongoing performance monitoring and evaluation (e.g. Monthly Insolvency Tracker; the Wates Insolvency Network group etc.). • Significant supervision of sub-contractors on each of our projects. • Paying our supply chain in accordance with the agreed terms.
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Climate Change

Climate change will dramatically change the world in which we live and the work we do. While we are committed to mitigating our own impact by reducing greenhouse gas emissions that contribute to climate change, we also need to ensure that our business is both resilient to the impacts of climate change in the future while also being in a position to seize the opportunities that it presents. With 25% of carbon emissions attributable to the built environment, the sector's engagement is central to the fight against climate change.

The Wates Group has set a near-term science-based target and also committed to a net zero target by 2045, including active monitoring. As part of the race to net zero, we aim to halve our Scope 1, 2 and 3 emissions by 2030 against a 2019 baseline. We want to become a market leader by responding rapidly to changes in customer expectations and the wider and growing political, legal and regulatory environment.

As part of our efforts to achieve these targets, all business units within the Wates Group are developing new net zero products and services appropriate to the markets in which they operate. We have also launched Wates Retrofit to signal our commitment to reduce the UK built environment sector's carbon footprint. Opportunities in this space include a growing demand for new low carbon and net zero buildings, as well as demand for improved energy efficiencies through the retrofit of existing assets.

<p>Risk: The Wates Group fails to lead and deliver on its climate change commitments or meet its legal and regulatory obligations. This could adversely impact its growth as well as its ability to innovate, to take advantage of future opportunities, and to retain talent.</p>	<p>Key mitigating actions the Wates Group has taken or will undertake in 2024:</p> <ul style="list-style-type: none"> • See page 93 of the Wates Group annual report including progress on our Task Force on Climate-related Financial Disclosures and our Streamlined Energy and Carbon Report on page 98 of the Wates Group annual report. • Engage our supply chain in the decarbonisation agenda to support the Wates Group's ability to deliver low carbon assets and services as well as further strategic engagement and upskilling. • Develop and monitor a core suite of metrics and targets in line with evolving climate science. • Provide governance and oversight on our targets and performance through the Group Sustainability Committee. • Link loan agreements to climate change targets. The Wates Group already has a £90m Sustainability Linked Loan as part of our revolving credit facility: one of the three KPIs is linked to the Group's supply chain setting science-based targets. • Make use of our new environmental metrics reporting platform and maintain external SME assurance of the integrity of our reported data. • Continue to build our internal capabilities to support our customers with new product and service offerings and to develop and deliver innovation. • Identify physical and transition risks to be managed at an operational level through 'Climate Scenario Workshops'. • Progress with the internal Leading Environmental Sustainability programme for leaders and executives (now into its 4th Cohort). Furthermore, a tailored Executive version is being prepared.
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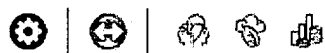
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Governance, Legal and Regulatory

The governance, legal and regulatory landscape in which we operate is evolving, with more regulation of businesses leading to the potential for greater penalties. The Wates Group’s commitment to delivering on our governance, legal and regulatory obligations is central to our culture and values, and remains at the forefront of our communications, compliance programmes and policies. The Building Safety Act 2022 also remains a key area of focus for the Wates Group and for the industry more widely.

<p>Risk: An incident occurs or behaviours are observed that give rise to a serious governance, legal or regulatory compliance breach which impacts the Wates Group reputationally or our ability to do business, and results in fines or criminal proceedings.</p>	<p>Key mitigating actions the Wates Group has taken or will undertake in 2024:</p> <ul style="list-style-type: none"> Continuing to implement the Wates Group’s Ethics and Compliance programme, around the key principles of top-level commitment, risk assessment, policies, procedures and governance, due diligence, training and communication and monitoring and review. The Wates Group Ethics and Compliance programme uses a risk-based approach and is underpinned by the Wates Group’s Ethics and Compliance Framework, which records each of the relevant controls, policies and procedures in respect of each key principle. This Framework is reviewed on an annual basis and, along with any actions arising from the Wates Group’s compliance risk assessments, is used to form the basis of an ongoing action plan to continuously drive forward the maturity and performance of the Wates Group’s Ethics and Compliance programme. As an example of our current action plan, an exercise is being carried out to further enhance the Wates Group’s programme of third party due diligence and supply chain mapping. Continuing to monitor for any emerging areas of legal and regulatory compliance, using both our in-house specialist team and a panel of external advisers. Monitoring compliance with the Wates Group’s Code of Conduct, which requires annual compliance certification from senior management. Continuing to assess, monitor and proactively mitigate any risks arising from the Building Safety Act 2022 by means of our internal Building Safety Team and external advisers where appropriate.
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Financial risk (liquidity)

The Wates Group manages liquidity such that it maintains sufficient liquid assets to meet financial liabilities as they fall due, deliver strategic growth plans, and fund future investment opportunities. Funding and liquidity are provided through bank loans, overdrafts and shareholders’ funds. Funding arrangements are reviewed regularly and approved by the Wates Group Board. The Wates Group had net cash of £138m as at 31 December 2023, with access to a further £90m via an undrawn Revolving Credit Facility, which expires in March 2026 (extended by one year during 2023). The facility was adjusted by £6m in February 2024, from £90m to £84m, following the revaluation of the Wates Group’s investment properties.

The Wates Group maintains an infrastructure of systems, policies, and reporting to ensure discipline and oversight on all financial matters including tax, treasury and financial reporting. The Wates Group continuously monitors economic and market factors, such as cost and wage inflation, along with interest rate movements, and undertake stress testing of our liquidity position. We proactively monitor risk factors to understand our exposure and make

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informed decisions on a timely basis, which is key to managing our business on a sound financial footing and responding with agility to changes in trading conditions.

<p>Risk: The Wates Group fails to maintain sufficient levels of liquidity to meet financial liabilities as they fall due, inhibiting its ability to deliver strategic growth plans and fund future investment opportunities, and thereby impacting its reputation, future prospects and long-term viability.</p>	<p>Key mitigating actions the Wates Group has taken or will undertake in 2024:</p> <ul style="list-style-type: none"> • Extended the Wates Group's Revolving Credit Facility for an additional year to March 2026. • Maintain strong discipline and oversight of all financial matters with regular reviews of liquidity levels, sources of funding and access to committed credit facilities. • Keep in place a sound system of financial controls. • Maintain a strong balance sheet and established lender relationships. Current facilities include an undrawn £90m sustainability linked Revolving Credit Facility which expires in March 2026, adjusted by £6m in February 2024, from £90m to £84m, following the revaluation of the Wates Group's investment properties. • Continue twice monthly short-term cash flow forecasting and trade debtor review with our Business Unit Finance teams. • Continue monthly Board oversight of cash position, liquidity and forecast against minimum requirements. • Continue Treasury Group meetings, chaired by the CFO. • Ensure continued stringent governance over funding and investment approvals. • Maintain Audit Committee and Board oversight and governance of key areas, including liquidity and funding strategy, Treasury Policy, Group tax obligations, going concern statement, financial resilience and key financial controls. • Monitor proposed changes in tax legislation and other relevant legislative requirements, and develop action plans as required. • Maintain balance and diversification in our defined benefit pension fund investment strategies, ensuring a reasonable balance between risk and return and keeping a sensibly hedged position in respect of inflation and gilt rate movements. There is currently an £8.4m deficit funding contribution per annum. • See further details in Treasury on page 115 of the Wates Group annual report.
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Systems, data and cyber:

The scale and sophistication of targeted cyber-attacks are growing, while the ongoing macro-economic challenges and impact of the war in Ukraine mean that cyber-threat levels continue to increase. More and more Zero Day incidents and Ransomware attacks are being reported by organisations globally. As a result, we consider the external risk of cyber-attack to have increased for our Group and supply chain too. These risks pose a threat to our operational resilience, data, information and systems, all of which are key priorities for us. We hold sensitive customer and colleague personal data, and so continue to manage and monitor our internal controls robustly through our structured regulatory compliance and assurance programmes.

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<p>Risk: A cyber-attack or information security incident results in unauthorised systems access, loss or misuse of confidential or personal information and/or denial of service, which impacts the business and its operations both financially and reputationally.</p> <p>The Wates Group fails to adequately protect the data and information it holds and processes, resulting in legislative or regulatory breach and loss of trust, impacting its reputation and ability to do business.</p>	<p>Key mitigating actions the Wates Group has taken or will undertake in 2024:</p> <ul style="list-style-type: none"> • Keep in place and look to build on robust controls and a suite of policies to monitor the performance of the Wates Group's systems and security. • Continually develop and update our IT infrastructure, software, and cyber threat and assessment capabilities. • Monitor, detect and report on real-time threats and controls through our experienced internal team and service partners. • 'Cyber Essentials Plus' certified. • Carry out annual external review of our cyber security posture and penetration testing. • Utilise Multi Factor Authentication (MFA), Conditional Access and Extended Detection and Response (XDR) technologies to reduce the likelihood and impact of a cyberattack (e.g. malware/ransomware infection). • Maintain focus on our data environment and continue to invest in its capability, development and security. • Continue to improve our data protection procedures as part of our regulatory compliance and assurance programmes. • Carry out internal and external assurance reviews of our security and compliance controls. • Continue to review our internal information security and data governance capabilities as part of our continuous improvement agenda. • Invest in training and communications on data, information security and GDPR risks. • Offer security briefings and governance reporting to the Group at Board level. • Carry out due diligence on suppliers' cyber security and undertake contract reviews where necessary. • Continue offering our third-party IT supplier assurance programme. • The Wates Group IT BCP/DR plan addresses Cyber security risks. We tested the plan in 2023 and will continue to do so on a regular basis going forward.
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Group financial performance

The Group delivered a solid financial performance in 2023, in a very challenging economic environment. Group turnover increased by 15.0% or £0.26bn (16.2% or £0.28bn on a statutory basis), with all lines of operating segments showing growth. Group statutory operating profit of £6.0m was impacted by cost inflation. Group statutory operating profit includes research and development credits of £10.9m, an increase of £8.2m on the prior year (2022: £2.7m), following a comprehensive review of our research and development activities. The forward order book has increased marginally over the year, driven by material wins in Smartspace and more residential projects entering the pipeline for Havering and Harrow. Year end net cash closed £6.0m higher than last year.

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The summary financial performance for the Group is set out below.

	2023	2022	Movement
Group turnover *	£2.03bn	£1.77bn	+15.0%
Group turnover including the Group's share of joint ventures' and associates' turnover			
Group statutory turnover	£2.03bn	£1.75bn	+16.2%
Group statutory turnover excluding the Group's share of joint ventures' and associates' turnover			
Group operating profit/(loss) *	£7.2m	£(2.8)m	+\$10.0m
Operating profit before interest and tax			
Operating profit margin *	0.4%	(0.2)%	+0.6%
Group statutory operating profit/(loss)	£6.0m	£(3.5)m	+\$9.5m
Group statutory operating profit			
Group profit before tax *	£17.2m	£(1.5)m	+\$18.7m
Profit before tax and before tax of joint ventures and associates			
Group statutory profit before tax	£17.2m	£(1.5)m	+\$18.7m
Group statutory profit before tax including share of tax of joint ventures and associates			
Forward order book	£8.5bn	£8.4bn	+\$0.1bn
Net assets	£52.0m	£41.6m	+\$10.4m
Year end cash	£104.7m	£152.7m	-\$48.0m
Year end net cash	£104.7m	£98.7m	+\$6.0m
Cash balance excluding cash held in joint ventures and restricted cash, net of bank overdrafts			

* The performance of the Group is assessed using a variety of performance measures, including alternative performance measures (APM) which are presented to provide users with additional financial information that is regularly reviewed by management. These APMs are not defined under FRS 102 and therefore may not be directly comparable with similarly identified measures used by other entities. They are not intended to be a substitute for, or superior to, FRS 102 measures. See note 25 for definitions and reconciliations of APMs.

Construction Group

The Construction Group comprises two operating businesses: Wates Construction and SES Engineering Services.

	2023	2022
Construction Group turnover	£1.17bn	£0.96bn
Construction Group turnover including the Construction Group's share of joint ventures' and associates' turnover		
Construction Group statutory turnover	£1.17bn	£0.96bn
Group statutory turnover excluding the Group's share of joint ventures' and associates' turnover		
Forward order book	£4.2bn	£4.5bn

2023 saw the continuation of significant headwinds, as stubbornly high inflation in both labour and material costs put further pressure on contract margins, and interest rates reaching their highest point since 2008 challenged clients' viabilities and limited their access to funding. The industry suffered a significant level of insolvencies, creating further supply chain pressure and causing unforeseen delays.

Against this very challenging backdrop, the Construction Group grew strongly. Turnover of £1.17bn was a 22.0% increase on 2022 and saw the business break through £1bn for the first time in its history.

Given the significant challenge presented by the highest rates of interest in 15 years, work winning remained strong. The Construction Group ended the year with a forward order book of £4.2bn, marginally down on the record forward order book set by the business in 2022 (£4.5bn).

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Property Services

Wates Property Services comprises three specialist business units: Living Space (social housing maintenance); Wates Facilities Management (private facilities management services) and Wates Smartspace (fit out and refurbishment).

	2023	2022
Property Services turnover	£544.7m	£500.1m
Property Services turnover including the Group's share of joint ventures' and associates' property services turnover		
Property Services statutory turnover	£544.7m	£498.8m
Property Services statutory turnover excluding the Group's share of joint ventures' and associates' turnover		
Forward order book	£2.1bn	£1.9bn

Living Space performed very positively in 2023, with revenue increasing by 23.7% on prior year, driven by strong work winning success and increased demand for services across all workstreams. The forward order book was £1.7bn at the end of 2023, with key new long-term contracts secured with Greenwich, A2 Dominion, Citizen, Places for People and Croydon Council. Opportunities for further growth into 2024 and beyond through our large bid pipeline continue to build positive momentum for the business. Actions to mitigate industry pressures around inflation, skills shortages and supply chain constraints have supported strong operating profit improvement during 2023. The outlook for the sector remains positive, with the requirement to decarbonise social housing presenting significant opportunities for sustainable growth.

Wates FM continued strong year on year growth, recording a 15.8% revenue increase for 2023. New contracts secured with Yorkshire Building Society and QinetiQ, along with key contract retentions helped the business end the year with a forward order book of £0.2bn. General market conditions remain favourable for growth, with the business well positioned to secure further market share in the medium term.

Smartspace revenue fell 21.5% on prior year as a result of delays to a small number of key large public sector contracts in the second half of the year. Prospects for 2024 and beyond are very positive for the business, with significant projects in progress with Government Property Agency, the Ministry of Justice and Lloyds, which support the record forward order book position of £0.2bn.

Residential

	2023	2022
Residential turnover	£319.4m	£310.3m
Residential Group turnover including the Group's share of joint ventures' and associates' residential turnover		
Residential statutory turnover	£314.0m	£288.0m
Residential statutory turnover excluding the Group's share of joint ventures' and associates' turnover		
Units for which planning permission was achieved (including through joint ventures)	3,075	2,605
Units for which planning permission is pending (including through joint ventures)	3,766	3,787
Units completed in the year (including through joint ventures)	276	739
Open market sales in the year	70	119
Active sites at 31 December	32	29
Units still to be completed on active sites (including through joint ventures)	2,705	2,605
Forward order book	£2.2bn	£2.0bn

Residential works alongside our public sector partners to deliver housing-led developments on publicly owned brownfield sites. During 2023, the business worked on strategically important sites in Harrow, Havering, Cardiff, Brent and Barking. The Residential business also operates as a construction contractor for public sector customers

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across London, the South and Wales.

Residential continued to grow in 2023 despite challenging market conditions. The forward order book increased from £2.0bn to £2.2bn, predominantly through existing frameworks and relationships as well as an exciting new development with Brent Council. Completions in the year fell to 276 units (2022: 739) due to several large projects bridging the year end, which will complete throughout 2024. The investment in recent years in development opportunities with joint ventures and collaborations with public sector clients has led to a growing development pipeline. In 2023 the business completed 70 open market sales (2022: 119).

Good progress has been made with planning across our development partners and we have secured further work from the Be First framework delivering affordable social housing in Barking and Dagenham. At year end, Residential was active on 32 sites (2022: 29) which will deliver a further 2,705 units (2022: 2,605) over the next few years. Residential is working with its partners to get planning consent on a further 3,766 units (2022: 3,787), which will solidify the pipeline for years to come.

Cash flow

Group operating activities generated cash of £19.2m (2022: outflow of £8.6m). Cash flow from investing and financing activities included increased loans to joint ventures of £7.8m (2022: £10.6m), purchases of fixed assets of £5.5m (2022: £3.8m) and dividends paid of £nil (2022: £5.6m). See note 20 for more information on cash used in operations.

Dividends

No dividends were declared and paid in 2023. Dividends of £5.6m were declared and paid in 2022.

Wates Family Enterprise Trust

The Group committed funds to the Wates Family Enterprise Trust (WFET) to support its charitable giving. In 2023, this amounted to £1.5m (2022: £1.5m). The themes on which WFET's focuses are: life opportunities for young people; housing; and sustainability.

Section 172 Companies Act 2006

This report sets out how the directors of Wates Construction Limited comply with the requirements of Section 172 of the Companies Act 2006 and how these requirements have impacted the Wates Group Board's decision making throughout 2023. The report for Wates Group Limited 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.

Engaging with stakeholders to deliver long term success is a key area of focus for the Wates Group Board and all decisions take into account the impact on a wide range of stakeholders. Views of stakeholders are gathered in Wates Group Board papers and inform the decisions made in Wates Group Board meetings. Stakeholders are impacted by, or benefit from, decisions made by the Wates Group Board in different ways. However, it is the Wates Group Board's priority to ensure that the directors have acted both individually and collectively in a 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.

Long-term strategy and vision

The Wates Group Board operates a forward agenda of standing items appropriate to our operating and reporting cycles. Items requiring Wates Group Board approval or endorsement are defined clearly. These include strategy and key contracts, as well as items required by law and regulation. The Wates Group Board monitors or reviews progress against strategic priorities, risk management, health and safety, financial performance and the adequacy of internal controls.

The focus of the Wates Group Board in 2023 has continued to be ensuring that the Wates Group effectively

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manages the risks posed by high inflation and interest rates, while ensuring that the Wates Group is positioned to take advantage of the many opportunities for future growth. The Wates Group Board approves an updated strategic plan every year and monitors its implementation throughout the year using detailed reports on operating and financial performance. In approving the plan, the Wates Group Board considers factors such as competitor behaviour, the performance of the residential and construction sectors, as well as evolving social, economic, political and market conditions.

During 2023 a detailed strategic review was undertaken by the Wates Group. This was driven by each part of the Business taking a deep dive into their markets with a specific focus on opportunities likely to come from environmental sustainability and technological innovation. As well as sustainability and innovation, the strategy particularly focused on: allocating available capital to invest for growth; maximising the social value we add to the communities we work in; a drive to improve productivity and efficiency; and the ongoing need to invest in our people and future talent. The strategy was reviewed in detail by the Wates Group Board in late 2023 and will be finalised in early 2024. For further information see page 7 of the Wates Group financial statements.

In determining the strategic plan, as well as the day-to-day management of the business, the Wates Group Board considers the views of the key stakeholders referred to in the table below.

EMPLOYEES

How the Wates Group engages

- Wates Group roadshows led by the Chief Executive
- Fourth annual Inclusion Month in September 2023 focussing on allyship
- Employee Networks led engagement activities like check in chat sessions
- Employee Engagement and Wellbeing survey
- Site and office visits by shareholders, directors and Executive Committee
- Video content from the family and executive directors
- Wates Group-wide newsletters, blogs and webinars
- Internal and external social media channels
- Wates Group Leadership Conference and quarterly calls from which messaging is cascaded to the colleagues

Outcomes

- Implementation of our new profit share bonus scheme across the Wates Group for 2023 performance year, paying out in excess of £20m to employees when the Wates Group meets its targets
- Inclusion of a comprehensive suite of non-financial targets within our bonus scheme to ensure alignment between employee reward and holistic business performance, including environmental sustainability, gender diversity and safety
- Introduction of a car salary sacrifice (electric) scheme which resulted in a 3% employee take-up rate
- Refresh of the #WatesTogether approach to build a fair place to work where everyone can thrive. It has three key pillars of actions: Fair Treatment, Fair Opportunities and Fair Hiring
- Reverse Mentoring programme, which pairs white leaders with colleagues from under-represented ethnicities
- Mentoring Circles programme where groups of up to 5 women are mentored by senior business leaders on career management, negotiation skills, team effectiveness and relationship building

Further details

- 'People' on pages 24 to 31 of the Wates Group financial statements

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EMPLOYEES

How the Wates Group engages

Outcomes

- Internal Mobility Pilot using the Surveying function to enable colleagues to explore career transitions
- Our voluntary employee networks creating safe spaces for colleagues with minoritised identities
- Enhanced support for Menopause
- Partnering with Specialists like Women into Construction, STEM Returners, Change 100 to create pathways for untapped talent pools into the Wates Group.

Further details

CUSTOMERS

How the Wates Group engages

- Regular customer engagement surveys by external companies
- Meetings and events (either face-to-face or virtually)
- Interaction through the Wates Innovation Network (WIN) portal
- Contract negotiation, ongoing management, site visits etc.
- Indirect engagement through the Wates Group website, social media interaction, project reports and marketing material
- Communication about changes to legislation
- Invitation to participate at Wates Group Leadership conferences

Outcomes

- Net Promoter Score (NPS) survey outcomes reviewed by the Wates Group Board on a monthly basis to monitor progress in customer engagement
- Feedback received from customers
- Through Wates Sustainable Technology Services (WSTS) and the WIN portal, the Wates Group is supporting its customers to achieve their sustainability targets
- Regular, effective and collaborative communication with customers about the Wates Group's efforts to mitigate the effects of inflation and product, materials and labour supply issues on their projects and contracts
- Strong customer retention across all of the Wates Group's businesses
- Continued implementation of Customer Excellence training programme
- Delivering safely, to a high quality, on time and in line with contractual requirements

Further details

- 'Harlington School' case study on page 54 of the Wates Group financial statements

SUPPLY CHAIN

How the Wates Group engages

- Dedicated team responsible for supply chain relationships
- 'Meet the Buyer' events
- Email bulletins to suppliers (including details of changes in regulations)

Outcomes

- Providing effective support to supply chain partners in respect of changes in regulation
- The Wates Group's consistent and supportive approach with its supply chain over many years has helped it respond effectively to the challenges of the current

Further details

- 'Principle 6 Stakeholders' on page 144 of the Wates Group financial statements

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SUPPLY CHAIN

How the Wates Group engages

- Health and safety training
- Supply chain workshops
- Regular meetings (either face-to-face or virtually)
- Contract negotiation, ongoing management and site visits
- Indirect engagement through the Wates Group website, social media interaction and project reports
- Annual Supplier Conference for key Wates Group supply chain partners
- Partner and active member of Supply Chain Sustainability School

Outcomes

- market (such as high inflation and shortages in product, materials and labour)
- The Wates Group's commitment to the Prompt Payment Code has ensured that at least 95% of invoices are paid within 60 days, with Wates Construction Limited and Wates Property Services Limited both paying 98% of their invoices within 60 days
- Assisting our supply chain partners to meet mutual short and long-term sustainability targets

Further details

FINANCIAL INSTITUTIONS

How the Wates Group engages

- The CFO and treasury function meet regularly with banks, insurers and providers of finance
- Presentation of annual budgets and strategic plans
- Quarterly performance reporting

Outcomes

- Extension of the Wates Group's Revolving Credit Facility for an additional year to March 2026
- Ongoing covenant compliance and positive average daily net cash of £77.0m (2022: £80.2m)

Further details

'Treasury management' on page 115 of the Wates Group financial statements

COMMUNITIES AND ENVIRONMENT

How the Wates Group engages

- Local community events (e.g. 'Meet the Buyer')
- Focused expenditure with Social Enterprises (SEs)
- Direct engagement with sustainable solution providers and promotion of their services on the WIN portal
- Present at Supply Chain Sustainability School events for SMEs

Outcomes

- Through WSTS, the Wates Group is supporting its customers to achieve their sustainability targets through innovation
- Through WSTS' award-winning WIN portal, we are continuing to grow our portfolio of partners providing new solutions to cut carbon and make the built environment industry more sustainable
- In 2023, the Wates Group created £225m (subject to external assurance) of social value and engaged with 32,078 young people
- In 2023, the Wates Group spent £7.0m on SEs, taking the cumulative spend since 2007

Further details

'Sustainability Report' on pages 82 to 92 of the Wates Group financial statements

'Wates Family Enterprise Trust' on pages 102 to 103 of the Wates Group financial statements

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COMMUNITIES AND ENVIRONMENT		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> • PhD research projects with the University of Exeter and the University of Surrey • Participation in government consultations on sustainability matters • Direct engagement through membership of the Considerate Constructors Scheme (CCS) • Support of charitable programmes • Member of the Building Services Association • Member of UK Green Building Council (UKGBC) • Mentoring of Social Enterprises to facilitate business growth through the ASSETS programme • Upskilling to increase employment opportunities, including for people in custody • Providing training and supporting work experience including T-Level industry placements • Promoting employment opportunities for people facing barriers to work • Member of Institute of Corporate Responsibility and Sustainability (ICRS) • Championing the real Living Wage in our Residential, FM and Developments businesses • Monitoring our supply chain to mitigate the risk of modern slavery 	<ul style="list-style-type: none"> • to £53.8m. Since 2020, more than £519m (subject to external assurance) of social value has been created • The Wates Group continues to provide funds to the Wates Family Enterprise Trust. £1.5m was contributed in 2023 (2022: £1.5m), taking the total amount given since 2008 to £18.5m • In 2023, 63% of the Wates Group's priority suppliers were registered with the Supply Chain Sustainability School (SCSS), a 2% increase on 2022 	

Wates Construction Limited Annual reports and accounts 2023

Strategic report

SHAREHOLDERS		
How the Wates Group engages	Outcomes	Further details
<ul style="list-style-type: none"> We interact with shareholders through away days, corporate events, the Chief Executive's twice-yearly presentation to the Family Council, regular interaction with the Wates family office and through the Wates Group Board (five members of the fourth generation of the Wates family are members of the Wates Group Board) Annual General Meeting (AGM) The preparation of the annual report helps shareholders understand the Wates Group's performance during the year 	<ul style="list-style-type: none"> The directors maintain a regular dialogue with Wates Group Board members and other shareholders The Wates Group has approved a long-term increase in investment across its core investing businesses, supporting its objective to become a more profitable and sustainable company 	<ul style="list-style-type: none"> 'Corporate Governance Report' on pages 138 to 147 of the Wates Group financial statements

Standards of business conduct

The Wates Group Board is keenly aware of the need to maintain high standards of business conduct. Sir James Wates (Former Chairman), on behalf of the Secretary of State for Business, Energy and Industrial Strategy, chaired an industry group on corporate governance for large privately-owned companies in 2018. The Wates Group has a strong ethical culture, underpinned by its purpose, behaviours and Code of Conduct. The Code of Conduct sets out the standards that all employees of the Wates Group must follow.

The Wates Group Board was involved in ongoing discussions with the Pensions Trustees on the investment strategy and future deficit funding contributions.

The directors take very seriously their responsibility to ensure the Wates Group is a good corporate citizen. Business creates wealth that delivers the investment which, if properly managed by politicians, leads to a fairer and more prosperous society. In 2023, the Wates Group (including its share of joint ventures) contributed taxes, all within the UK, whether borne by the Wates Group or collected on behalf of HMRC of £387.1m (2022: £312.7m). The Wates Group is proud of the part it plays in the industry's contribution to society through its economic activity.

		2023 £000s	2022 £000s
Taxes paid in the year (as defined below)	Definitions		
Taxes borne by the Wates Group			
Corporate income tax payments		3,356	928
Employment-related taxes	2	35,415	32,159
Other taxes	3	5,657	6,374
		44,428	39,461
Taxes collected for HM government (in addition to taxes borne above)			
Employment-related taxes	4	86,199	77,406
Net VAT	5	256,482	195,877
		342,681	273,283
Total tax contribution (taxes generated by the Group from Wates Group activity)		387,109	312,744

Wates Construction Limited Annual reports and accounts 2023

Strategic report

Definitions

- 1) All taxes are paid in the UK; none in other jurisdictions
- 2) Employer national insurance contributions, income tax paid on benefits in kind and apprenticeship and CITB levies
- 3) Business rates, insurance premium tax, stamp duty land tax, irrecoverable VAT, fuel duty and vehicle and other taxes
- 4) Income Tax and employee national insurance contributions deducted from salaries and wages
- 5) Net VAT collected and paid

The Wates Group Board has 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 Wates Group Board has also considered the data and narrative relevant to the Wates Group's gender pay reporting in preparation for external publication. In doing so, it considered proposals to improve the Wates Group's performance in this area.

Board Governance

The Wates Group Board has chosen to apply the Wates Corporate Governance Principles for Large Private Companies for the year ended 31 December 2023. 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.

Non-Financial Sustainability Information Statement

The company has not presented a statement on the grounds that the company's information has been included in the Non-Financial Sustainability Information Statement presented in the company's ultimate parent company consolidated financial statements. For more information, see the Wates Group Limited Financial Statements which may be obtained from the address stated in note 26.

Approved by the Board of Directors on 21 March 2024 and signed on its behalf by:



P.M. WAINWRIGHT
DIRECTOR

Wates Construction Limited Annual reports and accounts 2023

Corporate governance report

For the year ended 31 December 2023, under The Companies (Miscellaneous Reporting) Regulations 2019, the company has applied the **Wates Corporate Governance Principles for Large Private Companies** (published by the Financial Reporting Council ('FRC') in December 2019 and available on the FRC website). The following paragraphs summarise how the Directors of Wates Construction Limited applied the principles over the past year. 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 Wates Group was founded in 1897 and is now in the fourth generation of family ownership, reflecting the shareholders' commitment to building and maintaining a sustainable enterprise, guided by the family ethos that business done well is a force for good in society.

Purpose and strategy

The Wates Group Board devotes significant time to discussing strategy by routinely reviewing the strategies of individual business areas, as well as in bi-annual dedicated strategy meetings to confer about Group-level issues together with the Chief Executive and the Executive Committee.

In 2023, the Wates Group initiated a process of re-examining how it articulates its purpose. While a 'Guiding Framework' developed previously (see past Corporate Governance Reports) proved useful in managing the business, the Board felt there was a compelling rationale for a review, based on the need for:

- A set of words that are credible, inspiring, and actionable;
- A driver for decision making;
- A clearer signpost for stakeholders in terms of the strategic focus, clearly reflecting why it exists;
- A bolder statement to better reflect the company's aspirations for the future;
- Recognition of the company's 126-year expertise in the built environment and continued commitment to lead the sector forward.

The process of reviewing the purpose statement began with an externally led session at the Board Strategy meeting in July on what it means to be a truly purpose-led business. This was followed up by discussions with employees, customers, suppliers, and other stakeholders about their views on the business, with regular follow-up to validate the direction of the work. The Board and Executive Committee were engaged regularly throughout the process, from the initial idea generation through to finalisation of wording.

Through this process, the Board agreed a core statement of purpose at its March 2024 meeting:

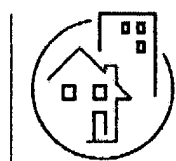
Reimagining places for people to thrive

This is underpinned by three promises:

- **Thriving places** – Working with customers and communities to create places that are more sustainable, inclusive, and full of opportunity.
- **Thriving planet** – Protecting nature and taking action on climate change by collaborating and innovating with our partners.
- **Thriving people** – Creating opportunities and relationships so that everyone who works for and with us feels included, invested in and treated with care.

Wates Construction Limited Annual reports and accounts 2023

Corporate governance report



THRIVING PLACES



THRIVING PLANET



THRIVING PEOPLE

In Q2 2024, there will be a programme of work to engage and embed the purpose in all aspects of the business.

The existing eight strategic priorities continue to guide management: safety, quality, sustainability, innovation, diversity and inclusion, people, customers, and profit. The Board ensures that the Wates Group's strategy and purpose are aligned by addressing these priorities, for example by:

- Safety – receiving reports on safety incidents as well as ensuring compliance with the new regulatory regime for safety in construction.
- Quality – overseeing systems to ensure competence of the workforce and prevention of quality failures; delegating the maintenance of the Operating Frameworks, which include ISO certifications, to the Executive Committee.
- Sustainability – operating a dedicated Board committee on Sustainability that meets three times per year; incorporating the TCFD framework into our annual financial disclosures (since 2021); ensuring that business unit strategies include seizing opportunities to support the UK's progress towards net zero carbon (for example, through social housing retrofit).
- Innovation – fostering an entrepreneurial approach, with the Board championing modern methods of construction and publicly calling for leveraging technology to increase productivity across the built environment sector.
- Diversity and Inclusion – maintaining oversight of the Group's Diversity and Inclusion plan, including progress against the targets for gender, ethnic, disability and sexual orientation.
- People – In November, the Board approved a new People Strategy designed to create a high performing, purpose-led business in which people can realise their potential.
- Customers – Relationships and engagement with customers, the supply chain and other stakeholders are formally discussed at Board and Executive Committee level. This includes review of Net Promoter Score survey outcomes and other feedback of customers' experience of working with Wates, resulting in action plans to drive improvements.
- Profit – reviewing financial performance and setting appropriate targets to ensure long-term financial sustainability.

Culture

The Wates Group Board seeks to ensure that the company purpose, as well as the Wates family business ethos, is embedded in the culture of the organisation. The five family Board directors (the Chairman and Governing Owners) play active roles in the business and seek to maintain a prominent profile within the business, regularly visiting offices and project sites, as well as attending ground-breaking or topping-out ceremonies and the annual '25-Year Club' luncheon, which includes staff and pensioners who have worked for Wates for more than 25 years. The Annual Chairman's Awards celebrate and reward individuals and teams that put the desired values into practice.

The Wates Group Board approved a Code of Conduct in 2022 which serves as the Wates Group's roadmap for demonstrating the behaviours that are expected of the workforce. The code was rolled out to staff and business partners during 2023, supported by guidance and an internal toolkit, and is available on the Group's website.

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Principle 2 – Board composition

The board comprises a Chairman, four family directors (Governing Owners), three members of the executive team, and three independent non-executive directors (NEDs). Details about the individuals holding those roles is found on pages 104 to 105 of the Wates Group financial statements.

Responsibilities

The responsibilities of the Chairman (who is also a shareholder and member of the Wates family) include leading and managing the Board, ensuring the effectiveness and quality of its governance, and ensuring that the family values are reflected across the operations of the Group. In 2023 there was a successful transition of Chairman from Sir James Wates CBE to Tim Wates, complemented by the appointment of Joe Oatley as Deputy Chairman.

The Chairman works with the Chief Executive Officer to ensure that the balance of responsibilities, accountabilities and decision-making across the Group are maintained effectively. Eoghan O'Lionaird joined the company as Chief Executive in February 2023.

Balance and diversity

The NEDs provide an independent perspective and constructive challenge, drawing on a diverse set of business backgrounds that include expertise in finance and audit, risk management, and organisational design and talent management across a range of sectors.

There are now two female members, but no directors come from ethnic minority (BAME) backgrounds. The directors acknowledge the lack of diversity in the Board, particularly in the context of the inclusion and diversity targets in place for the whole organisation. The Board remains committed to developing a more diverse workforce, including at the most senior levels.

The size of the Board is comparable to that of similar sized companies and allows for representation of different Governing Owners on each of the four Board committees, with two of those committees (Audit and Remuneration) chaired by NEDs.

Effectiveness

Using a specialised software package, BoardClic, the Board carries out a pulse survey after each Board meeting to identify Board strengths and areas requiring development. The results are noted at the subsequent meeting, and the Board has agreed to conduct a detailed review of the results during the coming year.

Principle 3 – Director responsibilities

In 2023 the Wates Group Board had a programme of six principal meetings every year, plus four additional days for strategic planning. As part of every Board meeting, governance of the Group is addressed as a standing agenda item. On a yearly basis, the Wates Group Board reviews the List of Matters Reserved for the Board and Group Delegated Authorities.

Role of committees

The Board operates four standing committees: Audit, Remuneration, Nominations and Sustainability. Details of the remit and membership of each committee is included on pages 145 to 147 of the Wates Group financial statements.

The roles of the committees are reviewed periodically, and in 2023 the Board specifically discussed the role of the Sustainability Committee in light of the Group's environmental ambitions.

The Audit Committee regularly reviews the relationship with the external auditors and has a policy that the audit provider will be considered for re-tender at least every ten years. Current auditors BBO LLP were appointed in 2019.

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The Board delegates responsibility for the day-to-day management of the business to the Group Executive Committee (see description on page 147 of the Wates Group financial statements).

Accountability and conflicts of interest

The Directors have equal voting rights when making decisions, except the Chairman, who has a casting vote. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the company's expense. The position of Company Secretary is held by the Chief Financial Officer, Philip Wainwright.

Each year, Board directors (as well as members of Executive Committee and any staff with 'director' in their title) are asked to complete a Code of Conduct Certification which requires individuals to confirm they are compliant with the Code and to declare any conflicts of interest that they might have in respect of the Group's business. The Certification also requires individuals to describe the mitigating controls they had put in place to address any conflicts of interest.

Integrity of information

A system is in place to ensure that the Board receives appropriate information to allow directors to monitor and challenge the company management. Board papers follow a standard format, with detailed information usually provided in appendices or made available in a separate virtual 'reading room'. Papers must be provided at least eight days before the meeting; they are reviewed by both the Chief Executive and the Chairman before being made available to the rest of the Wates Group Board.

Principle 4 – Opportunity and risk

The Wates Group Board seeks out opportunity for long-term sustainable success while mitigating risk. The Wates Group's key operational risks and mitigations are outlined in the Strategic Report on pages 118 to 130 of the Wates Group financial statements.

Structures and accountability

The Board has overall responsibility for ensuring the Group's systems of risk management and internal control are operating effectively. Supporting the Board are the following:

- The Chief Executive is accountable to the Board for the effective management of risks and identification of opportunities on a day-to-day basis.
- Individual members of the Executive Committee reporting to the Chief Executive are accountable for specific risks and opportunities within their remits. Three members of the Executive Committee also sit on the Group Board.
- The Group has in place an Executive-level Risk Committee, which is chaired by the Chief Financial Officer and includes all Executive Committee members plus regular attendance by the Group Legal Director and Group Head of Assurance.
- The Group also operates an Investment Committee within the Executive Committee which advises on existing and proposed investment of capital.
- Day-to-day risks and opportunities are also managed by the Business Unit Boards at a divisional level and then consolidated and reported through the Executive Committee to the Group Board.
-

Opportunity

Innovation is a key element of the Wates Group's strategy, and the Wates Group Board seeks to execute the shareholders' desire to foster a culture of entrepreneurship across the business.

The Wates Group Board considered a range of opportunities during 2023, including potential acquisitions. This process resulted in potential acquisitions not being taken forward in 2023.

Major projects (as defined by their value and risk profile, as articulated in the delegated authorities for each

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business area) are first considered by the executive Investment Committee and the most significant by the Board, which must approve them before bids are finalised.

In addition, the Wates Group's Executive Committee has a formal process for consideration of opportunities as well as risks, and in 2023 some of the opportunities that have been considered at that level include (amongst others):

- Continued high demand for housing stock in the UK
- Need for upgrades to existing housing stock to meet national carbon reduction targets
- AI and other technological advancements
- Building Safety Act requirements
- Planning system reform

Risk

Risks are considered alongside opportunities, taking into account the shareholders' desire to pass on to the next generation of owners a stronger, more sustainable enterprise.

The Executive Risk Committee, chaired by the Chief Financial Officer, considers risks as part of the routine management of the business. In 2023, specific risks included (amongst others):

- Requirements under the Building Safety Act and impact on project viability
- Insolvency of major sub-contractors or clients
- Constraints on recruiting and retaining labour
- Cyber-security

Principle 5 – Remuneration

The Wates Group Board aims to ensure that remuneration policies are fair and meritocratic. The structure and level of remuneration is set to enable the business to attract and retain the best employees and motivate high performance at all levels in the organisation. Recognising the importance of these objectives, the Board has established a Remuneration Committee, which sets and approves executive pay (including annual salary review, bonus payments and compensation for new appointments).

During 2023, the Board received updates from the Chair of the Remuneration Committee (an independent non-executive director) and considered the appropriateness of remuneration levels for specific areas of the business.

An employee profit-share scheme is now in place to ensure that employees are aligned with the shareholders' objectives of delivering a sustainable, more profitable business. Pay awards are linked to profit of the relevant business area as well as a suite of non-financial targets at Group level covering safety, gender diversity and environmental sustainability. The Remuneration Committee was heavily involved in the development of the scheme.

We continue to publish statistics on gender pay as required by law, as well as data on our ethnicity pay gap, in our 'Wates Together' annual report (covering our inclusion and diversity journey) on the Wates Group website. Inclusion and diversity goals have a Board level champion: Paul Chandler, Executive Managing Director, Wates Construction Group.

Principle 6 – Stakeholders

The Wates Group Board is clear that effective communication with stakeholders is essential if the business is to fulfil our purpose and protect our brand, reputation, and relationships.

The Board appreciates that a broad range of stakeholders are critical to delivery of the business's objectives, including customers, employees, financial institutions, shareholders, suppliers, and the wider communities in which we work. Detail about relationships with all of these stakeholders can be found in the report on Section 172 responsibilities in the Strategic Report (pages 131 to 135 of the Wates Group financial statements).

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Suppliers and partners

Many of the Group's business areas require extensive use of sub-contractors. We routinely hold Suppliers' Conferences to bring business partners together to discuss how best to collaborate in addressing industry challenges, and in 2023 the conference specifically addressed compliance with the Building Safety Act. Several members of the Board participated, including the Chairman and the Chief Executive.

We continue to publish data as part of our duty to report on payment practices and performance. This information is particularly relevant to our supply chain, and the comparison of our statistics against others in our sector is available to all stakeholders via a trade association (Build UK) website. We are also members of the Prompt Payment Code, which requires members to pay at least 95% of invoices within 60 days. The Group primarily reported its performance via two statutory entities, with Wates Construction Limited and Wates Property Services Limited both paying 98% of their invoices within 60 days.

Workforce

There are numerous channels through which senior management, including Board members, regularly engage with the workforce and keep them up to date on important developments. These channels include the 'Edi' intranet platform as well as regular 'roadshows' held throughout the UK, at which the Chairman, Chief Executive, and other members of Executive Committee provide updates on company performance and give staff the opportunity to ask questions.

The Board places particular emphasis on the health and safety of the Group's employees, as reflected in safety being a key strategic priority. The Wates Group Board's commitment to creating a sustainable zero-harm working environment has resulted in an industry-leading performance.

The Wates Group Board is committed to having a workforce that reflects society and has set targets to achieve by 2025:

- 40% Female (2023: 31%)
- 20% BAME (2023: 15%)
- 3% Disability (2023: 4%)
- 5% LGBTQ+ (2023: 4%)

Further information about progress in recruiting a more diverse workforce is in the 'Wates Together' report on the Wates Group website.

Environment

The Wates Group Board's Sustainability Committee oversees the policies and performance of the Wates Group relating to its commitment to become a net zero carbon operator by 2045. Our sustainability plan with strategic themes and targets is published on our website. Full details of the Wates Group's environmental impact are in the Sustainability Report on pages 82 to 92 of the Wates Group financial statements.

Shareholders

The five shareholders sitting on the Wates Group Board (Chairman and Governing Owners) actively ensure that the operations of the Group are aligned with the interests of the shareholders. The Wates Family Council, chaired by Andy Wates, serves as a conduit for consulting with shareholders and communicating their interests to the Board.

Other

Net Promoter Score (NPS) survey outcomes are reviewed by the Board on a monthly basis to monitor progress in customer engagement.

The Wates Group Board was consulted prior to engagement with financial institutions on the Group's strategic direction, and the board approved the provision of an additional banking covenant.

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Directors' report

The directors present their report for the year ended 31 December 2023. This report is to be read in conjunction with the Strategic report on pages 3 to 28.

Dividends

The directors did not declare a dividend in 2023 (2022: £5,636,000).

Health and safety

The Wates Group 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 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 enable them to make their fullest contribution to the business. The Wates Group views this as fundamental to achieving its strategy and long-term objectives. The Wates Group uses a variety of media to inform employees about development and prospects and seeks out to listen to employees' views and opinions at all times.

The Wates Group's roadshow, which is open to all employees, is the mechanism through 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. There were a series of roadshows in Spring 2023, held at various locations across the UK.

Employee surveys are undertaken periodically to allow colleagues to provide honest feedback about their experience working at Wates. During the year, the Wates Group's senior leadership team convenes 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 affected through the Wates Group-wide intranet and enterprise social network, electronic bulletins, notice boards, social media, the Wates Group 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 by 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 company during the year can be found in note 4 to the accounts.

Equal opportunities

The Wates Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment or 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 creating and sustaining a fair and inclusive working environment where everyone can thrive. Encompassing the full employment life cycle, our policies and processes are designed to help us hire the best person for the job from a wider, more diverse talent pool and to ensure everyone is treated fairly and with respect. If someone finds themselves not treated fairly, they have access to channels to share their experience. Where an employee speaks up, they are listened to, and appropriate action is taken. The Wates Group is committed to offering fair opportunities to all employees. This includes equitable access to development and progression opportunities to build a meaningful career of choice and equity in pay for all.

Wates Construction Limited Annual reports and accounts 2023

Directors' report

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, specifically to the environment and communities in which it works, 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.

Directors

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

S.J. Beechey
H.P. Bunch
P. Chandler
P.C. Griffin (appointed 24 May 2023)
D.K.E. Morgan
S. J. Potter
P.C. Rowan
E. Tate (appointed 24 May 2023)
P.M. Wainwright

Director's indemnity

A director benefited from a qualifying pension scheme indemnity provision during the financial year but not at the date of this report.

Donations

During the year the Group made charitable donations amounting to £1.5m (2022: £1.6m). No political donations have been made.

Going concern

The directors have reviewed the forecast for the future performance of the Wates Group and have prepared a cash flow forecast for 12 months from the date of approval of these financial statements. The Wates Group Board considers it has sufficient cash reserves to continue trading, whilst meeting the financial covenants set within its banking facilities. The directors have received a letter of support from Wates Group Limited confirming that, as at the date of signing the accounts, it is their intent that it will continue to provide sufficient operational and financial support to the company, to the extent that it is required to enable the company to meet its liabilities as and when they fall due for a period of at least 12 months from the date of approval of the financial statements.

Accordingly, the directors continue to adopt the going concern basis in preparing the company's accounts. Further details regarding the adoption of the going concern basis can be found in note 1 to the accounts.

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Directors' report

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.

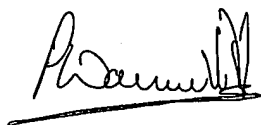
Streamlined energy and carbon report

The company has not presented a report on the grounds that the company's energy and carbon information has been included in the Streamlined energy and carbon report presented in the company's ultimate parent company consolidated financial statements. For more information, see the Wates Group Limited financial statements which may be obtained from the address stated in note 26.

Post balance sheet events

There were no post balance sheet events requiring disclosure.

Approved by the Board of Directors on 21 March 2024 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
SECRETARY

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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 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 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 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.

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Independent auditor's report to the members of Wates Construction Limited

Opinion on the financial statements

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 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Wates Construction Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2023 which comprise the Consolidated profit and loss account, the Consolidated statement of comprehensive income/(expense), 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual accounts and reports, 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.

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 course of 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 this gives rise to a material misstatement

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Independent auditor's report to the members of Wates Construction Limited

in the financial statements themselves. 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.

Other Companies Act 2006 reporting

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

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

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 or the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, 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 Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Wates Construction Limited Annual reports and accounts 2023

Independent auditor's report to the members of Wates Construction Limited

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations;

We considered the significant laws and regulations to be, but not limited to, the Companies Act 2006, distributable profits legislation and UK pension and tax legislation.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be health and safety legislation, data protection legislation and employment law.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation; and
- Involvement of tax specialists in the audit.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management, those charged with governance and internal audit regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls that are otherwise operating effectively.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria and considered whether there was evidence of bias by the Directors within the significant judgements and estimates by agreeing to supporting documentation;
- Involvement of internal forensic specialists in the fraud risk assessment procedures;
- Assessing significant estimates made by management for bias; and
- Testing operating effectiveness of controls around procurement and tendering process.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Wates Construction Limited Annual reports and accounts 2023


Independent auditor's report to the members of Wates Construction Limited

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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 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 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Peter Latham (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor

London, UK
21 March 2024

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

Wates Construction Limited Annual reports and accounts 2023

Consolidated profit and loss account

For the year ended 31 December 2023

	Note	2023 £000s	2022 £000s
Group turnover:			
Group and share of joint ventures and associates		2,033,358	1,768,600
Less share of turnover of joint ventures and associates		(5,396)	(23,699)
Group statutory turnover	2	2,027,962	1,744,901
Cost of sales		(1,844,335)	(1,590,872)
Gross profit		183,627	154,029
Administrative expenses		(176,698)	(157,390)
Group operating profit/(loss)	3	6,929	(3,361)
Share of post-tax loss from joint ventures and associates	10	(892)	(105)
Group statutory operating profit/(loss): Group and share of joint ventures and associates		6,037	(3,466)
Analysed between:			
Total operating profit/(loss) before interest and tax		7,218	(2,827)
Net interest payable – joint ventures and associates		(1,209)	(604)
Tax – joint ventures and associates		28	(35)
Interest receivable	6	11,219	2,044
Interest payable and similar charges	6	(73)	(107)
Group statutory profit/(loss) before tax		17,183	(1,529)
Analysed between:			
Profit/(loss) before tax and before tax of joint ventures and associates		17,155	(1,494)
Tax – joint ventures and associates		28	(35)
Tax on profit/(loss)	7	(6,975)	(1,472)
Group profit/(loss) for the financial year		10,208	(3,001)

The above results have all been derived from continuing operations.

Consolidated statement of comprehensive income/(expense)

For the year ended 31 December 2023

	2023 £000s	2022 £000s
Group profit/(loss) for the financial year	10,208	(3,001)
Currency translation difference on foreign currency net investment	244	(532)
Other comprehensive income/(expense) for the year	244	(532)
Total comprehensive income/(expense) for the year	10,452	(3,533)

The profit and total comprehensive income/(expense) for the financial years set out above is all attributable to equity shareholders of the company.

Wates Construction Limited Annual reports and accounts 2023

Company number: 01977948

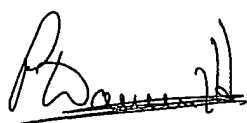
Consolidated balance sheet

At 31 December 2023

	Note	2023 £000s	2022 £000s
Fixed assets			
Intangible assets - goodwill	8	34,628	38,105
Tangible assets	9	8,448	6,120
Investments in joint ventures and associates	10	24,698	17,969
Other investments	10	262	262
		68,036	62,456
Current assets			
Stocks	11	12,783	12,902
Debtors			
- due within one year	12	531,337	507,792
- due after one year	12	40,620	44,166
		571,957	551,958
Cash at bank and in hand	13	104,671	152,700
		689,411	717,560
Creditors: amounts falling due within one year	14	(613,576)	(647,442)
Net current assets		75,835	70,118
Total assets less current liabilities		143,871	132,574
Creditors: amounts falling due after more than one year	15	(16,330)	(18,588)
Provisions for liabilities	16	(75,526)	(72,423)
Net assets		52,015	41,563
Capital and reserves			
Called up share capital	19	28,000	28,000
Profit and loss account	19	24,015	13,563
Shareholders' funds		52,015	41,563

The notes on pages 48 to 68 form part of these accounts

Approved by the Board of Directors on 21 March 2024 and signed on its behalf by:



P.M. WAINWRIGHT
DIRECTOR

Wates Construction Limited Annual reports and accounts 2023**Company number: 01977948****Company balance sheet**

At 31 December 2023

	Note	2023 £000s	2022 £000s
Fixed assets			
Tangible assets	9	2,929	4,297
Investments	10	104,337	96,520
		107,266	100,817
Current assets			
Stocks	11	12,712	12,842
Debtors			
- due within one year	12	361,460	406,146
- due after more than one year	12	41,792	40,100
		403,252	446,246
Cash at bank and in hand	13	76,565	125,488
		492,529	584,576
Creditors: amounts falling due within one year	14	(449,095)	(547,754)
Net current assets		43,434	36,822
Total assets less current liabilities		150,700	137,639
Creditors: amounts falling due after more than one year	15	(22,664)	(16,500)
Provisions for liabilities	16	(75,526)	(72,423)
Net assets		52,510	48,716
Capital and reserves			
Called up share capital	19	28,000	28,000
Profit and loss account	19	24,510	20,716
Shareholders' funds		52,510	48,716

The notes on pages 48 to 68 form part of these accounts

The profit for the year dealt with in the accounts of the parent company was £3,794,000 (2022: loss £2,095,000).

Approved by the Board of Directors on 21 March 2024 and signed on its behalf by:



P.M. WAINWRIGHT
DIRECTOR

Wates Construction Limited Annual reports and accounts 2023

Consolidated statement of changes in equity

At 31 December 2023

	Called up share capital £000s	Profit and loss account £000s	Total equity £000s
At 31 December 2021	28,000	22,732	50,732
Loss for the financial year	-	(3,001)	(3,001)
Currency translation difference on foreign currency net investment	-	(532)	(532)
Total comprehensive expense	-	(3,533)	(3,533)
Dividends declared on equity shares	-	(5,636)	(5,636)
At 31 December 2022	28,000	13,563	41,563
Profit for the financial year	-	10,208	10,208
Currency translation difference on foreign currency net investment	-	244	244
Total comprehensive income	-	10,452	10,452
At 31 December 2023	28,000	24,015	52,015

Company statement of changes in equity

At 31 December 2023

	Called up Share Capital £000s	Profit and loss Account £000s	Total equity £000s
At 31 December 2021	28,000	28,447	56,447
Total comprehensive expense	-	(2,095)	(2,095)
Dividends declared on equity shares	-	(5,636)	(5,636)
At 31 December 2022	28,000	20,716	48,716
Total comprehensive income	-	3,794	3,794
At 31 December 2023	28,000	24,510	52,510

The total comprehensive income/(expense) of the company for each of the two years ended 31 December 2023 is its profit/(loss) for these financial years.

Wates Construction Limited Annual reports and accounts 2023

Consolidated cash flow statement

For year ended 31 December 2023

	Note	2023 £000s	2022 £000s
Net cash inflow/(outflow) from operating activities	20	19,155	(8,637)
Cash flows from investing activities			
Disposal of tangible fixed assets		9	28
Proceeds from sale of properties with equity loans		-	37
Purchase of tangible fixed assets	9	(5,539)	(3,837)
Loans paid to joint ventures		(7,817)	(10,555)
Dividends received from joint ventures and associates	10	196	14
Net cash outflow from investing activities		(13,151)	(14,313)
Cash flows from financing activities			
Equity dividends paid		-	(5,636)
Net cash outflow from financing activities		-	(5,636)
Net increase/(decrease) in cash and cash equivalents		6,004	(28,586)
Cash and cash equivalents at beginning of year		98,667	127,253
Cash and cash equivalents		104,671	98,667

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

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 in accordance with the Companies Act 2006 and 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, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel. See note 26 for details of the ultimate parent company.

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 affected prior to the transition to FRS 102 on 1 January 2014.

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 2023, the company had cash, access to £90m of undrawn bank facilities through the Wates Group's £90m Revolving Credit Facility (RCF) which expires in March 2026 (extended by one year during 2023) and a strong forward order book which underpins the forecast for 2024. The RCF was adjusted by £6m in February 2024, from £90m to £84m, following the revaluation of the Wates Group's investment properties. The directors regularly review the working capital requirements and financial resilience of the company and the Wates Group as part of reviewing scenarios that test a range of sensitivities to future performance.

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

1. Accounting policies continued

iii) Going concern continued

The directors have reviewed the forecast performance of the Wates Group based on their current expectations about the future. This expectation draws on management's understanding of each sector that the Wates Group operates in and anticipates a continuation of the current level of activity across the Wates Group. Turnover levels are forecast to continue to increase throughout 2024. Within these forecasts, a significant proportion of the Wates Group's revenue is already secured.

Due to the potential volatility at the subsidiary level, Wates Group Limited intends to provide sufficient operational and financial support to 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 of the subsidiaries for the year ended 31 December 2023. 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 RCF.

In addition, the Wates Group has considered a number of potential downside sensitivities of varying impact and duration. Some reasonable possible downside sensitivities include: a significant contract loss, a significant reduction in contracting turnover, an increase in costs without any client recovery, and reductions in prices for both housing and land sales. These sensitivities do not take account of any potential mitigations available to alleviate the impact on cash flow. In assessing going concern the Wates Group has applied a probability weighting to each sensitivity to derive a severe but plausible downside scenario to test the resilience of the Wates Group's cash flow forecast. While the cash flow impact of this scenario is materially different to the current forecast, the Wates Group's forecast and severe but plausible scenario indicate that it would be able to continue trading for at least 12 months from the date of approval of the financial statements.

After making enquiries and considering the factors and sensitivities outlined above, the directors have a reasonable expectation that the Wates Group 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 is recognised at the fair value of the consideration received or receivable for sale of goods and services to external customers in the ordinary course of business. The fair value of consideration takes into account trade discounts, settlement discounts, volume rebates and other fees receivable.

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.

Construction contracts

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 forecast total costs.

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

1. Accounting policies continued

iv) Turnover continued

Rendering of services

Turnover is recognised as the service is performed. 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 into individual separable projects (and revenue can be directly attributed to that project), each project is accounted for on a percentage completion basis with reference to costs incurred to date as a proportion of forecast total costs.

Sale of residential and development properties

Turnover is recognised on the sale of residential properties and development properties that are legally completed within the year.

v) Pre-contract costs

Pre contract costs include direct internal and external costs associated with tendering and design activities. 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, at which point they are capitalised. Capitalised costs are assessed for impairment at each reporting date. For certain large multi-year frameworks, pre-contract costs are capitalised when it is sufficiently probable that the contract will be obtained.

vi) Research and development

Research and development costs are written off as incurred.

vii) Interest receivable and payable

Interest receivable comprises interest on cash balances held in bank accounts and invested in liquidity funds, on loans to joint ventures and on intercompany balances. Interest payable comprises interest payable on intercompany balances. Interest receivable and payable are recognised in the profit and loss account as they accrue.

viii) 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 (20 years). The useful economic 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.

ix) 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 categories of tangible fixed assets in equal annual installments over the estimated useful lives of the assets so as to write off cost less estimated residual values over the following periods:

Leasehold improvements	shorter of estimated useful economic life of period of lease
Plant and equipment	1 to 10 years
Business systems software	2 to 10 years

Business systems software is capitalised as a tangible fixed asset as the software is considered to be an integral part of management's intended use for the related hardware.

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

1. Accounting policies continued

x) 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.

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.

Investments

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

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.

xi) 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 the 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.

xii) 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 reports and accounts 2023

Notes to the accounts

1. Accounting policies continued

xiii) 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.

xiv) 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 are considered on a contract by contract basis and 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. Contingencies are held on contracts to address unmitigated risks and as not all risks are mitigated until contracts have been successfully delivered, an element of contingency is not released until the contracts are nearing completion. Losses incurred to the accounting date, together with any further losses that are foreseen in bringing contracts to completion, are recognised immediately and in full.

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 reports and accounts 2023

Notes to the accounts

1. Accounting policies continued

xiv) Contracts continued

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 final result for each site. The site margin is calculated by comparing forecast final sales to total forecast costs. Profit is recognised for each development site by applying the margin to actual property sales to date.

xvi) Tax

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 announced, 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.

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

1. Accounting policies continued

xviii) Retirement benefits

The Group 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 Group to use defined benefit accounting and so the Group 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 Group are disclosed in note 4.

In the ordinary course of business, the Group sometimes transfers employees (TUPE) and takes on obligations relating to local government pension schemes. Sufficient information is not available for the Group to use defined benefit accounting for these schemes so the Group accounts for them as defined contribution plans.

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.

xix) Provisions and recoveries

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow will be required to settle the obligation and the amount can be reliably estimated. Provisions are presented at the present value of the best estimate of the consideration required to settle the obligation present at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

When the Group expects some or all of a provision in respect of a completed contract to be reimbursed, for example, under an insurance contract or a contractual right to recourse from supply chain partners, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain. A completed contract is deemed to be one where practical completion has taken place, the defect liability period has expired, all notified defects signed off and any outstanding retentions have been received.

The expense relating to a provision is presented net of any reimbursement where the reimbursement has met the virtually certain recognition criteria.

xx) 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.

xxi) Dividends

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

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

1. Accounting policies continued

xxii) Significant areas of judgement and uncertainty

The preparation of the financial statements requires the Group to make judgements, estimates and assumptions that affect items reported. Such estimates and assumptions are based on management's best knowledge of current facts, circumstances and future events. Actual results may differ, possibly significantly, from those estimates.

Critical judgements

The Group considers that there are no critical judgments that will have a significant effect on amounts recognised in the financial statements.

Estimates

The estimates and associated assumptions used in the preparation of the financial statements 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 estimation arise from the accounting for contracts, assessments of the carrying value of residential development assets, the recognition of provisions and contingencies and reimbursement assets.

a) Accounting for contracts

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 estimation 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, reflecting both the forecasted costs and the reliable estimate of the forecasted revenue on each contract, and the profit or loss earned to date are updated regularly and significant changes are highlighted through established internal reporting and review procedures. The impact of any change in the accounting estimates is then reflected in the financial statements.

In deriving a reliable estimate, revenue is recognised to the extent that amounts forecast from variations and claims are agreed or considered, in management's judgement, probable to be agreed. The Group's five largest unagreed variations and claims positions as at 31 December 2023 related to contracts with an overall contract value of £484.0m, which have contributed total contract revenue in the year of £151.3m. In relation to these contracts, the Group has included probable estimated recoveries with a combined value of £32.5m. There are a host of factors affecting potential outcomes in respect of these variations and claims on each contract, which could result in a range of reasonably possible outcomes. Management estimates that these factors, in aggregate, could lead to a reasonably possible outcome ranging from upside of circa +25% to downside of circa -25%, relative to the estimated recovery of £32.5m reflected in these financial statements. In reality, it is highly unlikely that 100% of the aggregate upside or downside would materialise, with upside on some contracts offset by downside on others in the portfolio.

b) Carrying value of residential development assets (see note 11)

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

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

1. Accounting policies continued

xxii) Significant areas of judgement and uncertainty continued

c) Provisions and contingencies (see note 16 and 23)

In the event of the Group making a loss on a contract, provision is made for all losses that are foreseen in bringing contract to completion.

Provisions are estimates and the actual cost and timing of future cash flows are dependent on future events. The Group exercises judgement in recognising provisions and the exposure to contingencies. Judgement is necessary to assess the likelihood that a liability will arise and to quantify the possible amount of any out flow of resources. The inherent uncertainty of such matters means that actual amounts of transactions may differ materially from estimates made. Any difference between the amounts previously recognised and the actual amount is recognised immediately in the consolidated profit and loss account.

In considering whether recovery of costs from third parties, particularly insurers, are virtually certain, and therefore, recognisable as a separate asset, it is necessary to assess contractual arrangements, insurance policies, formal correspondence with relevant parties, expert opinion and legal advice as to liability. In general, insurance recoveries are deemed to be virtually certain when a favourable Legal Liability Report has been received from Legal Counsel.

2. Group statutory turnover

	2023 £000s	2022 £000s
Analysis of statutory turnover by class of business		
Construction	1,169,237	958,164
Property Services	544,738	498,788
Residential Developments	313,987	287,949
	2,027,962	1,744,901
	2023 £000s	2022 £000s
Analysis of statutory turnover by type		
Construction contracts	1,804,221	1,522,424
Rendering of services	192,503	159,053
Sale of residential properties	31,238	63,424
	2,027,962	1,744,901

Group statutory turnover is materially within the United Kingdom.

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

3. Group operating profit/(loss)

	2023 £000s	2022 £000s
This is stated after charging/(crediting):		
Amortisation of goodwill	3,477	3,477
Auditor's remuneration*		
- audit of these accounts	391	363
- audit of subsidiary accounts	366	340
Cost of stock recognised as expense	28,208	55,428
Depreciation of tangible assets including loss on disposal £13,000 (2022: £122,000)	3,203	1,790
Foreign exchange loss	237	527
Hire of plant and machinery	9,753	5,434
Operating lease payments	8,138	6,779
Charitable donations	1,528	1,529
Research and development tax credits	(10,935)	(2,695)
Research and development costs	42,001	14,678

* excludes fee payments made through joint ventures

Remuneration receivable by the company's auditors other than that shown above is disclosed in the financial statements of the parent company, Wates Group Limited.

4. Staff numbers and costs

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

	2023 Number	2022 Number
Operations	2,620	2,587
Administration	1,287	1,059
	3,907	3,646

	2023 £000s	2022 £000s
The aggregate payroll costs for the Group were as follows:		
Wages and salaries	244,552	218,629
Social security costs	28,454	26,662
Other pension costs	37,359	30,211
	310,365	275,502

The Group pension operating cost for the year was £14,997,000 (2022: £11,206,000) in respect of defined benefit arrangements and £22,362,000 (2022: £19,005,000) in respect of defined contribution arrangements. Further information on retirement benefits are included in note 1 (xviii).

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

5. Remuneration of directors

	2023 £000s	2022 £000s
Directors' emoluments	2,387	2,016
Amounts receivable under long-term incentive scheme	2,102	2,084
Contributions to money purchase scheme	70	28
	4,559	4,128

Four (2022: four) directors have retirement benefits accruing under a money purchase scheme.

	2023 £000s	2022 £000s
Highest paid director - emoluments	480	455
- amounts receivable under long-term incentive scheme	445	403

6. Net interest receivable

	2023 £000s	2022 £000s
Interest receivable		
Group undertakings	8,625	1,244
Bank	23	44
Other	2,571	756
Interest receivable	11,219	2,044

	2023 £000s	2022 £000s
Interest payable and similar charges		
Group undertakings	73	103
Other	-	4
Interest payable and similar charges	73	107

Other interest receivable includes amounts from Joint ventures of £1,466,000 (2022: £732,000) which is also included within interest payable by joint ventures disclosed on the face of the Consolidated profit and loss account.

7. Tax on profit/(loss)

a) Analysis of the charge in the year

	2023 £000s	2022 £000s
Current tax		
UK corporation tax on the profit/(loss) for the year	956	-
Adjustments in respect of previous years	2,659	756
Total current tax	3,615	756
Deferred tax		
Origination and reversal of timing differences	3,055	906
Adjustments in respect of previous years	305	(190)
Total deferred tax	3,360	716
Total tax on profit/(loss)	6,975	1,472

Wates Construction Limited Annual reports and accounts 2023

Notes to the accounts

7. Tax on profit/(loss) continued

During the year beginning 1 January 2024, 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 tax charge for the year

The total tax charge for the year is higher (2022: higher) than the blended standard rate of corporation tax in the UK of 23.5% (2022: 19%). The differences are explained below:

	2023 £000s	2022 £000s
Profit/(loss) before tax	17,183	(1,529)
Less share of loss after tax of joint ventures and associates taxed as separate entities	(29)	1
Group profit/(loss) before tax	17,154	(1,528)
Group profit/(loss) at the blended standard rate of corporation tax in the UK of 23.5% (2022: 19%)	4,031	(290)
Effects of:		
Permanent disallowable costs	526	568
Change in tax rates/timing differences	(546)	(356)
Group relief	-	984
Adjustments in respect of previous years	2,964	566
Group total tax charge for the year	6,975	1,472

8. Intangible assets – goodwill

Group	£000s
Cost 1 January 2023 and 31 December 2023	69,550
Amortisation:	
At 1 January 2023	31,445
Provided during the year	3,477
At 31 December 2023	34,922
Net book amounts:	
At 31 December 2023	34,628
At 31 December 2022	38,105

The net book value of goodwill at 31 December 2023 includes amounts and remaining amortisation periods regarding the following acquisitions:

Acquisition	Remaining amortisation period	Net book value of goodwill
Wates Property Services Limited	7.4 years	£10,054,000
Purchase Group	10.9 years	£4,536,000
Parts of the Shepherd Group	11.8 years	£20,038,000

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Notes to the accounts

9. Tangible fixed assets

Group	Leasehold improvements £000s	Plant and Equipment £000s	Business systems software £000s	Group total £000s
Valuation or cost:				
At 1 January 2023	2,406	8,471	5,453	16,330
Additions	1,638	1,969	1,932	5,539
Disposals	(349)	(709)	-	(1,058)
Transfers	2,747	(2,747)	-	-
At 31 December 2023	6,442	6,984	7,385	20,811
Depreciation:				
At 1 January 2023	1,898	4,490	3,822	10,210
Provided during the year	918	1,759	513	3,190
Disposals	(349)	(688)	-	(1,037)
Transfers	1,530	(1,530)	-	-
At 31 December 2023	3,997	4,031	4,335	12,363
Net book amounts:				
At 31 December 2023	2,445	2,953	3,050	8,448
At 31 December 2022	508	3,981	1,631	6,120

Leasehold improvements with a net book value of £1,217,000 (cost of £2,747,000 less accumulated depreciation of £1,530,000) were transferred from Plant and equipment to Leasehold improvements at 1 January 2023 in order to consistently classify our leasehold improvements across the Group.

Company	Leasehold improvements £000s	Plant and equipment £000s	Business systems software £000s	Company total £000s
Cost:				
At 1 January 2023	-	5,961	727	6,688
Additions	782	-	644	1,426
Disposals	-	(573)	(649)	(1,222)
Transfers	2,747	(2,747)	-	-
At 31 December 2023	3,529	2,641	722	6,892
Depreciation:				
At 1 January 2023	-	2,146	245	2,391
Provided during the year	607	1,559	304	2,470
Disposals	-	(574)	(324)	(898)
Transfers	1,530	(1,530)	-	-
At 31 December 2023	2,137	1,601	225	3,963
Net book amounts:				
At 31 December 2023	1,392	1,040	497	2,929
At 31 December 2022	-	3,815	482	4,297

Leasehold improvements with a net book value of £1,217,000 (cost of £2,747,000 less accumulated depreciation of £1,530,000) were transferred from Plant and equipment to Leasehold improvements at 1 January 2023.

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Notes to the accounts

10. Joint ventures and other investments

Group	Joint ventures £000s	Associates £000s	Total Joint ventures and associates £000s	Equity loans £000s
At 1 January 2023	17,678	291	17,969	262
Additions	7,817	-	7,817	-
Repayments	-	(196)	(196)	-
Share of (loss)/profit	(921)	29	(892)	-
At 31 December 2023	24,574	124	24,698	262

The investment in joint ventures includes loans amounting to £24,324,000 (2022: £17,443,000). Repayments includes dividends received from joint ventures and associates of £196,000 (2022: £14,000).

Joint ventures

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

	Interest	Registered office
HSDP Nominee Ltd	50.0% (Wates House, Station Approach,
HWR Nominee Ltd	50.0% (Leatherhead, Surrey KT22 7SW

The Group holds the following interests in limited liability partnerships:

	Interest	Registered office
Harrow Strategic Development Partnership LLP	50.0% (Wates House, Station Approach,
Havering and Wates Regeneration LLP	50.0% (Leatherhead, Surrey KT22 7SW
HSDP Byron Quarter LLP	50.0% (
HWR Phase 1 Stage 1 LLP	50.0% (
HWR Phase 1 Stage 2 LLP	50.0% (
HWR Phase 1 Demo Stages 3-10 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 TN1 1LQ
QSH Propco Limited	15.0%	1934 the Yard,
Quality Social Housing Management Limited	15.0%	Exploration Drive, Leicester LE4 5JD

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

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Notes to the accounts

10. Joint ventures and other investments continued

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 £262,000 (2022: £262,000), are repayable, together with a share in the capital appreciation, when the underlying property is sold. Included in the total are loans with a cost of £41,000 (2022: £41,000) which were repayable if the properties were not sold by 2021. These outstanding loans are secured by a charge over the property so are therefore considered recoverable. Loans with a cost of £221,000 (2022: £221,000) were interest free until 2016 when a fee of 1.75 percent per annum became receivable, rising annually by the Retail Price Index plus one percent.

Company	Shares in Group undertakings £000s	Interests in joint ventures £000s	Total £000s
As at 1 January 2023	78,294	18,226	96,520
Additions	-	7,817	7,817
As at 31 December 2023	78,294	26,043	104,337

The cost of shares in Group undertakings is £78,294,000 (2022: £78,294,000).

The investment in joint ventures includes loans amounting to £26,043,000 (2022: £18,226,000).

For the year ended 31 December 2023 the following subsidiary companies were entitled to exemption from audit of individual company accounts under Section 479A of the Companies Act 2006:

- Wates Construction Services Limited (company number 04341437)
- Wates Group Properties Limited (company number 01852973)
- Wates Homes (Cambridge) Limited (company number 04707328)
- Wates Maintenance Services Limited (company number 0316928)
- Wates Regeneration (Coventry) Limited (company number 04897433)

The Group's subsidiary undertakings are set out on page 69.

11. Stocks

	Group 2023 £000s	Group 2022 £000s	Company 2023 £000s	Company 2022 £000s
Raw materials and consumables	71	60	-	-
Residential land and work in progress under development	12,712	12,842	12,712	12,842
	12,783	12,902	12,712	12,842

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Notes to the accounts

12. Debtors

	Group 2023 £000s	Group 2022 £000s	Company 2023 £000s	Company 2022 £000s
Amounts falling due within one year				
Trade debtors	130,269	133,740	76,004	107,734
Amounts recoverable on contracts	192,444	196,745	124,674	147,707
Insurance reimbursement asset	17,691	11,462	17,691	11,462
Amounts owed by group undertakings	153,019	139,236	113,179	123,533
Amounts owed by joint ventures and associates	2,904	213	2,904	213
Corporation tax	18,370	9,491	16,465	8,606
Deferred tax (note 17)	1,171	1,192	-	-
Other debtors	4,708	3,072	4,611	2,861
Prepayments and accrued income	10,761	12,641	5,932	4,030
	531,337	507,792	361,460	406,146
Amounts falling due after one year				
Amounts recoverable on contracts	23,433	23,975	24,689	22,828
Insurance reimbursement asset	17,103	17,272	17,103	17,272
Deferred tax (note 17)	-	2,898	-	-
Other debtors	84	21	-	-
	40,620	44,166	41,792	40,100
	571,957	551,958	403,252	446,246

13. Cash at bank and cash in hand

	Group 2023 £000s	Group 2022 £000s	Company 2023 £000s	Company 2022 £000s
Cash at bank	104,671	152,700	76,565	125,488

Included within Group and company cash is £1,715,000 (2022: £nil) held in construction project bank accounts for future payment to designated suppliers.

The Group net cash position (being cash and cash equivalents excluding cash held in joint ventures and restricted cash, net of bank overdrafts) at year end is £104,671,000 (2022: £98,667,000).

The company net cash position (being cash and cash equivalents and restricted cash, net of bank overdrafts) at year end is £76,565,000 (2022: £71,455,000).

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Notes to the accounts

14. Creditors: amounts falling due within one year

	Group 2023 £000s	Group 2022 £000s	Company 2023 £000s	Company 2022 £000s
Bank overdrafts	-	54,033	-	54,033
Advance payments on account of contracts	94,445	128,259	84,815	121,428
Trade creditors	81,979	76,761	44,348	53,513
Amounts owed to group undertakings	38,878	38,239	27,269	24,174
Other taxes and social security	43,099	38,425	27,339	31,400
Deferred tax (note 17)	441	-	83	96
Other creditors	1,992	2,042	1,111	1,147
Accruals	348,784	306,976	264,130	261,963
Deferred income	3,958	2,707	-	-
	613,576	647,442	449,095	547,754

The bank overdraft in 2022 reflected an overdraft in a single bank account within Wates Construction Limited. This bank account formed part of the Group's only net overdraft facility arrangement. The aggregate amount held within the accounts covered by this facility were in a positive cash position at the balance sheet date. The overdraft presented arose because the Group placed funds on short term money market deposit which settled the above overdraft immediately following the year end. The overdraft was shown as a current liability to reflect the fact that the settlement of this overdraft was made through the transfer from the money market deposit rather than a net settlement within the cash pooling accounts.

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

	Group 2023 £000s	Group 2022 £000s	Company 2023 £000s	Company 2022 £000s
Advance payments on account of contracts	796	-	-	-
Accruals	14,855	17,559	22,664	16,500
Deferred income	679	1,029	-	-
	16,330	18,588	22,664	16,500

16. Provisions and recoveries

	Group 2023 £000s	Group 2022 £000s	Company 2023 £000s	Company 2022 £000s
At 1 January	72,423	56,535	72,423	55,255
Utilised during the year	(18,092)	(10,103)	(18,092)	(8,823)
Charged to profit and loss account	23,123	27,628	23,123	27,628
Credited to profit and loss account	(1,928)	(1,637)	(1,928)	(1,637)
At 31 December	75,526	72,423	75,526	72,423

Provisions arise predominantly in respect of remediation works on construction projects.

In making the provisions, directors have established that a contractual or constructive obligation exists at the balance sheet date and compiled an estimate of costs to complete the associated works. While the amount of the provision recorded has been reliably estimated, until all costs are final, the directors consider the estimated future cash outflow of £75,526,000 to be appropriate.

Some of these obligations are likely to crystallise more than one year but within three years after the balance sheet date.

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Notes to the accounts

16. Provisions and recoveries continued

The Group holds insurance policies or has sought recoveries from supply chain partner insurers to mitigate these liabilities. These are recognised as separate assets when the reimbursement is virtually certain. The directors consider the probable cash inflow to range from £34,794,000 to £41,556,000 while the amount recognised as virtually certain at the balance sheet date is £34,794,000 (see note 12). During the year £9,613,000 of insurance recoveries have been credited to the profit and loss account in respect of remediation works for which provisions have been made.

17. Deferred tax

	Group 2023 £000s	Company 2023 £000s
At 1 January	4,090	(96)
(Charged)/credited to profit and loss account	(3,360)	13
At 31 December	730	(83)

Deferred tax is provided as follows:

	Group 2023 £000s	Group 2022 £000s
Accumulated depreciation in excess of capital allowances	(639)	(5)
Other timing differences	1,369	4,095
Deferred tax	730	4,090

	2023 £000s	2022 £000s
Deferred tax asset under one year	1,171	1,192
Deferred tax asset over one year	-	2,898
Deferred tax liability over one year	(441)	-
	730	4,090

	Company 2023 £000s	Company 2022 £000s
Accumulated depreciation in excess of capital allowances	(177)	(554)
Short-term timing differences	94	458
	(83)	(96)

Deferred tax assets/(liabilities) are all under one year.

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Notes to the accounts

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	2023 £000s	2022 £000s
Financial assets		
Debt instruments measured at amortised cost		
• Loans receivable from joint ventures (notes 10 and 12)	24,324	17,443
Equity instruments measured at cost less impairment		
• Equity loans (note 10)	262	262
Interest income		
Total interest income for financial assets at amortised cost	1,466	732

19. Called up share capital and reserves

Group and company	2023 £000s	2022 £000s
Issued and fully paid: 28,000,000 (2022: 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

	2023 £000s	2022 £000s
Group operating profit/(loss) including joint ventures and associates	6,037	(3,466)
Profit on sale of properties with equity loans	-	(11)
Depreciation and amortisation	6,680	5,267
Joint ventures and associates	892	105
Decrease in stocks	119	13,620
Increase in debtors	(25,415)	(120,956)
Increase in creditors	18,153	78,338
Increase in provisions	3,103	15,888
Cash generated from/(used in) operations	9,569	(11,215)
Interest received	11,219	2,044
Interest paid	(73)	(107)
Corporation tax (paid)/received	(1,560)	641
Net cash (outflow)/inflow from operating activities	19,155	(8,637)

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Notes to the accounts

21. Net cash reconciliation

Group	1 January 2023 £000s	Cash flows £000s	31 December 2023 £000s
Cash at bank	152,700	(48,029)	104,671
Cash and cash equivalents	152,700	(48,029)	104,671
Bank overdrafts	(54,033)	54,033	-
Net cash	98,667	6,004	104,671

Company	1 January 2023 £000s	Cash flows £000s	31 December 2023 £000s
Cash at bank	125,488	(48,923)	76,565
Cash and cash equivalents	125,488	(48,923)	76,565
Bank overdrafts	(54,033)	54,033	-
Net cash	71,455	5,110	76,565

22. Operating lease commitments

	2023 £000s	2022 £000s
Group total future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	7,287	4,778
Between one and five years	11,002	5,855
After five years	-	12
	18,289	10,645

23. 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 amounts that the directors consider will become payable on account of claims. There are contingent liabilities in respect of guarantees and other agreements entered into in the normal course of business.

The Group continues to assess and analyse the impact of the Building Safety Act (BSA), which received royal assent in June 2022. The impact of the BSA gives rise to potential liabilities for remediation costs on residential buildings over 11m high constructed during the 30-year period to 30 June 2022. We have formally joined the Responsible Actors Scheme during the year for projects where we have acted as a Residential Developer but it is important to note that the Group's development activities of residential buildings over 11m during this extended period was limited.

Since the BSA came into force we have been notified of 13 potential claims, these are all at the investigation stage and we are currently awaiting expert reports and assessments as required under the Act. The vast majority of historical notifications of potential claims have not resulted in an outflow of resources or have been settled with little net expenditure after taking into account insurance recoveries.

New BSA related provisions in the amount of £3,722,000 were charged during the year. See note 16 on provisions and recoveries for further information.

There continues to be a high degree of uncertainty and it is not possible to quantify the future impact on the Group's financial position at this time. The Board is continuing to closely monitor developments.

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24. Related party transactions

Turnover in respect of the value of contracting work done for joint ventures in the year ended 31 December 2023 was £23,577,000 (2022: £27,203,000).

Amounts were due to the Group from joint ventures and associates at 31 December 2023 of £24,324,000 (2022: £17,656,000). Interest at market rates is receivable in respect of loans, which are unsecured, due from joint ventures.

25. Alternative performance measures

The performance of the Group is assessed using a variety of performance measures, including alternative performance measures (APM) which are presented to provide users with additional financial information that is regularly reviewed by management. The following APMs are referred to throughout the report.

Group turnover including the Group's share of joint ventures' and associates' turnover	2023 £000s	2022 £000s
Group statutory turnover	2,027,962	1,744,901
Share of turnover of joint ventures and associates	5,396	23,699
Group turnover	2,033,358	1,768,600

Operating profit/(loss) excluding the Group's share of joint ventures' and associates' interest and tax	2023 £000s	2022 £000s
Statutory Group operating profit/(loss): Group and share of joint ventures and associates	6,037	(3,466)
Share of net interest payable of joint ventures and associates	1,209	604
Share of tax of joint ventures and associates	(28)	35
Operating profit/(loss) *	7,218	(2,827)

* Also referred to as Total operating profit/(loss) before interest and tax on the face of the Consolidated profit and loss account

Operating profit/(loss) margin calculated as total operating profit before interest and tax divided by total revenue	2023 £000s	2022 £000s
Operating profit/(loss) margin	0.4%	(0.2)%

Group profit/(loss) before tax excluding the Group's share of joint ventures' and associates' tax	2023 £000s	2022 £000s
Group statutory profit/(loss) before tax	17,183	(1,529)
Share of tax of joint ventures and associates	(28)	35
Group profit/(loss) before tax	17,155	(1,494)

These APMs are not defined under FRS 102 and therefore may not be directly comparable with similarly identified measures used by other entities. They are not intended to be a substitute for, or superior to, FRS 102 measures.

26. Ultimate parent company

The company's immediate and ultimate parent company is Wates Group Limited, which is incorporated in United Kingdom and registered in England and Wales. The smallest and largest group into which the results of the company are consolidated is Wates Group Limited.

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.

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Subsidiary Undertakings

At 31 December 2023

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 Construction 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 Surrey One Ltd

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

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