

Company number: 01977948

WATES CONSTRUCTION LIMITED
Consolidated Accounts and Reports
for the year ended
31 December 2018

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Wates Construction Limited Annual Accounts and Reports 2018

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DIRECTORS AND ADVISORS

Directors

D.O. Allen
S.J. Beechey
H.P. Bunch
P. Chandler
D.K.E. Morgan
S.J. Potter (appointed 26 July 2018)
P.C. Rowan
S.J. Togwell (resigned 25 July 2018)
P.M. Wainwright (appointed 3 December 2018)

Company Secretary

D. O. Allen (resigned 3 December 2018) *
P. M. Wainwright (appointed 3 December 2018)

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Bankers

HSBC Bank plc
60 Queen Victoria Street
London
EC4N 4TR

Registered office

Wates House
Station Approach
Leatherhead
Surrey
United Kingdom
KT22 7SW

Telephone

01372 861000

Website

www.wates.co.uk

*David Allen remained a director

Wates Construction Limited Annual Accounts and Reports 2018

STRATEGIC REPORT

The directors present their Strategic Report which is followed by the Directors' Report and the audited consolidated Accounts for the year ended 31 December 2018.

Principal activities

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

Approach

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

Safety and wellbeing

Keeping people safe from harm and creating a healthy and safe environment wherever the Group operates is our number one priority. Since the introduction of a Group-wide Zero Harm campaign in 2016, we have seen a marked reduction in incidents. This continued in 2018 with the Group's RIDDOR Accident Frequency Rate down by 25% from 2017 at 0.035 – equivalent to a 70% drop over five years. The Group achieved a 29% reduction in Lost Time Injuries Reported (a 77% fall over five years) and its health and safety performance led the industry, with an accident incidence rate an impressive 77% below the industry average.

Financial performance

Financially, 2018 was another very positive year for the Group. Despite the challenging market conditions that affected many of our competitors Wates achieved a level of turnover that was consistent with 2017. Nearly 80% of Wates' turnover is derived from frameworks and repeat customers. The Group entered 2019 with 3,567 (2017: 3,683) people and a record forward order book of £5.4bn (2017: £5.1bn).

Turnover, including the Group's share of joint ventures' and associates' turnover, decreased slightly to £1.48bn. Profit before tax and before taxation of joint ventures and associates, was £9.6m. The Group's net assets increased to £107.8m. We ended the year with cash of £103.4m.

Housing

Wates has a proud history in housing. In 2018 it continued to cement its position as both a major residential developer and one of the country's leading providers of housing maintenance. During the year we were involved in the creation of over 7,000 new homes, including city centre flats, new build houses, retirement homes and student accommodation units. Our Property Services businesses maintained in excess of 500,000 homes in the social housing sector and managed facilities in more than 350 non-residential buildings. Our Residential business enjoyed significant growth, including the appointment to a 12-year estates regeneration programme in joint venture with the London Borough of Havering, which will deliver 3,000 new homes over the next 15 years.

Wates Construction Limited Annual Accounts and Reports 2018

Strategic Report continued

Caring for communities

The Group has a deep commitment to the communities in which it works. Our people volunteered 5,000 hours at more than 60 projects to support the communities in which they live and work, and the Group's supported a wide range of Social Enterprises (SEs), spending £5.5m with SEs in 2018 (2017: £2.7m).

Together with our partner Ixion, Wates delivered its 136th Building Futures Programme and celebrated its 1,500th participant since 2006. The programme helps unemployed adults get into work. 300 people were supported through the programme in 2018, with 70% moving into education, employment or training.

The Group has pioneered an industry / school engagement programme #ThinkBuild with Career Ready and Arcadis. Launched in 2016, the programme has now reached over 500 students through Insight Days, work experience and site visits. The Group also ran its second industry summer camp (the first was in 2017) to enable and empower those from disadvantaged backgrounds to join the sector – 56 young people attended the camp in 2018, with many drawn from among the most deprived neighbourhoods in the UK.

During 2018 the Group's four-year partnership with The Prince's Trust came to an end. We are proud that through donations from our people and support from the Wates Family Enterprise Trust, over £360,000 has been donated to help disadvantaged young people develop skills and identify opportunities for employment. In 2018 we selected a new charity partner, The Conservation Volunteers, and raised over £40k in the first six months of our partnership.

With a record order book, growing financial strength and a clear purpose, the Group is looking forward to 2019 and beyond with optimism.

Section 172 Companies Act 2006

Wates group is early adopting both the Wates Principles and the requirement to include a compliance statement in relation to Section 172 Companies Act 2006. For more information, see the Wates Group Limited Financial Statements.

Wates Construction Limited Annual Accounts and Reports 2018

STRATEGIC REPORT (continued)

Principal risks and uncertainties

Risk	Mitigation
A. Health and safety	
<p>The Group is involved in activities and environments that have the potential to cause serious injury to its stakeholders, or to damage property, the environment or our reputation. We are reliant on a largely subcontracted workforce to operate to our high standards and procedures.</p>	<p>The health and safety of people is the primary focus of the Group. In order to control risk and prevent harm, the Group is focused on achieving the highest standards of health and safety management. This is achieved by establishing effective health and safety procedures and ensuring that effective leadership and organisational arrangements are in place to operate these procedures.</p>
B. Market risk	
<p>Demand for the services of the Group is cyclical and may be vulnerable to sudden economic downturns, a lack of confidence in the housing market and the broader economy, reductions in government and private sector spending, regulatory developments (including building and fire regulations) and increases in costs.</p>	<p>The Group's strategic focus is on those market sectors in which a competitive advantage is maintained and that have the most potential for profitable growth. To limit the impact of exposure to any one sector, the Group has diversified its product and service offering across different market sectors. Members of our leadership team participate in political, economic and regulatory forums to maintain effective working relationships with the government and regulatory authorities.</p>
C. Brexit	
<p>The impact of Brexit continues to create uncertainty in the UK economy. This may result in clients delaying, curtailing or cancelling proposed and existing projects. It may also increase the level of counter-party credit and currency risk faced by the Group.</p>	<p>The Group continues to monitor the UK's progress towards Brexit and has developed plans to respond to a range of potential scenarios. This includes specific plans that cater for changes in market conditions, complications with the movement and availability of our workforce, pressure on the supply chain, delays in delivery of materials and components, changes in exchange rates and pricing impact of increased tariff and commodity costs. The Group has analysed the forward order book and does not see a significant impact on current or future projects. The Group does not deliver any contract, projects or services to any other country in the EU.</p>
D. Competition	
<p>The construction sector is highly competitive with low margins. If it does not compete effectively in its market sectors, the Group runs the risk of losing market share. While service quality, capability, reputation and experience are considered in client decisions, price often remains one of the determining factors in contract awards.</p>	<p>The Group mitigates competitive risk by seeking to target projects where it has a competitive advantage and can manage its costs and risks. The risk profile of every bid is assessed at the estimation stage to determine whether it is in line with the strategic objectives of the Group before approval to tender is given. The Group is highly selective at bid stage and will only take on work that it can deliver effectively.</p>

Wates Construction Limited Annual Accounts and Reports 2018

STRATEGIC REPORT (continued)

Principal risks and uncertainties (continued)

Risk	Mitigation
E. Project Delivery Execution of projects involves professional judgement in estimating, planning, design and construction, often in complex environments. The Group's projects could encounter difficulties that could lead to cost and time overruns, lower revenues, litigation or disputes.	The Group's activities are guided by an Operating Framework that mandates rigorous policies and procedures throughout the project lifecycle. These, combined with comprehensive management oversight, the risk management process, project reviews, independent internal and external audits, peer reviews and customer feedback help mitigate the risk to successful project delivery. There is close scrutiny of the financial judgements made on projects and the Group takes a highly prudent view on the recognition of revenue and profit.
F. Liquidity (Financial Risk) Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due and could affect our ability to invest, win work or pay dividends	The Group manages liquidity such that it always has sufficient liquidity to meet its liabilities when due. The Group continually monitors and stress tests its liquidity position, ensuring there are sufficient funding arrangements to meet operational costs. These are regularly reviewed and approved by the Group Board, including any conditions of the funding.
G. Appointing and retaining talent The success of the Group is dependent on being able to attract and retain people that have the necessary experience and expertise. Competition for high quality people is intense.	The Group knows that its people are at the heart of its on-going success. It seeks to offer market-competitive remuneration (which is reviewed regularly), training and career development opportunities, and to be an attractive and engaging employer. The Group is an Investors in People Gold accredited employer.
H. Systems, Data, Cyber Security & GDPR A loss of our key systems through a lack of resilience or an information security breach or attack, could impact the successful delivery of our projects and lead to a loss of confidential data, damaging our reputation and brand.	Robust controls and procedures are in place to effectively monitor our systems for on-going performance and external threats. The Group is continually developing and upgrading its IT infrastructure, software and cyber threat and assessment capabilities through its transformation strategies. We continue to develop and enhance our data protection procedures in line with regulations. The controls and procedures are regularly subject to independent internal and external audit.

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STRATEGIC REPORT (continued)

Analysis of Financial Key Performance Indicators

Group Performance

Group turnover, including the Group's share of joint ventures' and associates' turnover, remain consistent to 2017 at £1.5bn. Total operating profit before interest and tax was £6.8m (2017: £11.2m). Pre-tax profit was £9.6m (2017: £14m).

The forward-order book finished the year at £5.4bn (2017: £5.1bn).

Construction

Construction turnover, including its share of joint ventures, was £849.0m (2017: £934.8m), 9.2% down on 2017.

Following our appointment to the Scape Procure major works framework, we have seen a steady demand for new projects for the public sector. Our productive relationship with the Department for Education saw us work on over £500m of new education projects during 2018, making Wates the leading contractor in this sector.

Our Construction business was appointed as lead contractor for the Northern Estates Programme for the Parliamentary Estate, a project of real national and historical significance.

Residential Developments

Turnover for Residential Developments (including share of joint ventures) increased by 4.2% to £115.3m (2017: £110.6m). House building through joint ventures and public sector collaborations (Wates Residential acting as developer) delivered 252 residential units. The business also operates as a contractor for public sector clients and has delivered 981 residential units.

Property Services

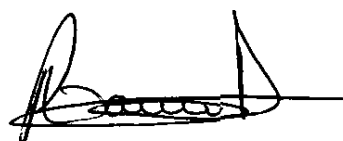
Property Services turnover, including its share of associates' turnover, was £515.5m (2017: £481.0m), 7.2% up on 2017.

In 2018, Property Services maintained in excess of 500,000 properties in the social housing sector and managed facilities in more than 350 non-residential buildings.

Cash flow

The Group's cash position was resilient throughout the year. At 31 December 2018, the gross cash balance was £103.4m (2017: £162.5m). Inflows from dividends received from joint ventures and associates £1.4m were offset by outflows from purchase of fixed assets (£1.1m) and Group operating activities (£60.4m) due to transfer of £55m to the parent company for investments in property developments.

Approved by the Board of Directors on 13 March 2019 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2018

DIRECTORS' REPORT

The directors present their Annual Accounts and Reports for the year ending 31 December 2018. This report must be read in conjunction with the Strategic Report on page 3.

Directors

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

D.O. Allen
S.J. Beechey
H.P. Bunch
P. Chandler
D.K.E. Morgan
S. J. Potter (appointed 26 July 2018)
P.C. Rowan
S.J. Togwell (resigned 25 July 2018)
P.M. Wainwright (appointed 3 December 2018)

Directors' indemnity

Directors benefited from a qualifying pension scheme indemnity provision during the financial year and benefit from this at the date of this report.

Dividend

The directors have not proposed a dividend for 2018 (2017: £nil).

Health & Safety

The Board remains committed to the effective management and monitoring of health and safety and to providing a safe working environment for all employees and partners and to keeping members of the public with whom the Group comes into contact free from harm. The Group's Zero Harm campaign 'we're safer together' remains a key strategic priority to further enhance the 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 Group recognises the importance of engaging employees to help them make their fullest contribution to the business, which is fundamental to achieving the Group's strategy and long-term objectives. Wates uses a variety of media to inform employees about the Group's development and prospects and seeks and listens to employees' views and opinions.

The Group's annual Roadshow, which is open to all employees, is the forum by which the Chief Executive informs and updates staff on the Group's performance, plans and future outlook and provides employees with an opportunity to ask questions, or to seek clarification, on the Group's purpose, goals and direction. Twice a year, the Group's senior leadership team convene to share knowledge, disseminate good practice and to discuss strategic priorities. Informal meetings are held at business unit and regional levels and further communication is effected through the use of in-house magazines, electronic bulletins, notice boards, social media, the Group's website and a weekly blog, which features guest contributors from all parts of the Group.

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

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DIRECTORS' REPORT (continued)

Equal Opportunities

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

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

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

Corporate Responsibility

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

Research and Development

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

Donations

During the year the Group made charitable donations amounting to £1,511,000. No political donations were made in 2018.

Going Concern

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's accounts. Further details regarding the adoption of the going concern basis can be found in note 1 iii) to the accounts.

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.

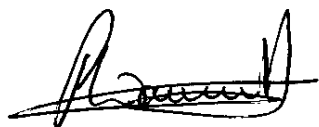
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DIRECTORS' REPORT (continued)

Post Balance Sheet Events

There were no post balance sheet events requiring disclosure.

Approved by the Board of Directors on 13 March 2019 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2018

Statement of Directors' Responsibilities in respect of the financial statements

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

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

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

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

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

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

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Independent Auditors' Report to the members of Wates Construction Limited

Report on audit of the financial statements

Opinion

In our opinion, Wates Construction Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Accounts and Reports (the "Annual Report") which comprise: the Consolidated and Company Balance Sheets as at 31 December 2018; the Consolidated Profit and Loss Account and Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement and the Consolidated and Company Statements of Changes in Equity for the year ended; and the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Wates Construction Limited Annual Accounts and Reports 2018

Independent Auditors' Report to the members of Wates Construction Limited continued

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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Independent Auditors' Report to the members of Wates Construction Limited continued

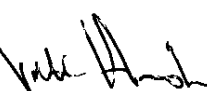
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors,
London

13 March 2019

Wates Construction Limited Annual Accounts and Reports 2018

Consolidated Profit and Loss Account

For the year ended 31 December 2018

	Notes	2018 £000s	2017 £000s
Turnover:			
Group and share of joint ventures and associates		1,479,802	1,526,315
Less share of turnover of joint ventures and associates		(12,772)	(8,885)
Group turnover: continuing operations	2	1,467,030	1,517,430
Cost of sales		(1,324,122)	(1,381,720)
Gross profit		142,908	135,710
Administrative expenses		(136,157)	(124,469)
Group operating profit	3	6,751	11,241
Share of post-tax profit from joint ventures and associates	10	1,134	971
Total operating profit - Group and share of joint ventures and associates:		7,885	12,212
Analysed between:			
Total operating profit before interest and tax		8,574	12,562
Net interest payable – joint ventures and associates		(789)	(315)
Taxation – joint ventures and associates		100	(35)
Net interest receivable	6	1,672	1,736
Profit before taxation		9,557	13,948
Analysed between:			
Profit before taxation and taxation of joint ventures and associates		9,457	13,983
Taxation – joint ventures and associates		100	(35)
Tax on profit	7	(2,974)	(3,736)
Profit for the financial year		6,583	10,212

The above results have all been derived from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 £000s	2017 £000s
Profit for the financial year	6,583	10,212
Currency translation difference on foreign currency net investment	(471)	721
Share of other comprehensive income of joint venture	559	44
Other comprehensive income for the year	88	765
Total comprehensive income for the year	6,671	10,977

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

Wates Construction Limited Annual Accounts and Reports 2018

Company number: 1977948

Consolidated Balance Sheet

As at 31 December 2018

	Notes	2018 £000s	2017 £000s
Fixed assets			
Intangible assets - Goodwill	8	52,013	55,491
Tangible assets	9	4,396	5,478
Investments in joint ventures	10	2,826	4,168
Other investments	10	794	829
		60,029	65,966
Current assets			
Stocks	11	18,709	17,834
Debtors			
- due within one year	12	381,655	325,720
- due after more than one year	12	18,528	19,964
		400,183	345,684
Cash at bank and in hand		103,353	162,509
		522,245	526,027
Creditors: amounts falling due within one year	13	(449,816)	(470,921)
Net current assets		72,429	55,106
Total assets less current liabilities		132,458	121,072
Creditors: amounts falling due after more than one year	14	(15,900)	(16,131)
Provisions for liabilities	15	(8,779)	(3,833)
Net assets		107,779	101,108
Capital and reserves			
Called up share capital	18	28,000	28,000
Cash flow hedge reserve	18	-	(559)
Profit and loss account	18	79,779	73,667
Shareholders' funds		107,779	101,108

The notes on pages 20 to 40 form part of these accounts

Approved by the Board of Directors on 13 March 2019 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2018

Company number: 1977948

Company Balance Sheet

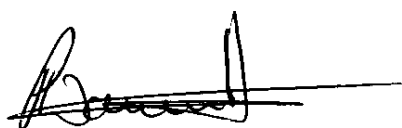
As at 31 December 2018

	Notes	2018 £000s	2017 £000s
Fixed assets			
Tangible assets	9	194	67
Investments	10	73,894	75,821
		74,088	75,888
Current assets			
Stocks	11	18,420	17,484
Debtors			
- due within one year	12	317,914	264,672
- due after more than one year	12	15,198	15,971
		333,112	280,643
Cash at bank and in hand		80,176	130,486
		431,708	428,613
Creditors: amounts falling due within one year	13	(375,063)	(383,311)
Net current assets		56,645	45,302
Total assets less current liabilities		130,733	121,190
Creditors: amounts falling due after more than one year	14	(9,928)	(11,893)
Provisions for liabilities	15	(8,779)	(3,833)
Net assets		112,026	105,464
Capital and reserves			
Called up share capital	18	28,000	28,000
Profit and loss account	18	84,026	77,464
Shareholders' funds		112,026	105,464

The notes on pages 20 to 40 form part of these accounts

The profit for the year dealt with in the accounts of the parent company was £6,562,000 (2017: £11,331,000).

Approved by the Board of Directors on 13 March 2019 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual Accounts and Reports 2018

Consolidated Statement of Changes in Equity

At 31 December 2018

	Called up share capital £000s	Cash flow hedge Reserve £000s	Profit and loss account £000s	Total equity £000s
At 31 December 2016	28,000	(603)	62,734	90,131
Profit for the financial year	-	-	10,212	10,212
Currency translation difference on foreign currency net investment	-	-	721	721
Share of the other comprehensive expense of joint venture	-	44	-	44
Total comprehensive income	-	44	10,933	10,977
Dividends paid on equity shares	-	-	-	-
At 31 December 2017	28,000	(559)	73,667	101,108
Profit for the financial year	-	-	6,583	6,583
Currency translation difference on foreign currency net investment	-	-	(471)	(471)
Share of other comprehensive income of joint venture	-	559	-	559
Total comprehensive income	-	559	6,112	6,671
Dividends paid on equity shares	-	-	-	-
At 31 December 2018	28,000	-	79,779	107,779

Company Statement of Changes in Equity

At 31 December 2018

	Called up Share Capital £000s	Profit and loss Account £000s	Total equity £000s
At 31 December 2016	28,000	66,133	94,133
Total comprehensive income	-	11,331	11,331
Dividends paid on equity shares	-	-	-
At 31 December 2017	28,000	77,464	105,464
Total comprehensive income	-	6,562	6,562
Dividends paid on equity shares	-	-	-
At 31 December 2018	28,000	84,026	112,026

The total comprehensive income of the Company for each of the two years ended 31 December 2018 is its profit for these financial years.

Wates Construction Limited Annual Accounts and Reports 2018

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Notes	2018 £000s	2017 £000s
Net cash outflow from operating activities	19	(60,392)	(23,070)
Cash flows from investing activities			
Disposal of tangible fixed assets		220	65
Disposal of Investments		34	-
Purchase of tangible fixed assets		(1,149)	(2,105)
Net loans repaid by joint ventures and other borrowers		745	80
Dividends received from joint ventures and associates		1,386	213
Net cash inflow / (outflow) from investing activities		1,236	(1,747)
Cash flows from financing activities			
Equity dividends paid		-	-
Net cash outflow from financing		-	-
Net decrease in cash and cash equivalents		(59,156)	(24,817)
Cash and cash equivalents at beginning of year		162,509	187,326
Cash and cash equivalents at end of year		103,353	162,509

Cash and cash equivalents are cash at bank and in hand.

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts

As at 31 December 2018

1. Accounting policies

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

i) General information and basis of accounting

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

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

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

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

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

ii) Basis of consolidation

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

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

iii) Going concern

The Group has considerable financial resources, together with a strong forward-order book, with a number of customers and suppliers across different geographic areas and market sectors. As a consequence, the directors believe that the Group is well placed to manage the principal business risks and uncertainties set out in the Strategic Report effectively. The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's accounts.

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

1. Accounting policies (continued)

iv) Turnover

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

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

v) Pre-contract costs

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

vi) Research and development

Research and development costs are written off as incurred.

vii) Intangible assets – goodwill

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

viii) Tangible fixed assets and depreciation

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

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

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

1. Accounting policies (continued)

ix) Financial instruments

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

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

(a) Financial assets and liabilities

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

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

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

(b) Investments

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

(c) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs. Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as an appropriation of profits.

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

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

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

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

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

1. Accounting policies (continued)

x) Joint ventures and associates

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

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

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

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

xi) Stocks

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

xii) Impairment of assets

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

Non financial assets

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

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

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

Financial assets

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

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

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

1. Accounting policies (continued)

xiii) Contracts

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

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

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

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

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

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

xiv) Residential developments

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

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

1. Accounting policies (continued)

xv) Taxation

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

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

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

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

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

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

xvi) Leases

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

xvii) Retirement benefits

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

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

A subsidiary of the group participates, in respect of certain employees, in the West Midlands Pension Fund, a defined benefit scheme administered by the City of Wolverhampton Council for employees of approximately 600 active employers. This scheme is part of the Local Government Pension Scheme. Sufficient information is not available for the Group to use defined benefit accounting and so the Group accounts for this scheme as a defined contribution plan. Information about the scheme is disclosed in the accounts of the City of Wolverhampton Council on www.wolverhampton.gov.uk and in the accounts of the scheme available on www.wmpfonline.com.

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

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

1. Accounting policies (continued)

xviii) 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.

xix) Significant areas of judgement and uncertainty

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

The most critical accounting policies and significant areas of judgement and estimation arise from the accounting for contracts.

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

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

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

2. Group Turnover

	2018 Turnover £000s	2017 Turnover £000s
Analysis by class of business:		
Construction	846,549	932,499
Residential Developments	107,506	106,310
Property Services	512,975	478,621
Group total	1,467,030	1,517,430
Analysis of Group turnover:		
Construction contracts	1,216,772	1,323,090
Rendering of services	217,194	171,291
Sale of residential properties	33,064	23,049
Group total	1,467,030	1,517,430

The analysis of Group turnover has been reanalysed to show rendering of services, which is in respect of responsive maintenance and facilities management, separately from construction contracts and the figures for 2017 have been restated accordingly.

Group turnover is materially within the United Kingdom.

3. Group operating profit

	2018 £000s	2017 £000s
This is stated after charging / (crediting)		
Amortisation of goodwill	3,478	3,493
Auditors' remuneration*		
- audit of these accounts	127	123
Auditors' remuneration		
- audit of subsidiary accounts	155	124
Cost of stock recognised as expense	30,229	20,528
Depreciation of tangible assets		
(including loss on disposal £7,000 (2017: loss £86,000))	2,025	2,065
Foreign exchange gain	(471)	780
Hire of plant and machinery	7,271	6,242
Operating lease payments	5,052	5,194
Research and development taxation credits	(1,169)	(1,928)
Research and development	7,108	6,513

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

* excludes fee payments made through joint ventures

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

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:

	Group 2018 Number	Group 2017 Number	Company 2018 Number	Company 2017 Number
Operations	2,704	2,821	1,313	1,272
Administration	863	862	404	372
	3,567	3,683	1,717	1,644

	2018 £000s	2017 £000s	2018 £000s	2017 £000s
The aggregate payroll costs for the Group were as follows:				
Wages and salaries	195,995	190,922	121,884	112,398
Social security costs	23,187	22,293	14,757	13,448
Other pension costs	19,544	17,977	14,472	13,067
	238,726	231,192	151,113	138,913

The pension operating cost for the year was £4,778,000 (2017: £4,826,000) in respect of defined benefit arrangements (see page 25) and £14,766,000 (2017: £13,151,000) in respect of defined contribution arrangements.

5. Remuneration of directors

	2018 £000s	2017 £000s
Directors' emoluments	1,980	1,838
Amounts receivable under long-term incentive scheme	-	1,462
Contributions to money purchase scheme	84	96
	2,064	3,396

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

No directors (2017: none) have retirement benefits accruing under a defined benefit scheme and four (2017: four) directors have retirement benefits accruing under defined contribution schemes.

	2018 £000s	2017 £000s
Highest paid director		
- emoluments	384	541
- amounts receivable under long-term incentive scheme	-	369
- contributions to money purchase scheme	18	-

At 31 December 2018, the highest paid director had accrued entitlement under a defined benefit scheme of £nil (2017: £65,000). There is no accrued lump sum.

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

6. Net interest receivable

	2018 £000s	2017 £000s
Interest receivable:		
Group undertakings	1,316	1,397
Bank	121	35
Other	235	305
Interest receivable and similar income	1,672	1,737
Interest payable:		
Other	-	(1)
Interest payable and similar charges	-	(1)
Net interest receivable	1,672	1,736

7. Tax on profit on ordinary activities

a) Analysis of the charge in the year

	2018 £000s	2017 £000s
Current tax		
UK corporation tax on the profit for the year at 19% (2017: 19.25%)	2,494	3,241
Adjustments in respect of previous years	439	69
Total current tax	2,933	3,310
Deferred tax		
Origination and reversal of timing differences	98	425
Adjustments in respect of previous years	(57)	1
Total deferred tax charge	41	426
Total tax on profit	2,974	3,736

During the year beginning 1 January 2019, the net reversal of deferred tax assets is not expected to increase the corporation tax charge for the year significantly as the net reversal will be offset by lower current tax in respect of timing differences. There is no expiry date on timing differences.

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

The total tax charge for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%) The differences are explained below:

	2018 £000s	2017 £000s
Profit before taxation	9,557	13,948
Add / less share of loss / (profit) after tax of joint ventures and associates taxed as separate entities	469	(141)
Group profit before tax	10,026	13,807
Group profit at standard rate of corporation tax in the UK of 19% (2017: 19.25%)	1,905	2,658
Effects of:		
Permanent disallowable costs	981	1,169
Group relief	-	(161)
Decrease in tax rate / timing differences	(294)	-
Adjustments in respect of previous years	382	70
Group total tax charge for the year	2,974	3,736

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

8. Intangible assets – goodwill

Group	£000s
Cost 1 January 2018 and 31 December 2018	69,550
Amortisation:	
At 1 January 2018	14,059
Provided during the year	3,478
At 31 December 2018	17,537
Net book amounts:	
At 31 December 2018	52,013
At 31 December 2017	55,491

The net book value of goodwill at 31 December 2018 includes amounts and remaining amortisation periods regarding the following acquisitions:

Wates Living Space (Maintenance) Limited - £16,829,000 – 12.4 years

Purchase Group Limited Group - £6,621,000 – 15.9 years

Parts of the Shepherd Group £28,563,000 – 16.8 years

9. Tangible assets

	Land and Buildings		Plant and	Assets in	Group
	Freehold	Short	equipment	the course of	total
Group	£000s	leasehold	£000s	construction	£000s
Valuation or cost:					
At 1 January 2018	180	2,083	14,199	-	16,462
Additions	-	227	777	145	1,149
Disposals	(180)	(641)	(862)	-	(1,683)
At 31 December 2018	-	1,669	14,114	145	15,928
Depreciation:					
At 1 January 2018	(22)	(841)	(10,121)	-	(10,984)
Provided during the year	(1)	(327)	(1,690)	-	(2,018)
Disposals	23	641	806	-	1,470
At 31 December 2018	-	(527)	(11,005)	-	(11,532)
Net book amounts:					
At 31 December 2018	-	1,142	3,109	145	4,396
At 31 December 2017	158	1,242	4,078	-	5,478

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

9. Tangible fixed assets (continued)

Company	Plant and equipment £000s	Assets in the course of construction £000s	Total £000s
Cost:			
At 1 January 2018	2,541	-	2,541
Additions	33	145	178
At 31 December 2018	2,574	145	2,719
Depreciation:			
At 1 January 2018	2,474	-	2,474
Provided during the year	51	-	51
At 31 December 2018	2,525	-	2,525
Net book amounts:			
At 31 December 2018	49	145	194
At 31 December 2017	67	-	67

10. Joint ventures and other investments

Group	Interests in joint ventures £000s	Interest in associates £000s	Equity loans £000s	Total other investments £000s
At 1 January 2018	4,168	294	535	829
Additions	1,700	-	-	-
Repayments	(3,796)	-	(69)	(69)
Transfer to debtors	(905)	-	-	-
Share of profit	1,100	34	-	34
Share of other comprehensive income	559	-	-	-
At 31 December 2018	2,826	328	466	794

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

10. Joint ventures and other investments (continued)

Joint ventures

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

	Interest	Registered Office
Luton Learning and Community Partnership Limited *	80.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW
Annington Wates (Cove) Limited	50.0%	
Luton Challney (Refico) Limited	8.0%	2 Hunting Gate, Hitchin, Hertfordshire SG4 0TJ
QED Luton (Challney) Limited	8.0%	
QED Luton (Challney) Holdings Limited	8.0%	

The Group holds the following interests in limited liability partnerships:

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

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%	2 Merus Court, Meridian Business Park, Leicester LE19 1RJ
Quality Social Housing Management Limited *	15.0%	

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

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

*Owned directly by Wates Construction Limited

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 £466,000 (2017: £535,000), are repayable together with a share in the capital appreciation when the underlying property is sold. Included in this total are interest free loans with a cost of £144,000 (2017: £144,000) which are repayable if the properties are not sold by 2021. The loans are secured by a charge over the property. Loans with a cost of £322,000 (2017: £391,000) were interest free until 2018 when a fee of 1.75 percent per annum is receivable, rising annually by the Retail Price Index plus one percent.

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Notes to the Accounts (continued)

As at 31 December 2018

10. Joint ventures and other investments (continued)

Company	Ordinary shares in Group undertakings £000s	Interests in joint ventures £000s	Total £000s
As at 1 January 2018	72,294	3,527	75,821
Additions	-	1,600	1,600
Repayments	-	(3,527)	(3,527)
As at 31 December 2018	72,294	1,600	73,894

The cost of shares in Group undertakings is £72,294,000 (2017: £72,335,000).

The cost of shares in joint ventures is £80 (2017: £80)

For the year ending 31 December 2018 the following subsidiary companies were entitled to exemption from audit of individual company accounts under Section 479A of the Companies Act 2006:

Wates Group Properties Limited (company number 01852973)
Wates Maintenance Services Limited (company number 0316928)
Wates Regeneration (Coventry) Limited (company number 04897433)
Wates Interiors Limited (company number 04002476)
Wates Construction Services Limited (company number 04341437)
Purchase Group Limited (company number 05322443)
Purchase Homes Limited (company number 07883671)

The Group's subsidiary undertakings are set out on pages 39 to 40.

11. Stocks

	Group 2018 £000s	Group 2017 £000s	Company 2018 £000s	Company 2017 £000s
Raw materials and consumables	289	260	-	-
Residential land and work in progress under development	18,420	17,574	18,420	17,484
	18,709	17,834	18,420	17,484

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Notes to the Accounts (continued)

As at 31 December 2018

12. Debtors

	Group 2018 £000s	Group 2017 £000s	Company 2018 £000s	Company 2017 £000s
Amounts falling due within one year				
Trade debtors	83,823	80,094	58,264	58,660
Amounts recoverable on contracts	158,096	160,828	104,945	107,719
Amounts owed by group undertakings	129,097	70,470	129,759	70,300
Amounts owed by subsidiary undertakings	-	-	18,322	17,090
Amounts owed by joint ventures and associates	1,485	1,838	1,485	1,838
Corporation tax	1,991	1,526	2,626	1,757
Deferred taxation (note 16)	1,287	664	220	228
Other debtors	507	2,663	154	2,384
Prepayments and accrued income	5,369	7,637	2,139	4,696
	381,655	325,720	317,914	264,672
Amounts falling due after more than one year				
Amounts recoverable on contracts	15,199	15,971	15,198	15,971
Deferred taxation (note 16)	3,329	3,993	-	-
	18,528	19,964	15,198	15,971
	400,183	345,684	333,112	280,643

13. Creditors: amounts falling due within one year

	Group 2018 £000s	Group 2017 £000s	Company 2018 £000s	Company 2017 £000s
Advance payments on account of contracts	87,111	114,594	84,641	106,958
Trade creditors	86,178	95,598	47,046	57,289
Amounts owed to subsidiaries	-	-	4,597	1,849
Amounts owed to group undertakings	21,058	16,655	20,233	16,655
Other taxes and social security	18,251	17,526	13,930	9,445
Other creditors	3,580	3,405	2,678	2,717
Accruals	232,876	222,281	201,938	188,398
Deferred income	762	862	-	-
	449,816	470,921	375,063	383,311

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

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

	Group 2018 £000s	Group 2017 £000s	Company 2018 £000s	Company 2017 £000s
Trade creditors	1,827	978	-	-
Accruals	10,005	12,183	9,928	11,893
Deferred income	4,068	2,970	-	-
	15,900	16,131	9,928	11,893

15. Provisions for liabilities

	Group 2018 £000s	Group 2017 £000s	Company 2018 £000s	Company 2017 £000s
At 1 January	3,833	3,881	3,833	3,881
Utilised during the year	(1,626)	(1,077)	(1,626)	(1,077)
Profit and loss account – charge	6,572	1,029	6,572	1,029
At 31 December	8,779	3,833	8,779	3,833

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

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

16. Deferred taxation asset

	Group 2018 £000s	Company 2018 £000s
At 1 January	4,657	228
Charged to profit and loss account	(41)	(8)
At 31 December	4,616	220

Deferred tax is provided as follows:

	Group 2018 £000s	Group 2017 £000s
Depreciation in excess of capital allowances	761	554
Other timing differences	3,855	4,103
Deferred taxation	4,616	4,657

	2018 £000s	2017 £000s
Deferred taxation asset under one year	1,287	664
Deferred taxation asset over one year	3,329	3,993
	4,616	4,657

	Company 2018 £000s	Company 2017 £000s
Depreciation in excess of capital allowances	211	219
Short-term timing differences	9	9
Deferred taxation asset under one year	220	228

17. 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	2018 £000s	2017 £000s
Financial assets		
Debt instruments measured at amortised cost		
• Loans receivable from joint ventures (note 10)	3,050	3,316
Equity instruments measured at cost less impairment		
• Equity loans (note 10)	466	535
Interest income		
Total interest income for financial assets at amortised cost	226	311

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

18. Called up share capital and reserves

	2018 £000s	2017 £000s
Group and Company		
Issued and fully paid: 28,000,000 Ordinary shares of £1 each	28,000	28,000

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

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

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

	2018 £000s	2017 £000s
Group operating profit including joint ventures and associates	7,885	12,212
Depreciation and amortisation	5,489	5,558
Joint ventures and associates	(1,694)	(971)
Increase in stocks	(875)	(4,414)
Increase in debtors	(53,075)	(32,537)
Decrease in creditors	(21,392)	(2,295)
Increase /(decrease) in provisions	4,946	(48)
Cash used in operations	(58,716)	(22,495)
Interest received	1,672	1,737
Interest paid	-	(1)
Corporation tax paid	(3,348)	(2,311)
Net cash outflow from operating activities	(60,392)	(23,070)

20. Operating lease commitments

	2018 £000s	2017 £000s
Group total future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	4,180	4,032
Between one and five years	7,207	6,815
After five years	1,337	100
	12,724	10,947

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Notes to the Accounts (continued)

As at 31 December 2018

21. Contingencies

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

22. Related party transactions

Turnover in respect of the value of contracting work done for and land sold to joint ventures in the year ended 31 December 2018 was £5,873,000 (2017: £7,413,000), which includes £3,109,000 (2017: £3,866,000) which was eliminated on consolidation being the proportion of turnover relating to the proportion of those joint ventures owned by the Group.

Amounts were due to the Group from joint ventures and associates at 31 December 2018 of £3,050,000 (2017: £5,154,000). Interest at market rates is receivable in respect of loans, which are unsecured, due from joint ventures.

23. Ultimate parent company

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

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

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

Subsidiary Undertakings

At 31 December 2018

Except where otherwise stated:

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

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

Wates Construction Services Limited *

Wates Financial Services Limited *

Wates Group Properties Limited *

Wates Homes (Cambridge) Limited

Wates Homes Limited

Wates Interiors Limited *

Wates Living Space (Maintenance) Limited *

Wates Maintenance Services Limited *

Wates PFI Investments (Projects) Limited *

Wates PFI Investments (QED) Limited *

Wates PFI Investments Limited *

Wates Regeneration (Coventry) Limited

Wates Regeneration (South Acton) Limited

Wates Regeneration (Tavy Bridge) Limited

Wates Smartspace Limited

G Purchase Construction Limited

GW 217 Limited

Purchase Group Limited

Purchase Home Improvements Limited

Purchase Homes Limited

Purchase Support Limited

Relocation and Inventory Services Limited *

SES (Engineering Services) Limited *

Third Wates Investments Limited *

Woodside Lands Limited

*Owned directly by Wates Construction Limited

Wates Construction Limited Annual Accounts and Reports 2018

Notes to the Accounts (continued)

As at 31 December 2018

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
Al Ain Schools Joint Venture	24.5%	Suite 702, Al Fara'a Corporate Office, Al Nahyan Camp Area, PO Box 3486, Abu Dhabi, United Arab Emirates
Al Bateen Secondary School Joint Venture	24.5%	
British School Joint Venture	24.5%	
American Community School Expansion Joint Venture	24.5%	Eastern International LLC, Bel Resheed Tower, 14 th Floor, Al Buhaira Corniche, PO Box 1596, Sharjah, United Arab Emirates
American Community School Landscaping Joint Venture	24.5%	
CFB Building Joint Venture	24.5%	
Qasr Al Hosn Fort Joint Venture	24.5%	
Qasr Al Hosn Fort and NCCC Main Contract Works Joint Venture	24.5%	
Specialised Rehabilitation Hospital Joint Venture	24.5%	