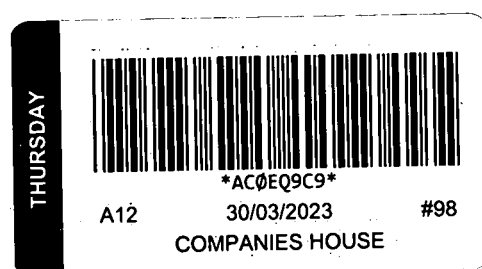


Company number: 01977948

WATES CONSTRUCTION LIMITED

Annual accounts and reports

for the year ended 31 December 2022



Wates Construction Limited Annual accounts and reports 2022

Contents

	Page
Directors and advisors	2
Strategic report	3-24
Principal activities	
Business overview	
Sustainability	
Risks and uncertainties	
Analysis of financial key performance indicators	
Section 172 statement	
Corporate governance report	25-30
Directors' report	31-33
Directors' responsibilities statement	34
Independent auditor's report to the members of Wates Construction Limited	35-37
Consolidated profit and loss account	38
Consolidated statement of comprehensive income/(expense)	38
Consolidated balance sheet	39
Company balance sheet	40
Consolidated statement of changes in equity	41
Company statement of changes in equity	41
Consolidated cash flow statement	42
Notes to the accounts	43-68
Subsidiary undertakings	69

Wates Construction Limited Annual accounts and reports 2022

Directors and advisors

Directors	S.J. Beechey H.P. Bunch P. Chandler D.K.E. Morgan S.J. Potter P.C. Rowan P.M. Wainwright
Company secretary	P. M. Wainwright
Independent auditors	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
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Wates Construction Limited Annual accounts and reports 2022

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 the 'Wates Construction Limited and its subsidiaries (together the "Group") for the year ended 31 December 2022.

Principal activities

The principal activities of the Group and parent company, Wates Group Limited (the "Wates 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 four business areas: Construction, Integrated Construction Services, Property Services and Residential.

Construction and Integrated Construction Services

Our construction services are delivered through the Construction Group, which is made up of two complementary businesses: Construction and Integrated Construction Services.

Our Construction business operates across the UK, working with its public and private sector partners, delivering innovative solutions and sustainable projects.

Integrated Construction Services comprise several specialist businesses, including SES Engineering Services (SES), offsite manufacturing specialist Prism, Building Services and Drylining Services.

We have an excellent reputation for self-delivered projects and connect all our specialist capabilities to provide customers with market-leading services from the start of a project through to completion.

In 2022, we employed 1,722 people across all our construction businesses, an increase of 13% on 2021.

2022 has been another excellent year as we have learnt to navigate the ever-changing landscape of our economy. However, our targets for the next five years remain high. It has never been more important to innovate and collaborate across the whole of the Construction Group to achieve our strategic aims, serve our customers and grow our business. People remain at the heart of all our operations and further investment into our teams will be the route to meeting our ambitions, as we continue to build tomorrow together.

Property Services

Our Property Services division comprises three businesses that together deliver whole-life operation of buildings across the domestic and non-domestic sectors of the built environment.

Together, our teams deliver a core range of services, including planned and responsive maintenance; fit out and refurbishment works; facilities management; and specialist decarbonisation and fire safety works to public and private sector customers across the country.

Our social housing maintenance business, Wates Living Space, is the largest of the three and focuses on providing strategic asset management solutions to residential customers from local authorities and housing associations, with a particular emphasis in recent years on maintaining decency, delivering carbon reduction and fire safety work. At the end of 2022 it had an order book worth over £1bn.

Our facilities management (FM) business provides self-delivered mechanical, electrical and 'total FM' services to public and private sector customers with a focus on improving the carbon and energy usage of non-domestic buildings through cutting-edge technology.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

Our fit-out business, Wates Smartspace, delivers high-quality commercial, office, secure facility, and industrial fit-out and refurbishment services across a range of customers in both the public and private sectors, helping them to understand and future-proof their premises.

Taken together, these businesses employ nearly 1,500 people.

We maintain a strong order book and continue to retain almost all our existing contracts.

Sustainability will continue to be a key focus this year as we continue to grow our position as a leader in domestic retrofit and firmly establish ourselves as an authority in the emerging non-domestic retrofit industry under the PAS 2038 certification.

Residential

Our residential business is one of the UK's leading developers and contractors, operating primarily in London, the South of England, and Wales. Working in partnership with the public sector, we build quality mixed-tenure schemes that create better places and greater opportunities for communities.

Our guiding principle is that everyone deserves a great place to live. The regeneration schemes we deliver are about much more than bricks and mortar. We focus on building sustainable communities that put local needs first, employ local contractors and create training and employment opportunities for local people.

In 2022, we grew our headcount by 21%, and now have 365 employees.

A unique set of global headwinds created a challenging operating environment for us in 2022, but the strength of our relationships with both customers and suppliers meant we were able to thrive in these tough conditions.

Cost inflation continues to be a concern, affecting businesses throughout the built-environment sector. We will mitigate the impact of inflation through the long-term relationships we have established with direct suppliers in our supply chain.

We have also sought to meet our customers' desire for environmentally sustainable homes, by exploring new and innovative ways to increase energy efficiency. Our pledge is to continue to deliver homes which are truly affordable, desirable, and sustainable.

We are proud to have won the Climate Crisis Initiative Residential award at the 2022 RESI Awards for our work alongside Cardiff Council on the low-carbon scheme at Eastern High/Aspen Grove, part of the 1,500-home Cardiff Living partnership.

Looking ahead, we have a pipeline of more than 6,000 homes at various stages of development for our housing association and local authority partners.

Sustainability

The Wates Group is passionately committed to becoming an ever-more sustainable business. The principles set out in our Guiding Framework have helped to enshrine practices and behaviours that ensure we and our partners have a positive impact on the environment and on the people we work with and for.

As a business, we will always aim to work safely in delivering services and products of the highest quality for our customers in a way that aligns with our sustainability aspirations.

We are proud that, in 2022, we delivered yet another year of industry-leading safety figures, while making significant progress in our aspiration to eradicate carbon and waste from our operations.

However, we are aware that sustainability is an ongoing journey, and so we are continually working on ways to

Wates Construction Limited Annual accounts and reports 2022

Strategic report

improve processes and business operations to make sure we leave behind a better world.

The Wates Group is firmly committed to ensuring the physical and mental health, safety and wellbeing of our employees and all stakeholders. It's central to everything we do, and it is our ambition to provide the best working environment and safest practices anywhere in the sector.

The creation of truly sustainable places and projects can only be achieved if these projects also serve to create real social value in the communities where they are delivered. In recent years, we have gone further still in our ambition to embed social value in everything we do by ensuring that social value data is measured and reported. To do this, we use both our TOMs (themes, outcomes and measures) methodology and our Social Value portal to record data on larger projects.

For the past seven years, through our Sustainable Technology Services, we have supported our businesses and our customers to identify, trial, and implement innovative, sustainable technology. The service was launched as a response to customers' growing demand for new products that can improve their buildings' energy performance.

When Wates launched environmental targets in January 2020, we became one of the first organisations in the built-environment sector to commit to being carbon neutral from its Scope 1 and 2 emissions. We further committed to generating zero waste from our operations and to having a positive impact on nature from all operations by 2025. Since setting these targets, we have gained a greater understanding of the challenges they present. Furthermore, the discussions around climate change, modern methods of construction (MMC) and biodiversity have all moved on significantly. We are therefore working on a revised plan that is being launched alongside this document.

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 27.

Managing our risks

Effective risk and opportunity management is at the heart of Wates Group principles of good corporate governance (see Corporate Governance Report on page 29 (principle 4). The Wates Group conducts its business responsibly, safely and legally, in line with the goals and behaviours set out in its Guiding Framework. Led by the Wates Group Board and Executive Committee, the Wates Group will continue to manage its 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 Wates Group Board is supported by the Audit Committee in the discharge of these responsibilities.

The Chief Executive is accountable to the Wates Group Board for the effective management of risks and the identification of opportunities on a day-to-day basis. At an operational level, individual members of the Executive Committee report to the Chief Executive on specific risks within their remits. Business Units also each manage these risks at their respective divisional levels.





The Wates Group approach to risk management is both top-down, from the Wates Group 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 Wates Group, so it can continually scan the horizon to identify emerging risks.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

Key actions in the year

As part of Wates Group commitment to continuous improvement, the Wates Group Board has undertaken a review of principal risks. These risks fall into four categories, as follows:

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

The evolution of Wates Group's performance priorities (see Strategy on page 14 of the Wates Group financial statements) is also reflected in the risk framework. In order to deliver value for its customers and shareholders, the Wates Group's performance priorities are now:

-  **diversity and inclusion**
 -  **innovation**
 -  **quality**
 -  **safety**
 -  **sustainability**
- Taken together, these priorities deliver profit.
-  **profit**

The Wates Group has re-established its Executive-level Risk Committee as part of its governance structure. A formal cycle of reviews of principal risks and opportunities continued throughout the year alongside an ongoing programme of embedding operational risk management.

Changes

As part of the Wates Group's principal risks review, it undertook a detailed assessment of risks and opportunities in the context of its new strategy. This included an evaluation of new market disruptors, strengthening of its environmental, social and governance activity, and alignment of its people risk with culture and wellbeing. To remain competitive, it also benchmarked business performance against that of its competitors.

The Wates Group has increased its focus on the physical and transitional climate change risks to its operations, as it 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. Mitigating these risks and taking advantage of these opportunities will require closer 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. The Wates Group are proactively managing and prioritising its response to the Building Safety Act to support its strong reputation for delivering high quality work and this is borne out in the review of governance, legal and regulatory compliance risks and opportunities.

Principal risks and uncertainties

Principal risks are defined as those which could affect the Wates Group strategic ambitions, future performance, prospects or reputation. 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 performance priorities, and risk movements and trends. The Wates Group discusses emerging risks and opportunities as part of its ongoing risk governance and reporting regime. The Wates Group also conduct horizon-scanning exercises to maintain a medium and longer-term view of potential disruptors or emerging risks to its business.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

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 war in Ukraine and ongoing political and economic turmoil at both a UK and global level have resulted in challenges and uncertainty not seen for some time. The Wates Group are actively monitoring these risks and have taken appropriate actions to mitigate their impact on our business.

Wage and cost inflation have remained priorities, with these impacting not only the Wates Group employees but also the profitability of both our long-term construction contracts and house building operations. The Wates Group has carefully analysed and responded to the impact of inflation, supply chain disruption, labour shortages, energy price volatility and interest rates, including the impact on the UK housing sector, and the threat of recession.

The Wates Group ability to maintain profitability on long-term construction contracts and house building schemes is continuously monitored while cost inflation continues to be a factor. Inflation has and will continue to impact project viability as well as market growth. Inflation is being driven by disruption to the supply chain, with ongoing challenges in the supply and availability of labour and materials as a lagging effect of both Brexit and the COVID-19 pandemic, and more recently the war in Ukraine. The unprecedented increase in energy costs, exacerbated by the war in Ukraine, has further impacted the cost of materials.

Inflation has not only been seen in material prices but also in wage inflation, as a consequence of labour shortages in a high-demand environment and pressure to retain existing employees.

The combination of inflation, high energy prices and market turmoil led the Bank of England to raise interest rates successively in 2022. While interest rates are expected to peak in the second half of 2023, there are early signs of a slowdown in the housing sector, with mortgage product changes and reduced mortgage affordability. In addition, the forecast fall in real wages and further potential movements in interest rates will likely impact consumer spending. Taken together with the wider uncertainty around the UK economy, this will likely effect pricing on new-build housing. In contrast, the Wates Group has seen an increase in demand for social housing retrofit work together and other safety and building upgrades, with building safety still high on the agenda following the Grenfell Tower fire.

With government support for wider capital investment in social housing, education, justice and health expected to continue, the Wates Group is in a strong position to offset any reduced demand for private housing with accelerated demand in the public sector.

Despite a general expectation that industry output will fall over the next 12 months, there remains considerable demand for services in the built environment. The Government's commitment 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 future order book, which, together with its continued financial resilience, will support the business as it manages and responds to further changes in the geo-political and economic environment.

New and updated legislation is expected in 2023 that will have significant implications for the housing sector. The Wates Group will continue to assess and manage the impact of the Building Safety Act, which it sees both as a future opportunity and a risk, given the secondary legislation in respect of retrospective elements is not yet complete.

See further detail at Section 172 statement on page 19.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

Political, geo-political and macro-economic factors



<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 Wates 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 2023:</p> <ul style="list-style-type: none"> • Conduct regular reviews, analysis and reporting of external political and economic factors to Wates Group Board and Executive Committee to support decision making and medium and long term strategy planning. • Deepen relationships with its 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. • Make use of SME adviser panels to provide support and guidance. • Review and strengthen its 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 its supply chain and to make use of cross-project procurement opportunities. • Use external market data to engage clients on cost pressure issues. • Continue to monitor the impact of housing market volatility. • See Environment on page 66 of the Wates Group financial statements for detail of the Wates Group sector leading strategies in response to the Government's net zero targets and the opportunities to lead and support its customers and supply chain in this area.
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Strategy and transformation



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

<p>Risk: The Wates Group fail to define and deliver an effective strategy or it adopts the wrong strategy which impacts the long-term growth, ambition and sustainability of its business.</p>	<ul style="list-style-type: none"> • Conduct an annual review of long-term strategy with ongoing governance and reporting. • Ensure robust Wates Group Board oversight with the ability to challenge the strategic direction of the Wates Group. • Encourage effective stakeholder engagement to ensure it designs and develops initiatives which are materially important to them. • Carry out 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. • Maintain a diverse customer base and product range, allowing it to respond to strategic opportunities and new challenges with agility.
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Wates Construction Limited Annual accounts and reports 2022

Strategic report

	<ul style="list-style-type: none"> • Ensure that Wates Group initiatives are delivered efficiently and effectively and support our strategic direction. • Devise 'divisionalised' strategies for individual business units to inform opportunities for growth 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 order book the Wates Group focuses on its customers and seeks to innovate wherever possible to serve them better. The Wates Group remain highly selective in the work it bids for and takes on. The Wates Group therefore consider risks related to performance and competition currently to be well managed.

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.	<ul style="list-style-type: none"> • Focus Wates Group Board oversight on performance, strategy and opportunity. • Ensure a risk based focus when it comes to the most strategically important bids, contracts and investments. • Regularly review markets, trading opportunities, competitor strategy and activity, and develop response plans to support its strategic ambition. • Undertake market scanning and competitor analysis to inform its focus and ensure its performance priorities align with our customers' requirements. • Support innovation, particularly with regard climate change and while the current volatile economic environment is significantly impacting customer decisions. • Remain highly selective in its bid and contract engagement and continue to target areas where it has competitive advantage. • Focus on opportunity areas, such as net zero developments, low carbon buildings and energy efficient retrofits. • Work to retain and attract high performing, forward thinking talent.
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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.

The Wates Group 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 in line with our Guiding Framework.

Risk: The Wates Group fails to deliver on elements of its	<ul style="list-style-type: none"> • Define our people strategy as clearly as possible, with action plans and measures of success approved by the Wates Group Board. • Seek external support for benchmarked metrics and market analysis.
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Wates Construction Limited Annual accounts and reports 2022

Strategic report

<p>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 values in its culture, which could derail the delivery of its people strategy, impacting its reputation, talent retention, and strategic ambitions.</p>	<ul style="list-style-type: none"> • Ensure remuneration packages are competitive within the market via regular reviews; this should include an acknowledgment of the current cost of living challenges. • Continue to evolve its new employee profit-share scheme, aligning employee rewards to individual Business Unit performance. • Embed oversight of succession planning, remuneration policy and standards with its Nomination Committee and Remuneration Committee. • Grow skills through established talent planning, training and people development processes, while using external recruitment to fill skills gaps. • Maintain its commitment to building an inclusive workplace with a market leading policy framework. • Promote use of its employee networks to support its inclusion and diversity agenda. • Maintain the Wates Group's Investors in People Gold accreditation and its place in the Times' Top 50 Employer for Women list, which the Wates Group entered in 2022. • Reinforce its commitment to health and wellbeing through its Employee Assistance, Mental Health First Aid and Peppy Programmes. • Support its ethics and standards through its established Code of Conduct and regulatory compliance programmes, with Safecall and SpeakUp processes in place for colleagues and supply chain partners to raise concerns in confidence. • See further detail at People report on page 18 of the Wates Group financial statements.
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Health and Safety

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

The Wates Group's activities have the potential to cause serious injury to stakeholders, could damage property and the environment, and could harm its reputation as a result. The Wates Group are reliant on a largely subcontracted workforce, which creates additional monitoring challenges. This is built into its operating framework, governance, and reporting protocols. The Wates Group are committed to demonstrating the highest standards of health and safety management. See further detail at Safety report on page 60 of the Wates Group financial statements.

<p>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,</p>	<ul style="list-style-type: none"> • Maintain and look to improve on an industry leading 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. • Have contingency plans in place for efficient and effective incident response; ensure these are reviewed and tested on a regular basis.
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Wates Construction Limited Annual accounts and reports 2022

Strategic report

including potential criminal liabilities.	<ul style="list-style-type: none"> • Strengthen its extensive suite of assurance and compliance activities to help us evaluate our performance. • Conduct leadership briefings, updated guidance and toolbox talks to support management understanding. • Improve analytical dashboard reporting. • 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 the Wates Group's Climate Change risk management and TCFD reporting (see page 72 of the Wates Group financial statements). • Maintain COVID-19 Site Operating Procedures in line with government guidance during relevant periods of the year. • 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

The Wates Group uses its professional judgement in estimating, planning, designing and constructing its projects, often in complex environments. Each project could encounter difficulties that lead to cost and time overruns, litigation or disputes.

The Wates Group activities are guided by an Operating Framework that mandates rigorous policies and procedures throughout a project's lifecycle. The Wates Group seeks to always deliver quality and are focused on customer service as a key strategic priority. In recent years, Wates Group has also focussed significantly on innovation to improve its service delivery and to support its customers through our its 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.	<ul style="list-style-type: none"> • Continue to focus on innovation in its delivery through better use of offsite MMC, its Technical Excellence Centre, introduction of the Optimised Construction Steering Group and the availability of Wates Sustainable Technology Services (WSTS) and the Wates Innovation Network (WIN) Portal to support customer solutions. • Build on its significant project assurance programmes, including peer reviews and customer feedback, which help mitigate the risks to successful project delivery and keep the Wates Group focused on learning and continuous improvement. • Use its well-defined operating framework, which includes comprehensive management oversight and risk management processes, to support successful project delivery. • Maintain stringent management oversight and project governance reporting, focusing on safety, productivity and quality through its Delivering the Promise programme. • Closely scrutinise financial judgements made on projects, supported by prudent 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.
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Wates Construction Limited Annual accounts and reports 2022

Strategic report

	<ul style="list-style-type: none"> • Develop effective crisis and incident management processes, enabling efficient incident response. • 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 96 of the Wates Group financial statements for external issues impacting project delivery.
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Third party and supply chain management

A robust supply chain is critical to Wates Group ability to deliver quality projects and services. The Wates Group 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. The Wates Group maintains a sustainable procurement strategy and robustly monitor all aspects of its 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.	<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 run its Inflation Working Group to monitor contractual risk and supply. • Maintain due diligence clearance and onboarding checks to support Wates Group standards. • Use its 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 the internal Wates Group Legal team. • Support improvements to data analysis and reporting by updating its 'demand planning' and supply chain database. • Subject all third-party suppliers to ongoing performance monitoring and evaluation.
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Climate Change

Climate change will dramatically change the world in which we live and the work we do. While the Wates Group are committed to mitigating its own impact by reducing greenhouse gas emissions that contribute to climate change, the Wates Group also needs to ensure that its business is both resilient to the impacts of climate change in the future while also being in a position to seize on 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.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

Wates Group has set a near-term science-based target and also committed to a net zero target by 2045. As part of the race to net zero, it aims to halve its Scope 1, 2 and 3 emissions by 2030 against a 2019 baseline. The Wates Group wants 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 Wates Group Business Units are developing new Net zero products and services appropriate to the markets in which they operate. The Wates Group has also launched Wates Retrofit to signal its 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>	<ul style="list-style-type: none"> • See page 66 of the Wates Group financial statements for the Wates Group's annual report including progress on its Task Force on Climate-related Financial Disclosures and its Streamlined Energy and Carbon Report on page 72 of the Wates Group financial statements. • Engage its supply chain in the decarbonisation agenda to support the Wates Group's ability to deliver low carbon assets and services. • Develop and monitor a core suite of metrics and targets. • Provide governance and oversight on its targets and performance through the Wates Group Sustainability Committee. • Link loan agreements to climate change targets. The Wates Group already has a £90m Sustainability Linked Loan as part of its revolving credit facility: one of the three KPIs is linked to the Wates Group's supply chain setting science-based targets. • Make use of its new environmental metrics reporting platform and maintain external SME assurance of the integrity of its reported data. • Continue to build its internal capabilities to support its 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'. • Launch an internal pilot programme for leaders and executives focussing on environmental sustainability.
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Governance, Legal and Regulatory



The governance, legal and regulatory landscape in which the Wates Group operates is evolving, with more regulation of businesses leading to the potential for greater penalties. The Wates Group commitment to delivering on its governance, legal and regulatory obligations is central to its culture and values. The Building Safety Act remains a principal area of focus for the Wates Group and the industry more widely. Governance and environmental regulation is also increasing and matters of regulatory compliance remain at the forefront of its communications, compliance programmes and policies.

<p>Risk: An incident occurs or behaviours are observed that give rise to a serious governance, legal or regulatory compliance breach which</p>	<ul style="list-style-type: none"> • Maintain and support compliance programmes and working groups to manage its most important areas of legal and regulatory compliance. • Liaise regularly with the Building Safety Act Working Group (ensuring readiness for the Building Safety Act) and its Ethics and
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Wates Construction Limited Annual accounts and reports 2022

Strategic report

<p>impacts the Wates Group reputationally or our ability to do business, and results in fines or criminal proceedings.</p>	<p>Regulatory Compliance Group cover as these cover the main areas of inherent risk.</p> <ul style="list-style-type: none"> • Update the Wates Group's Operating Framework in respect of the Building Safety Act requirements. • Monitor compliance with the refreshed Code of Conduct and Regulatory Compliance Programmes, which now require annual compliance certification and declarations from senior management. • Refresh policies around broader legal compliance risk - a programme is underway across the Wates Group with strong leadership tone from the top. • Use both our in-house specialist team and panel of external advisers to assess governance, legal and regulatory compliance. • Monitor for updates on emerging areas of legal and regulatory compliance. • Ensure compliance frameworks remain in place for key areas of regulation. • Review assurance programmes on a continuing basis.
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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 £153m on the balance sheet at 31 December 2022, with access to a further £90m via an undrawn Revolving Credit Facility, which expires in March 2025.

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. It continuously monitors economic and market factors, such as cost and wage inflation, along with interest rate movements, and undertakes stress testing of its liquidity position. The Wates Group proactively monitors risk factors to understand its exposure and make informed decisions on a timely basis, which is key to managing its 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>	<ul style="list-style-type: none"> • 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 2025. • Continue twice monthly short-term cash flow forecasting and trade debtor review with its Business Unit Finance. • Continue monthly Wates Group Board oversight of cash position, liquidity and forecast against minimum requirements. • Continue quarterly Treasury Committee meetings, chaired by the CFO.
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Wates Construction Limited Annual accounts and reports 2022

Strategic report

	<ul style="list-style-type: none"> • 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, Wates 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 its 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 at Cash management on page 108 of the Wates Group financial statements.
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Systems, data, 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, the Wates Group consider the external risk of cyber-attack to have increased for both the Wates Group and supply chain. These risks pose a threat to the Wates Group's operational resilience, data, information and systems, all of which are key priorities Wates Group. The Wates Group holds sensitive customer and colleague personal data, and so continues to manage and monitor its internal controls robustly through its structured regulatory compliance and assurance programmes.

<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>Risk: 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>	<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 IT infrastructure, software, and cyber threat and assessment capabilities. • Monitor, detect and report on real-time threats and controls through its experienced internal team and service partners. • Offer 'Cyber Essentials' and 'Cyber Essentials Plus' re-certifications. • Carry out annual external review of its cyber security posture and penetration testing. • Maintain focus on its data environment and continue to invest in its capability, development and security. • Continue to improve its data protection procedures as part of its regulatory compliance and assurance programmes. • Carry out internal and external assurance reviews of its security and compliance controls. • Review its internal information security and data governance capabilities as part of its continuous improvement agenda. • Invest in training and communications on data, information security and GDPR risks.
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Wates Construction Limited Annual accounts and reports 2022

Strategic report

	<ul style="list-style-type: none"> • Offer security briefings and governance reporting to the Wates Group at Board level. • Carry out due diligence on suppliers' cyber security and undertake contract reviews where necessary. • Continue offering its third-party supplier assurance programme.
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Analysis of financial key performance indicators

Group financial performance

The Group delivered a solid financial performance in 2022, in a very challenging economic environment. Group turnover increased by 16.5% or £0.25bn (16.7% or £0.25bn on a statutory basis), with all lines of business showing growth. Operating loss of £3.5m was impacted by cost inflation. The forward order book has increased by a further £1.3bn over the year, driven by significant wins in Construction and Property Services in the fourth quarter. Year end net cash closed at a similar level to last year.

The prior year has been restated to reflect an adjustment to recognise amounts recoverable from third parties (insurers) as a separate reimbursement asset rather than as a reduction in the provision for remediation costs. In accordance with FRS 102, the reimbursement asset is only recognised when it is considered virtually certain. Total probable, but not virtually certain, insurance recoveries of £12.8m that were previously offset against provisions have not been recognised as reimbursement assets at 31 December 2021 in the restated numbers. This approach has also resulted in a reduction in prior year Group profit before tax of £4.7m. This adjustment will reverse in future periods as and when the amounts recoverable meet the criteria to be considered virtually certain. See note 23 for more information.

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

	2022	2021 (restated)	Movement
Group turnover *	£1.77bn	£1.52bn	+16.5%
Group turnover including the Group's share of joint ventures' and associates' turnover			
Group statutory turnover	£1.75bn	£1.50bn	+16.7%
Group statutory turnover excluding the Group's share of joint ventures' and associates' turnover			
Group operating (loss)/profit *	£(2.8)m	£7.2m	£10.0m
Operating profit before interest and tax			
Operating profit margin *	(0.2)%	0.5%	-0.7%
Group statutory operating (loss)/profit	£(3.5)m	£6.9m	£10.4m
Group statutory operating profit			
Group profit before tax *	£(1.5)m	£9.4m	£10.9m
Profit before tax and before tax of joint ventures and associates			
Group statutory profit before tax	£(1.5)m	£9.4m	£10.9m
Group statutory profit before tax including share of tax of joint ventures and associates			
Forward order book	£8.4bn	£7.1bn	+16.9%
Net assets	£41.6m	£50.7m	£9.1m
Year end cash including restricted cash	£152.7m	£127.3m	+£25.4m
Year end net cash	£98.7m	£102.5m	£3.8m
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

Wates Construction Limited Annual accounts and reports 2022

Strategic report

identified measures used by other entities. They are not intended to be a substitute for, or superior to, FRS 102 measures. See note 26 for definitions and reconciliations of APMs.

Construction Group

The Construction Group comprises two operating businesses: Wates Construction; and Wates Integrated Construction Services.

	2022	2021
Construction Group turnover	£958.2m	£771.9m
Construction Group turnover including the Construction Group's share of joint ventures' and associates' turnover		
Construction Group statutory turnover	£958.2m	£771.9m
Group statutory turnover excluding the Group's share of joint ventures' and associates' turnover		
Forward order book	£4.5bn	£3.9bn

The Construction Group grew strongly in 2022, despite the challenging trading environment, achieving turnover growth of 24% year on year. Rising inflation led to higher than average contract losses in the year as the procurement of current schemes was completed at a greater cost than anticipated. In addition the viability of schemes currently being tendered has come under increasing pressure, particularly in the private sector, leading to some delays in the conversion of contracts. Despite these delays the Construction Group finished 2022 with a record value of contract conversions, with £1bn of contracts converted in the final quarter and a strong pipeline to continue this trend into 2023. Converting these contracts was the culmination of a strong work winning year, finishing with the most valuable order book ever of £4.5bn.

Property Services

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

	2022	2021
Property Services turnover	£500.1m	£477.5m
Property Services turnover including the Group's share of joint ventures' and associates' property services turnover		
Property Services statutory turnover	£498.8m	£474.5m
Property Services statutory turnover excluding the Group's share of joint ventures' and associates' turnover		
Forward order book	£1.9bn	£1.4bn

Living Space continued to face challenging trading conditions during 2022, due to skilled labour shortages and cost inflation, with an associated impact on margin as a result of a lag in indexation uplifts being applied to contracts. Despite these conditions, the business performed well in its core markets, work winning being a particular highlight, with a forward order book of £1.9bn, growing £0.5bn over the year. Outlook for growth remains positive, with indexation protections improving margins and there being significant opportunities in supporting the decarbonisation of social housing over the coming years.

Smartspace had an excellent year during 2022, responding to a buoyant market, securing work across both the public and private sector. The business has an improved line of sight of future revenue through successful awards of large public sector contracts during the last quarter of 2022.

Wates FM continues to grow, securing new clients during the year and retaining key clients through contract renewals. General market conditions remain positive with demand for high quality facilities management services and increased client procurement activity.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

Residential

	2022	2021
Residential turnover	£310.3m	£268.0m
Residential Group turnover including the Group's share of joint ventures' and associates' residential turnover		
Residential statutory turnover	£288.0m	£249.3m
Residential statutory turnover excluding the Group's share of joint ventures' and associates' turnover		
Units for which planning permission was achieved	2,605	1,295
Units for which planning permission is pending	3,787	3,832
Units completed in the year	739	400
Open market sales in the year	119	73
Active sites at 31 December	29	31
Units still to be completed on active sites	2,605	1,199
Units completed as a contractor for public sector customers	655	400
Forward order book	£2.0bn	£1.8bn

Residential works alongside our public sector partners to deliver housing-led developments on publicly-owned brownfield sites. During 2022, the business worked on strategically important sites in Harrow, Havering, Cardiff, Erith and Barking. The Residential business also operates as a construction contractor for public sector customers across London, the South and Wales.

Residential continued to deliver sustainable growth in 2022 completing 739 units (2021: 400) in the year and growing the forward order book from £1.8bn to £2.0bn, predominantly through existing frameworks and relationships. The investment in recent years in development opportunities with joint ventures and collaborations with public sector has led to an increased amount of open market sales in the year, with the business selling 119 homes in 2022 (2021: 73).

Good progress has been made with planning across our joint venture 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 29 sites (2021: 31) which will deliver a further 2,605 units over the next few years. Residential is working with its partners to get planning consent on a further 3,787 units, which will solidify the pipeline for years to come.

Cash flow

Group operating activities utilised cash of £8.6m (2021: inflow of £0.6m). Cash flow from investing and financing activities included increased loans to joint ventures of £10.6m (2021: £3.1m), purchases of fixed assets of £3.8m (2021: £2.2m) and dividends paid of £5.6m (2021: £68.0m). See note 20 for more information on cash used in operations.

Dividends

Dividends of £5.6m were declared and paid in 2022. Dividends of £68.0m were declared and paid in 2021.

Wates Family Enterprise Trust

The Group committed funds to the Wates Family Enterprise Trust (WFET) to support its charitable giving. In 2022, this amounted to £1.5m (2021: £0.8m). The themes on which WFET's focuses are: life opportunities for young people; housing; and sustainability.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

Section 172 Companies Act 2006

This report sets out how the Directors of Wates Construction Limited comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Wates Group Board's decision making throughout 2022. The report for Wates Group Limited (the "Wates Group") has been included in these financial statements as the Directors of the company consider that the key decisions made are consistent with those included within the Wates Group report.

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 Board papers and inform the decisions made in 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 the Wates Group's 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.

After the significant impact of the pandemic in 2020 and early 2021, the Wates Group's performance has recovered to pre-pandemic levels. The focus of the Wates Group Board in 2022 has been on ensuring that the Wates Group effectively manages the risks posed by high inflation, supply constraints and rising interest rates, exacerbated by the war in Ukraine, whilst 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 industries, as well as the evolving economic, political and market conditions.

The current strategy is focused on investing additional capital over the next 3 years in its identified growth areas. These include: public sector residential development (in partnership with Public Sector bodies); private sector developments (through Joint Ventures with housebuilders and partnerships); environmental sustainability, decarbonization offerings and innovation. This increased investment is necessary to achieve the Wates Group's long-term strategic objectives, whilst balancing the risks caused by changing economic and market conditions. To ensure that adequate returns are earned on this new investment and that the business is able to maintain its levels of performance in all its areas of operation, the Wates Group has reviewed and updated its performance priorities to include innovation and the customer. For further information see page 14 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.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

EMPLOYEES

How the Wates Group engages

- Wates Group biannual roadshows led by the Chief Executive
- Third annual Inclusion Month in September 2022
- Employee surveys
- Site and office visits by shareholders, directors and members of the Executive Committee
- Video content from the family and executive directors
- Wates Group-wide newsletters and emails
- Internal and external social media channels
- Intranet blogs
- Wates Group leadership calls from which messaging is cascaded to the workforce
- Webinars
- Emails from the Chief Executive and other members of the Executive Committee
- Competitive compensation arrangements
- Leadership conferences for senior leaders

Outcomes

- Development of a new profit share scheme for all employees, with phased implementation over two years from January 2022
- Pay rises were implemented in April 2022 and January 2023 (brought forward by three months in response to the cost-of-living crisis)
- Review of the Wates Group's performance priorities introduced in 2021, resulting in the addition of 'innovation' and 'customer'
- Further communication about the actions the Wates Group is taking to become more inclusive and diverse
- Continuance of the Wates Group's Flexible Working Principles, with emphasis on spending most of the working week in the office for office-based employees
- Industry- leading Family Leave policies
- Specific Anti Bullying and Harassment policy, embedding a zero- tolerance approach to inappropriate behaviour
- Reverse Mentoring programme, which pairs white leaders with colleagues from under-represented ethnicities
- Continued emphasis on facilitating the 'debiasing' of the Wates Group's recruitment processes
- Launch of Peppy healthcare App available to all employees

Further details

- 'People' on pages 18 to 21 of the Wates Group financial statements

Wates Construction Limited Annual accounts and reports 2022

Strategic report

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
- Launch of a new Customer Excellence programme
- Delivering safely, to a high quality, on time and in line with contractual requirements

Further details

- 'Sandwell Aquatics centre' case study on page 37 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)
- 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

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 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

Further details

- 'Principle 6 Stakeholders' on page 30

Wates Construction Limited Annual accounts and reports 2022

Strategic report

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

- Early and full repayment of the balance of the Coronavirus Large Business Interruption Loan Scheme (CLBILS) in June 2022
- Renewal of the Wates Group's Revolving Credit Facility in March 2022 of £90m and now sustainability linked
- Ongoing covenant compliance and positive average daily net cash of £80.2m (2021: £130.5m)

Further details

- 'Cash management' on page 108 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 through membership of the Considerate Constructors Scheme (CCS)
- Support of charitable programmes
- Member of UK Green Building Council (UKGBC)

Outcomes

- Through WSTS, the Wates Group is supporting more of 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 2022, the Wates Group created £183m of social value and engaged with 2,533 young people
- In 2022, the Wates Group spent £7.2m on SEs, taking the cumulative spend since 2007 to £45.6m. Since 2007, more than £350m of social value has been created
- The Wates Group continues to provide funds to the Wates Family Enterprise Trust. £1.5m was contributed in 2022 (2021: £0.8m), taking the total amount given since 2008 to £16.6m
- In 2022, 61% of Wates' priority suppliers were registered with the Supply Chain Sustainability School (SCSS), a 4% increase on 2021

Further details

- 'Sustainability Report' on pages 58 to 81 of the Wates Group financial statements
- 'Wates Family Enterprise Trust' on pages 82 to 83 of the Wates Group financial statements

Wates Construction Limited Annual accounts and reports 2022

Strategic report

SHAREHOLDERS

How the Wates Group engages

- 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

Outcomes

- 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

Further details

- 'Corporate Governance Report' on pages 25 to 30

Standards of business conduct

The Wates Group Board is keenly aware of the need to maintain high standards of business conduct. Sir James Wates (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 Wates must follow.

The Wates Group Board was involved in discussions with the Pensions Trustees on the investment strategy and future deficit funding contributions leading to the 2020 valuation being agreed with the Trustees on 30 March 2021. Ongoing dialogue was maintained with the Pensions Trustee, particularly when UK Gilt rates increased sharply.

The directors take very seriously their responsibility to ensure the Wates Group is a good corporate citizen. Business creates wealth that, through taxes, delivers the investment which, if properly managed by politicians, leads to a fairer and more prosperous society. In 2022, 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 £312.7m (2021: £232.7m). The Wates Group is proud of the part it plays in the industry's contribution to society through its economic activity.

Wates Construction Limited Annual accounts and reports 2022

Strategic report

		2022	2021
Taxes paid in the year (note 1)	Note	£000s	£000s
Taxes borne by the Wates Group			
Corporate income tax payments/(receipts)		928	4,750
Employment-related taxes	2	32,159	26,196
Other taxes	3	6,374	4,763
		39,461	35,709
Taxes collected for HM government (in addition to taxes borne above)			
Employment-related taxes	4	77,406	62,828
Net VAT	5	195,877	134,133
		273,283	196,961
Total tax contribution (taxes generated by the Group from Wates Group activity)		312,744	232,670

Notes

- 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.

Approved by the Board of Directors on 24 March 2023 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual accounts and reports 2022

Corporate governance report

For the year ended 31 December 2022, under The Companies (Miscellaneous Reporting) Regulations 2019, the company has applied the **Wates Corporate Governance Principles for Large Private Companies** (published by the Financial Reporting Council ('FRC') in December 2019 and available on the FRC website). The following paragraphs summarise how the 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 use a Guiding Framework to define its purpose, goals, and behaviours. Wates' overarching purpose is to inspire better ways of creating the places, communities, and businesses of tomorrow. By ensuring that this purpose is at the heart of everything the Wates Group does, Wates will build on its reputation of being a truly progressive, trusted, and sustainable business. Wates believes that how it does business is as important as what it does. The behaviours that are expected of all its employees are summarised in the Guiding Framework and require everyone to demonstrate in their everyday decisions, language and actions that they care, are fair and always look for a better way to perform.

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

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

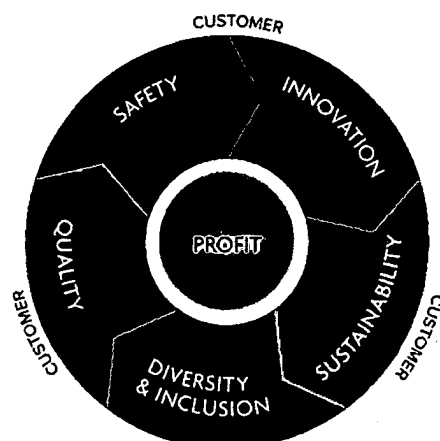
The identified priorities are now safety; quality; diversity and inclusion; sustainability; innovation; and, through combining these previous five, the delivery of profit. Binding all these priorities together is a focus on meeting the requirements of the customer. (See Strategy report on page 14 of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

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

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

Wates Construction Limited Annual accounts and reports 2022

Corporate governance report



The Wates Group's commitment to innovation was evidenced by the launch of its Technical Excellence Centre in 2022, which connects technical experts from across the business to improve building performance and optimise construction techniques.

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

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

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

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

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

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

Wates Construction Limited Annual accounts and reports 2022

Corporate governance report

on-site female employees build stronger networks and benefit from specialist advice from senior leaders in the business.

As defined in the Wates Group diversity and inclusion plan, the Wates Group are committed to having a workforce that more accurately reflects society. The Wates Group is continuing to make progress against the challenging targets it set itself to achieve by 2025. These are:

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

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

In 2021, the Wates Group formalised a set of Flexible Working Principles, which focus on rethinking where, when and how work can be done in a way that maintains or improves delivery for our customers, while also improving the lives and careers of employees. In 2022, as the pandemic diminished, the Wates Group encouraged a return to the office, asking office-based employees to commit to spending the majority of the working week in the office, thereby furthering collaboration and effective team working. For information on how the Wates Group Board engages with employees and considers their views see page 20 of the Section 172 Companies Act 2006 report.

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

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

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

Principle 2 – Board composition

The Wates Group Board comprises a Chairman, whose responsibilities encompass leading and managing the Board, ensuring its effectiveness and the quality of its governance, and making sure that the family's values are reflected in the purpose, goals and behaviours of the Wates Group. Together with the Chief Executive he ensures that the balance of responsibilities, accountabilities and decision-making across the Wates Group are maintained effectively. They are augmented by a Chief Financial Officer, the Executive Managing Director of the Wates Construction Group, three independent non-executives and four family members (excluding the Chairman).

Wates Construction Limited Annual accounts and reports 2022

Corporate governance report

Independent non-executive directors bring experience in property development, engineering, finance and audit, as well as perspectives and challenges from outside the sectors in which the Wates Group operates. The size (eleven members in total) and composition of the Wates Group Board is appropriate for a group with turnover of £1.9bn, operating in five complementary market sectors and is comparable to the Boards of similar listed businesses.

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

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

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

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

Principle 3 – Director responsibilities

The Wates Group Board has a programme of six principal meetings every year, plus an additional day for strategic planning. As part of every Wates Group Board meeting, the governance of the Wates Group is included as a standing agenda item. The Wates Group Board's key areas of focus in 2022 are noted in the Section 172 Companies Act 2006 report on pages 19 to 24.

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

The Wates Group Board approves an updated strategic plan for at least the next three years on an annual basis. For details of the output of the strategic plan see the Section 172 Companies Act statement on page 19.

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

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

Wates Construction Limited Annual accounts and reports 2022

Corporate governance report

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

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

Principle 4 – Opportunity and risk

The Wates Group Board seeks out opportunity while mitigating risk. In 2022 the Wates Group Board undertook a review of its principal risks as part of its commitment to continuous improvement. The Wates Group's key operational risks and mitigations are outlined in the Strategic report (and are noted as 'Principal risks') on pages 5 to 16. The Wates Group Board also considers all major projects (defined by their value and risk profile) and approves them before any bids are finalised.

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

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

Following the introduction of the Wates Corporate Governance Principles for Large Private Companies the Executive Committee has formalised the process of consideration of opportunities, as well as risks. Some of the opportunities that have been considered at recent Committee meetings include: leveraging the Wates Group's position as a trusted partner on a number of public and private sector frameworks; additional investment opportunities (as discussed within the Section 172 Companies Act Statement on page 19); maximising the integration of the Wates Group's project and contract delivery capabilities and the potential impact of the Wates Group's diversity and inclusion, social value and carbon reduction plans. In addition, the Committee is also considering the requirements of the Building Safety Act 2022, both in terms of the obligations it places on the Wates Group and the opportunities it presents to grow the business and opportunities arising from the drive to improve the energy efficiency of new and existing buildings.

Principle 5 – Remuneration

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

The Wates Group performance in 2021 returned to pre-pandemic levels and this allowed the Wates Group Board to approve a return to pre-pandemic incentive arrangements for 2022. The Wates Group Board also approved pay-rises from April 2022 and brought forward pay-rises scheduled for April 2023 to January 2023 in response to

Wates Construction Limited Annual accounts and reports 2022

Corporate governance report

the cost of living crisis brought on by high inflation, energy price increases and rising interest rates.

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

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

Principle 6 – Stakeholders

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

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

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

The Wates Group engagement with stakeholders in 2022 was more important than ever as many of the decisions made by the Wates Group Board had direct implications for them, and in particular for its employees. Stakeholder engagement is discussed in detail within the Section 172 Companies Act 2006 report on pages 19 to 24.

Wates Construction Limited Annual accounts and reports 2022

Directors' report

The directors present their report for the year ending 31 December 2022. This report is to be read in conjunction with the Strategic report on pages 3 to 24.

Dividends

The directors declared dividends in 2022 totaling £5,636,000 (2021: £68,000,000) of which £2,886,000 was paid on 8 April 2022 and £2,750,000 was paid on 25 April 2022. No further dividends have been declared in the year ended 31 December 2022.

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 help them 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 two roadshows during 2022, both of which were broadcast online.

Employee surveys are undertaken periodically to allow colleagues to provide honest feedback about their experience working at Wates. Twice a 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 fostering a diverse and inclusive working environment and has implemented specific development programmes to assist business leaders to engage further with their teams and to demonstrate the contribution that everyone can make to the success of the Wates Group. The Wates Group is committed to growing a diverse pool of talent for the purpose of long-term succession planning.

The Wates Group is committed to being actively and consistently anti-racist and has a zero-tolerance approach to racism in all of its workplaces and in everything it does.

Wates Construction Limited Annual accounts and reports 2022

Directors' report

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

Corporate responsibility

Corporate responsibility continues to remain an integral part of the Wates Group's business and long-term strategic aspirations. The Wates Group's approach, priorities and objectives in the corporate responsibility arena, 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:

D.O. Allen	(resigned 16 August 2022)
S.J. Beechey	
H.P. Bunch	
P. Chandler	
D.K.E. Morgan	
S. J. Potter	
P.C. Rowan	
P.M. Wainwright	

Director's indemnity

A director benefited from a qualifying pension scheme indemnity provision during the financial year and benefits from this at the date of this report.

Donations

During the year the Group made charitable donations amounting to £1.6m (2021: £0.8m). 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.

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.

Wates Construction Limited Annual accounts and reports 2022

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.

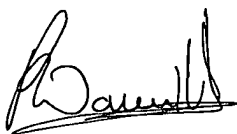
Streamlined energy and carbon report

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 27.

Post balance sheet events

There were no post balance sheet events requiring disclosure.

Approved by the Board of Directors on 24 March 2023 and signed on its behalf by:



P. M. Wainwright
Secretary

Wates Construction Limited Annual accounts and reports 2022

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

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

Wates Construction Limited Annual accounts and reports 2022

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 2022 and of its loss 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 2022 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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

Wates Construction Limited Annual accounts and reports 2022

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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:

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud.

Wates Construction Limited Annual accounts and reports 2022

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

Our audit procedures were designed at Group and significant component levels to respond to the risk, 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 or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, financial reporting legislation, the Companies Act 2006, distributable profits legislation and UK pension and tax legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items. Our tests included agreeing the financial statement disclosures to underlying supporting documentation, review of board and committee meeting minutes, enquiries with management, enquiries of external legal advisors, review of correspondence with external legal advisors and review of external press releases.


There are inherent limitations in the audit procedures described above and, the further removed noncompliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. We addressed the risk of management override of internal controls through testing journals, in particular any entries posted with unusual account combinations or posted by senior management. We evaluated whether there was evidence of bias by the Directors in accounting estimates that represented a risk of material misstatement due to fraud. We challenged assumptions and judgements made by management in their significant accounting estimates, in particular in relation to contract accounting.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

DocuSigned by:

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Charles Ellis (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
24 March 2023

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

Wates Construction Limited Annual accounts and reports 2022

Consolidated profit and loss account

For the year ended 31 December 2022

	Note	2022 £000s	2021 (restated) £000s
Group turnover:			
Group and share of joint ventures and associates		1,768,600	1,517,501
Less share of turnover of joint ventures and associates		(23,699)	(21,804)
Group statutory turnover	2	1,744,901	1,495,697
Cost of sales		(1,590,872)	(1,349,510)
Gross profit		154,029	146,187
Administrative expenses		(157,390)	(139,057)
Group operating (loss)/profit	3	(3,361)	7,130
Share of post-tax loss from joint ventures and associates	10	(105)	(241)
Group statutory operating (loss)/profit: Group and share of joint ventures and associates		(3,466)	6,889
Analysed between:			
Total operating (loss)/profit before interest and tax		(2,827)	7,205
Net interest payable – joint ventures and associates		(604)	(309)
Tax – joint ventures and associates		(35)	(7)
Interest receivable	6	2,044	2,592
Interest payable and similar charges	6	(107)	(55)
Group statutory (loss)/profit before tax		(1,529)	9,426
Analysed between:			
(Loss)/profit before tax and before tax of joint ventures and associates		(1,494)	9,433
Tax – joint ventures and associates		(35)	(7)
Tax on (loss)/profit	7	(1,472)	(820)
Group (loss)/profit for the financial year		(3,001)	8,606

The above results have all been derived from continuing operations.

Consolidated statement of comprehensive (expense)/income

For the year ended 31 December 2022

	2022 £000s	2021 (restated) £000s
Group (loss)/profit for the financial year	(3,001)	8,606
Currency translation difference on foreign currency net investment	(532)	(24)
Other comprehensive expense for the year	(532)	(24)
Total comprehensive (expense)/income for the year	(3,533)	8,582

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

Wates Construction Limited Annual accounts and reports 2022

Company number: 01977948

Consolidated balance sheet

At 31 December 2022

	Note	2022 £000s	2021 (restated) £000s
Fixed assets			
Intangible assets - goodwill	8	38,105	41,582
Tangible assets	9	6,120	4,101
Investments in joint ventures and associates	10	17,969	7,533
Other investments	10	262	288
		62,456	53,504
Current assets			
Stocks	11	12,902	26,522
Debtors			
- due within one year	12	507,792	400,642
- due after one year	12	44,166	32,473
		551,958	433,115
Cash at bank and in hand	13	152,700	127,253
		717,560	586,890
Creditors: amounts falling due within one year	14	(647,442)	(517,115)
Net current assets		70,118	69,775
Total assets less current liabilities		132,574	123,279
Creditors: amounts falling due after more than one year	15	(18,588)	(16,012)
Provisions for liabilities	16	(72,423)	(56,535)
Net assets		41,563	50,732
Capital and reserves			
Called up share capital	19	28,000	28,000
Profit and loss account	19	13,563	22,732
Shareholders' funds		41,563	50,732

The notes on pages 43 to 68 form part of these accounts

Approved by the Board of Directors on 24 March 2023 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual accounts and reports 2022

Company number: 01977948

Company balance sheet

At 31 December 2022

	Note	2022 £000s	2021 (restated) £000s
Fixed assets			
Tangible assets	9	4,297	2,125
Investments	10	96,520	86,013
		100,817	88,138
Current assets			
Stocks	11	12,842	26,392
Debtors			
- due within one year	12	406,146	324,548
- due after more than one year	12	40,100	28,495
		446,246	353,043
Cash at bank and in hand	13	125,488	101,672
		584,576	481,107
Creditors: amounts falling due within one year	14	(547,754)	(444,719)
Net current assets		36,822	36,388
Total assets less current liabilities		137,639	124,526
Creditors: amounts falling due after more than one year	15	(16,500)	(12,824)
Provisions for liabilities	16	(72,423)	(55,255)
Net assets		48,716	56,447
Capital and reserves			
Called up share capital	19	28,000	28,000
Profit and loss account	19	20,716	28,447
Shareholders' funds		48,716	56,447

The notes on pages 43 to 68 form part of these accounts

The loss for the year dealt with in the accounts of the parent company was £2,095,000 (2021 restated: profit £4,349,000).

Approved by the Board of Directors on 24 March 2023 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual accounts and reports 2022

Consolidated statement of changes in equity

At 31 December 2022

	Called up share capital £000s	Profit and loss account £000s	Total equity £000s
At 31 December 2020 (restated)	28,000	82,150	110,150
Profit for the financial year	-	8,606	8,606
Currency translation difference on foreign currency net investment	-	(24)	(24)
Total comprehensive income (restated)	-	8,582	8,582
Dividends declared on equity shares	-	(68,000)	(68,000)
At 31 December 2021 (restated)	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

Company statement of changes in equity

At 31 December 2022

	Called up Share Capital £000s	Profit and loss Account £000s	Total equity £000s
At 31 December 2020 (restated)	28,000	92,098	120,098
Total comprehensive income	-	4,349	4,349
Dividends declared on equity shares	-	(68,000)	(68,000)
At 31 December 2021 (restated)	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

The total comprehensive (expense)/income of the company for each of the two years ended 31 December 2022 is its (loss)/profit for these financial years.

Wates Construction Limited Annual accounts and reports 2022

Consolidated cash flow statement

For year ended 31 December 2022

	Note	2022 £000s	2021 £000s
Net cash (outflow)/inflow from operating activities	20	(8,637)	596
Cash flows from investing activities			
Disposal of tangible fixed assets		28	-
Proceeds from sale of properties with equity loans		37	103
Purchase of tangible fixed assets		(3,837)	(2,201)
Loans paid to joint ventures		(10,555)	(3,096)
Dividends received from joint ventures and associates		14	62
Net cash outflow from investing activities		(14,313)	(5,132)
Cash flows from financing activities			
Equity dividends paid		(5,636)	(68,000)
Net cash outflow from financing activities		(5,636)	(68,000)
Net decrease in cash and cash equivalents		(28,586)	(72,536)
Cash and cash equivalents at beginning of year		127,253	199,789
Cash and cash equivalents		98,667	127,253

Wates Construction Limited Annual accounts and reports 2022

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.

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 2022, the company had net cash, access to £90.0m of undrawn bank facilities (through the Wates Group's £90.0m Revolving Credit Facility (RCF) which expires in March 2025 with the potential for a one year extension) and a strong forward secured order book which underpins the forecast for 2023. 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 accounts and reports 2022

Notes to the accounts

1. Accounting policies continued

iii) Going concern continued

iv)

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 2023. 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 2022. 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 range of potential scenarios of escalating impact and duration. Some reasonable downside scenarios include: a significant contract loss, a reduction in contracting turnover similar to that experienced in 2020, an increase in costs without any client recovery, and reductions in prices for both housing and land sales. The Wates Group does not consider a prolonged shut down of construction or contracting activities as a likely scenario as these activities continued throughout the recent pandemic. The Wates Group's cash has remained resilient throughout 2022 and it only utilised a portion of the RCF following the early repayment of its Coronavirus Large Business Interruption Loan Scheme facility during the year. While the cash flow impacts of these scenarios are materially different to the current forecast, the Wates Group's forecast and reasonable worst case scenarios 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 for a range of scenarios, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

v) 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 accounts and reports 2022

Notes to the accounts

1. Accounting policies continued

iv) Turnover continued

Rendering of services

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) 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.

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 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	period of lease
Plant and equipment	2 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 accounts and reports 2022

Notes to the accounts

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.

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.

x) Joint ventures and associates

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

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

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

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

xi) Stocks

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

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

1. Accounting policies continued

xii) Impairment of assets

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

Non financial assets

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

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

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

Financial assets

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

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

xiii) Contracts

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

Profit on contracts are considered on a profit 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. As a number of risks are not mitigated until a contract has been successfully delivered, final accounts are agreed and retentions are settled, an element of profit is not recognised on contracts until the contract is nearing completion. Provision is made for all losses incurred to the accounting date together with any further losses that are foreseen in bringing contracts to completion.

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

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

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

1. Accounting policies continued

xiii) 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.

xiv) 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.

xv) 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.

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 accounts and reports 2022

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 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 accounts and reports 2022

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 (apart from those involving estimates) 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.

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.

c) Provisions and contingencies (see note 16 and 24)

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.

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

1. Accounting policies continued

xxiii) Significant areas of judgement and uncertainty continued

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

	2022 £000s	2021 £000s
Analysis of statutory turnover by class of business		
Construction	958,164	771,925
Property Services	498,788	474,500
Residential Developments	287,949	249,272
	1,744,901	1,495,697
	2022 £000s	2021 £000s
Analysis of statutory turnover by type		
Construction contracts	1,522,424	1,269,642
Rendering of services	159,053	173,759
Sale of residential properties	63,424	52,296
	1,744,901	1,495,697

Group statutory turnover is materially within the United Kingdom.

3. Group operating (loss)/profit

	2022 £000s	2021 £000s
This is stated after charging/(crediting):		
Amortisation of goodwill	3,477	3,477
Auditor's remuneration*		
- audit of these accounts	363	180
- audit of subsidiary accounts	340	169
Cost of stock recognised as expense	55,428	48,691
Depreciation of tangible assets		
(including loss on disposal £122,000 (2021: £4,000))	1,790	1,842
Foreign exchange (gain)/loss	527	(2)
Hire of plant and machinery	5,434	3,556
Operating lease payments	6,779	6,989
Charitable donations	1,529	830
Research and development tax credits	(2,695)	(1,408)
Research and development costs	14,678	9,335

* 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.

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

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:

	2022 Number	2021 Number
Operations	2,587	2,443
Administration	1,059	1,012
	3,646	3,455
The aggregate payroll costs for the Group were as follows:	2022 £000s	2021 £000s
Wages and salaries	218,629	198,095
Social security costs	26,662	22,616
Other pension costs	30,211	25,538
	275,502	246,249

The Group pension operating cost for the year was £11,206,000 (2021: £9,594,000) in respect of defined benefit arrangements and £19,005,000 (2021: £15,944,000) in respect of defined contribution arrangements. Further information on retirement benefits are include in note 1 (xviii).

5. Remuneration of directors

	2022 £000s	2021 £000s
Directors' emoluments	2,016	1,949
Amounts receivable under long-term incentive scheme	2,084	2,389
Contributions to money purchase scheme	28	26
	4,128	4,364

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

Four (2021: four) directors have retirement benefits accruing under a money purchase scheme.

	2022 £000s	2021 £000s
Highest paid director - emoluments	455	447
- amounts receivable under long-term incentive scheme	403	591

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

6. Net interest receivable

	2022 £000s	2021 £000s
Interest receivable		
Group undertakings	1,244	2,259
Bank	44	3
Other	756	330
Interest receivable	2,044	2,592
	2022 £000s	2021 £000s
Interest payable and similar charges		
Group undertakings	103	14
Other	4	41
Interest payable and similar charges	107	55

Other interest receivable includes amounts from Joint ventures of £732,000 (2021 restated: £313,000) which is also included within interest payable by joint ventures disclosed on the face of the Consolidated profit and loss account.

7. Tax on (loss)/profit

a) Analysis of the charge in the year

	2022 £000s	2021 (restated) £000s
Current tax		
UK corporation tax on the (loss)/profit for the year	-	715
Adjustments in respect of previous years	756	(37)
Total current tax	756	678
Deferred tax		
Origination and reversal of timing differences	906	926
Impact of change in tax rate	-	(859)
Adjustments in respect of previous years	(190)	75
Total deferred tax	716	142
Total tax on (loss)/profit	1,472	820

During the year beginning 1 January 2023, 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.

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

7. Tax on (loss)/profit continued

b) Factors affecting the total tax charge for the year

The total tax charge for the year is higher (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 £000s	2021 (restated) £000s
(Loss)/profit before tax	(1,529)	9,426
Less share of loss/(profit) after tax of joint ventures and associates taxed as separate entities	1	(33)
Group (loss)/profit before tax	(1,528)	9,393
Group (loss)/profit at standard rate of corporation tax in the UK of 19% (2021: 19%)	(290)	1,784
Effects of:		
Permanent disallowable costs	568	610
Change in tax rates/timing differences	(356)	(1,036)
Group relief	984	(576)
Adjustments in respect of previous years	566	38
Group total tax charge for the year	1,472	820

8. Intangible assets – goodwill

Group	£000s
Cost 1 January 2022 and 31 December 2022	69,550
Amortisation:	
At 1 January 2022	27,968
Provided during the year	3,477
At 31 December 2022	31,445
Net book amounts:	
At 31 December 2022	38,105
At 31 December 2021	41,582

The net book value of goodwill at 31 December 2022 includes amounts and remaining amortisation periods regarding the following acquisitions:

Acquisition	Remaining amortisation period	Net book value of goodwill
Wates Property Services Limited	8.4 years	£11,409,000
Purchase Group	11.9 years	£4,953,000
Parts of the Shepherd Group	12.8 years	£21,743,000

Wates Construction Limited Annual accounts and reports 2022

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 2022	2,153	5,727	4,985	12,865
Additions	253	2,777	807	3,837
Disposals	-	(33)	(339)	(372)
At 31 December 2022	2,406	8,471	5,453	16,330
Depreciation:				
At 1 January 2022	1,535	3,827	3,402	8,764
Provided during the year	363	669	636	1,668
Disposals	-	(6)	(216)	(222)
At 31 December 2022	1,898	4,490	3,822	10,210
Net book amounts:				
At 31 December 2022	508	3,981	1,631	6,120
At 31 December 2021	618	1,900	1,583	4,101

Company	Plant and equipment £000s	Business systems software £000s	Company total £000s
Cost:			
At 1 January 2022	3,210	649	3,859
Additions	2,751	78	2,829
At 31 December 2022	5,961	727	6,688
Depreciation:			
At 1 January 2022	1,637	97	1,734
Provided during the year	509	148	657
At 31 December 2022	2,146	245	2,391
Net book amounts:			
At 31 December 2022	3,815	482	4,297
At 31 December 2021	1,573	552	2,125

Wates Construction Limited Annual accounts and reports 2022

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 2022	7,252	281	7,533	288
Additions	10,507	-	10,507	-
Repayments	(14)	-	(14)	(37)
Deferred income	48	-	48	-
Share of (loss)/profit	(115)	10	(105)	11
At 31 December 2022	17,678	291	17,969	262

The investment in joint ventures includes loans amounting to £17,443,000 (2021: £6,985,000). Repayments includes dividends received from joint ventures and associates of £14,000 (2021: £62,000).

Joint ventures

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

	Interest	Registered office
Annington Wates (Cove) Limited #	50.0%	3 rd Floor One London Square, Cross Lanes, Guildford GU1 1UN
HSDP Nominee Ltd	50.0%	(Wates House, Station Approach,
HWR Nominee Ltd	50.0%	(Leatherhead, Surrey KT22 7SW

Entity dissolved on 12 January 2023

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

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

10. Joint ventures and other investments continued

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

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

Equity loans

These comprise amounts advanced to homebuyers to assist in their purchase of the Group's residential properties under equity share schemes. The loans, with a cost of £262,000 (2021: £288,000), 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 (2021: £67,000) 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 (2021: £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 2022	78,294	7,719	86,013
Additions	-	10,507	10,507
As at 31 December 2022	78,294	18,226	96,520

The cost of shares in Group undertakings is £78,294,000 (2021: £78,294,000).

The investment in joint ventures includes loans amounting to £18,226,000 (2021: £7,719,000).

For the year ending 31 December 2022 the following subsidiary companies were entitled to exemption from audit of individual company accounts under Section 479A of the Companies Act 2006:

G Purchase Construction Limited (company number 04405016)
Purchase Group Limited (company number 05322443)
Wates Construction Services Limited (company number 04341437)
Wates Group Properties Limited (company number 01852973)
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.

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

11. Stocks

	Group 2022 £000s	Group 2021 £000s	Company 2022 £000s	Company 2021 £000s
Raw materials and consumables	60	130	-	-
Residential land and work in progress under development	12,842	26,392	12,842	26,392
	12,902	26,522	12,842	26,392

12. Debtors

	Group 2022 £000s	Group 2021 (restated) £000s	Company 2022 £000s	Company 2021 (restated) £000s
Amounts falling due within one year				
Trade debtors	133,740	62,094	107,734	43,003
Amounts recoverable on contracts	196,745	160,801	147,707	119,405
Insurance reimbursement asset	11,462	15,859	11,462	15,859
Amounts owed by group undertakings	139,236	130,415	123,533	123,333
Amounts owed by joint ventures and associates	213	4,837	213	4,837
Corporation tax	9,491	8,169	8,606	7,961
Deferred tax (note 17)	1,192	1,433	-	196
Other debtors	3,072	5,455	2,861	5,288
Prepayments and accrued income	12,641	11,579	4,030	4,666
	507,792	400,642	406,146	324,548
Amounts falling due after one year				
Amounts recoverable on contracts	23,975	16,324	22,828	15,719
Insurance reimbursement asset	17,272	12,776	17,272	12,776
Deferred tax (note 17)	2,898	3,373	-	-
Other debtors	21	-	-	-
	44,166	32,473	40,100	28,495
	551,958	433,115	446,246	353,043

13. Cash at bank and cash in hand

	Group 2022 £000s	Group 2021 £000s	Company 2022 £000s	Company 2021 £000s
Restricted cash	-	24,789	-	24,789
Cash at bank	152,700	102,464	125,488	76,883
	152,700	127,253	125,488	101,672

Restricted cash represented money held in a proceeds account from property sales for a development site. The balance held in the account was distributed in full during 2022. The balance at 31 December 2021 included £18,531,000 due to the site partner which was also included in accruals (note 14).

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 £98,667,000 (2021: £127,253,000).

The company net cash position (being cash and cash equivalents and restricted cash, net of bank overdrafts) at year end is £71,455,000 (2021: £101,672,000).

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

14. Creditors: amounts falling due within one year

	Group 2022 £000s	Group 2021 (restated) £000s	Company 2022 £000s	Company 2021 (restated) £000s
Bank overdrafts	54,033	-	54,033	-
Advance payments on account of contracts	128,259	96,455	121,428	92,647
Trade creditors	76,761	62,626	53,513	40,927
Amounts owed to subsidiaries	-	-	-	6,288
Amounts owed to group undertakings	38,239	24,216	24,174	21,956
Other taxes and social security	38,425	33,880	31,400	27,670
Deferred tax (note 17)	-	-	96	-
Other creditors	2,042	2,275	1,147	1,439
Accruals	306,976	294,989	261,963	253,792
Deferred income	2,707	2,674	-	-
	647,442	517,115	547,754	444,719

The bank overdraft in 2022 reflects an overdraft in a single bank account within Wates Construction Limited. This bank account forms part of the Wates 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 has arisen because the Group placed funds on short term money market deposit which settled the above overdraft immediately following the year end. The overdraft is 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.

Accruals at 31 December 2021 included £18,531,000 due to the site partner in respect of funds held in the restricted cash account (note 13).

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

	Group 2022 £000s	Group 2021 £000s	Company 2022 £000s	Company 2021 £000s
Accruals	17,559	14,633	16,500	12,824
Deferred income	1,029	1,379	-	-
	18,588	16,012	16,500	12,824

16. Provisions and recoveries

	Group 2022 £000s	Group 2021 (restated) £000s	Company 2022 £000s	Company 2021 (restated) £000s
At 1 January	56,535	49,016	55,255	49,016
Utilised during the year	(10,103)	(14,114)	(8,823)	(14,114)
Charged to profit and loss account	27,628	24,873	27,628	23,593
Credited to profit and loss account	(1,637)	(3,240)	(1,637)	(3,240)
At 31 December	72,423	56,535	72,423	55,255

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

16. Provisions and recoveries continued

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 £72,423,000 to be appropriate.

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

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 £28,734,000 to £38,629,000 while the amount recognised as virtually certain at the balance sheet date is £28,734,000 (see note 12).

17. Deferred tax

	Group 2022 £000s	Company 2022 £000s
At 1 January	4,806	196
Charged to profit and loss account	(716)	(292)
At 31 December	4,090	(96)

Deferred tax is provided as follows:

	Group 2022 £000s	Group 2021 £000s
Accumulated depreciation in excess of capital allowances	(5)	508
Other timing differences	4,095	4,298
Deferred tax	4,090	4,806

	2022 £000s	2021 £000s
Deferred tax asset under one year	1,192	1,433
Deferred tax asset over one year	2,898	3,373
	4,090	4,806

	Company 2022 £000s	Company 2021 £000s
Accumulated depreciation in excess of capital allowances	(554)	(41)
Short-term timing differences	458	237
	(96)	196

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

Wates Construction Limited Annual accounts and reports 2022

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	2022 £000s	2021 (restated) £000s
Financial assets		
Debt instruments measured at amortised cost		
• Loans receivable from joint ventures (notes 10 and 12)	17,443	6,985
Equity instruments measured at cost less impairment		
• Equity loans (note 10)	262	288
Interest income		
Total interest income for financial assets at amortised cost	732	313

19. Called up share capital and reserves

Group and company	2022 £000s	2021 £000s
Issued and fully paid: 28,000,000 (2021: 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

	2022 £000s	2021 (restated) £000s
Group operating (loss)/profit including joint ventures and associates	(3,466)	6,889
Profit on sale of properties with equity loans	(11)	(29)
Depreciation and amortisation	5,267	5,319
Joint ventures and associates	105	241
Decrease/(increase) in stocks	13,620	(5,184)
Increase in debtors	(120,956)	(84,646)
Increase in creditors	78,338	70,598
Increase in provisions	15,888	7,519
Cash (used in)/generated from operations	(11,215)	707
Interest received	2,044	2,593
Interest paid	(107)	(15)
Corporation tax received/(paid)	641	(2,689)
Net cash (outflow)/inflow from operating activities	(8,637)	596

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

21. Net cash reconciliation

Group	1 January 2022 £000s	Cash flows £000s	31 December 2022 £000s
Cash at bank	102,464	50,236	152,700
Restricted cash	24,789	(24,789)	-
Cash and cash equivalents	127,253	25,447	152,700
Bank overdrafts	-	(54,033)	(54,033)
Net cash including restricted cash	127,253	(28,586)	98,667
Net cash excluding restricted cash	102,464	(3,797)	98,667

Company	1 January 2022 £000s	Cash flows £000s	31 December 2022 £000s
Cash at bank	76,883	48,605	125,488
Restricted cash	24,789	(24,789)	-
Cash and cash equivalents	101,672	23,816	125,488
Bank overdrafts	-	(54,033)	(54,033)
Net cash including restricted cash	101,672	(30,217)	71,455
Net cash excluding restricted cash	76,883	(5,428)	71,455

22. Operating lease commitments

	2022 £000s	2021 £000s
Group total future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	4,778	5,190
Between one and five years	5,855	6,076
After five years	12	19
	10,645	11,285

23. Prior year adjustment

Provisions are recognised when the Group and company 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.

In prior years, provisions for construction related activity reflected the net expected future loss, after making an allowance for insurance policy excess, if the Group and company had received reasonable satisfaction (but not virtual certainty) of policy coverage from insurers that costs were recoverable for certain works and where the process was at an advanced stage. In accordance with FRS 102, reimbursement assets should only be recognised when recovery is considered to be virtually certain and a prudent level of recovery can be reliably estimated.

In the prior year, total probable (but not virtually certain) insurance recoveries of £12,854,000 were recognised and offset against provisions. While it was considered probable that these significant insurance recoveries are still expected, they were not virtually certain in the prior year and therefore no reimbursement asset has been recognised.

In the current year, following a review of the appropriateness of the above accounting, an adjustment has been applied to recognise amounts recoverable from third parties (insurers) as a separate reimbursement asset rather than as a reduction in the provision. In addition, amounts that were not virtually certain have been derecognised.

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

23. Prior year adjustment continued

This has resulted in an adjustment to Group and company opening reserves, as 1 January 2021 of £6,539,000 in respect of probable but not virtually certain insurance recoveries previously offset against provisions (net of tax).

In addition, the prior year Group balance sheet has been restated to correct the classification of the following items:

- Advance payments on account of contracts included in Creditors due within one year and Amounts recoverable on contracts due within one year have been reduced by £14,661,000 to recognise the individual contract positions on a net basis.
- £5,586,000 has been reclassified from Advance payments on account of contracts included in Creditors due within one year to Amounts recoverable on contracts due within one year to show asset balances net of provision amounts rather than the provision as a separate liability. The impact of this adjustment is to reduce Amounts recoverable on contracts and Advance payments on account of contracts.
- Accruals included in Creditors due within one year and Amounts recoverable on Contracts due within one year has been reduced by £3,052,000 and £608,000 respectively, with an increase to provisions of £2,444,000. The Accrual was recognised instead of a provision for forecast costs to be incurred to satisfy a defect obligation as well as a provision for recoverability of a contract asset.

The above do not impact prior year profit and loss account or net assets.

In addition, the prior year company balance sheet has been restated to correct the classification of the following items:

- Advance payments on account of contracts included in Creditors due within one year and Amounts recoverable on contracts due within one year have been reduced by £12,276,000 to recognise the individual contract positions on a net basis.
- £5,586,000 has been reclassified from Advance payments on account of contracts included in Creditors due within one year to Amounts recoverable on contracts due within one year to show asset balances net of provision amounts rather than the provision as a separate liability. The impact of this adjustment is to reduce Amounts recoverable on contracts and Advance payments on account of contracts.
- Accruals included in Creditors due within one year and Amounts recoverable on Contracts due within one year has been reduced by £3,052,000 and £608,000 respectively, with an increase to provisions of £2,444,000. The Accrual was recognised instead of a provision for forecast costs to be incurred to satisfy a defect obligation as well as a provision for recoverability of a contract asset.

The above do not impact prior year profit and loss account or net assets.

Restated provisions represent the future costs which the Group and company is liable for. Reimbursement assets represent future receipts which are virtually certain to be recovered from insurers.

Group

Reconciliation of opening Profit and loss account and Shareholders funds as at 1 January 2021:

	Profit and loss account £000s	Total equity £000s
Group		
As originally reported	88,689	116,689
Adjustment	(6,539)	(6,539)
Restated	82,150	110,150

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

23. Prior year adjustment continued

The comparative figures in the primary statements and notes have been restated with the effects summarised below:

	2021 as reported £000s	Adjustment £000s	2021 restated £000s
Consolidated profit and loss account (impacted lines)			
Cost of sales	(1,344,759)	(4,751)	(1,349,510)
Gross profit	150,938	(4,751)	146,187
Group operating profit	11,881	(4,751)	7,130
Total operating profit: Group and share of joint ventures and associates	11,640	(4,751)	6,889
Analysed between:			
Total operating profit before interest and tax	11,956	(4,751)	7,205
Group statutory profit before tax	14,177	(4,751)	9,426
Analysed between:			
Group profit before tax and before tax of joint ventures and associates	14,184	(4,751)	9,433
Tax on profit	(1,723)	903	(820)
Group profit for the financial year	12,454	(3,848)	8,606

	2021 as reported £000s	Adjustment £000s	2021 restated £000s
Consolidated statement of comprehensive income/(expense) (impacted lines)			
Profit/(loss) for the financial year	12,454	(3,848)	8,606
Total comprehensive income/(expense) for the financial year	12,430	(3,848)	8,582

	31 December 2021 as reported £000s	Adjustment £000s	31 December 2021 restated £000s
Consolidated balance sheet (impacted lines)			
Current assets			
Debtors			
- due within one year	408,429	(7,787)	400,642
- due after one year	19,697	12,776	32,473
-	428,126	4,989	433,115
Creditors: amounts falling due within one year	(537,562)	20,447	(517,115)
Net current assets	44,339	25,436	69,775
Total assets less current liabilities	97,843	25,436	123,279
Provisions for liabilities	(20,712)	(35,823)	(56,535)
Net assets	61,119	(10,387)	50,732
 Profit and loss account	 33,119	 (10,387)	 22,732

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

23. Prior year adjustment continued

	1 January 2021 as previously Stated £000s	Adjustment £000s	1 January 2021 restated £000s
Consolidated balance sheet (impacted lines)			
Current assets			
Debtors			
- due within one year	322,581	1,901	324,482
- due after one year	25,660	13,898	39,558
	348,241	15,799	364,040
Creditors: amounts falling due within one year	(470,004)	(8,041)	(461,963)
Net current assets	99,364	23,840	123,204
Total assets less current liabilities	153,267	23,840	177,107
Provisions for liabilities	(18,637)	(30,379)	(49,016)
Net assets	116,689	(6,539)	110,150
 Profit and loss account	 88,689	 (6,539)	 82,150

Company

Reconciliation of opening Profit and loss account and Shareholders funds as at 1 January 2021:

	Profit and loss account £000s	Total equity £000s
Company		
As originally reported	98,637	126,637
Adjustment	(6,539)	(6,539)
Restated	92,098	120,098

The comparative figures in the primary statements and notes have been restated with the effects summarised below:

	2021 as reported £000s	Adjustment £000s	2021 restated £000s
Profit and loss account (impacted lines)			
Cost of sales	(1,132,937)	(4,751)	(1,137,688)
Gross profit	91,895	(4,751)	87,144
Operating profit	6,930	(4,751)	2,179
Profit before tax	9,387	(4,751)	4,636
Tax on profit	(1,190)	903	(287)
Profit for the financial year	8,197	(3,848)	4,349

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

23. Prior year adjustment continued

	31 December 2021 as reported £000s	Adjustment £000s	31 December 2021 restated £000s
Company balance sheet (impacted lines)			
Current assets			
Debtors			
- due within one year	329,949	(5,401)	324,548
- due after one year	15,719	12,776	28,495
-	345,668	7,375	353,043
Creditors: amounts falling due within one year	(462,780)	18,061	(444,719)
Net current assets	10,952	25,436	36,388
Total assets less current liabilities	99,090	25,436	124,526
Provisions for liabilities	(19,432)	(35,823)	(55,255)
Net assets	66,834	(10,387)	56,447
 Profit and loss account	 38,834	 (10,387)	 28,447

	1 January 2021 as previously stated £000s	Adjustment £000s	1 January 2021 restated £000s
Company balance sheet (impacted lines)			
Current assets			
Debtors			
- due within one year	264,907	1,901	266,808
- due after one year	19,145	13,898	33,043
-	284,052	15,799	299,851
Creditors: amounts falling due within one year	(403,387)	8,041	(395,346)
Net current assets	74,596	23,840	98,436
Total assets less current liabilities	158,590	23,840	182,430
Provisions for liabilities	(18,637)	(30,379)	(49,016)
Net assets	126,637	(6,539)	120,098
 Profit and loss account	 98,637	 (6,539)	 92,098

24. 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.

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

24. Contingencies continued

The Building Safety Act (BSA) received royal assent in June 2022 with wide ranging implications for the industry. The impact on the Group, giving rise to potential liabilities for remediation costs on residential buildings over 11m high constructed during the 30-year period to 30 June 2022 (an increase of 18 years beyond the standard 12 year limitation period), will require time to fully analyse and assess. It is important to note that the Group's development activities of residential buildings over 11m during this extended period was limited. Following notifications received, early investigations have commenced at a small number of sites but it is too early to say whether they will result in any liabilities. 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. Ultimately, should any outlay of resources be required, this is not expected to occur within the next financial year.

As such 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. The Board is continuing to closely monitor developments.

The Group has entered into indemnities, with other group undertakings, to third parties in respect of performance bonds granted on behalf of a fellow subsidiary undertaking.

The Group has guaranteed liabilities of its ultimate parent company and a number of fellow subsidiary undertakings to their bankers.

25. Related party transactions

Turnover in respect of the value of contracting work done for joint ventures in the year ended 31 December 2022 was £27,203,000 (2021: £33,036,000).

Amounts were due to the Group from joint ventures and associates at 31 December 2022 of £17,656,000 (2021: £11,822,000). Interest at market rates is receivable in respect of loans, which are unsecured, due from joint ventures.

26. 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	2022 £000s	2021 £000s
Group statutory turnover	1,744,901	1,495,697
Share of turnover of joint ventures and associates	23,699	21,804
Group turnover	1,768,600	1,517,501

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

26. Alternative performance measures continued

Operating (loss)/ profit excluding the Group's share of joint ventures' and associates' interest and tax	2022 £000s	2021 £000s
Statutory Group operating (loss)/profit: Group and share of joint ventures and associates	(3,466)	6,889
Share of net interest payable of joint ventures and associates	604	309
Share of tax of joint ventures and associates	35	7
Operating (loss)/profit *	(2,827)	7,205

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

Operating (loss)/profit margin calculated as total operating profit before interest and tax divided by total revenue	2022 £000s	2021 £000s
Operating (loss)/profit margin	(0.2)%	0.5%

Group (loss)/profit before tax excluding the Group's share of joint ventures' and associates' tax	2022 £000s	2021 £000s
Group statutory (loss)/profit before tax	(1,529)	9,426
Share of tax of joint ventures and associates	35	7
Group (loss)/profit before tax	(1,494)	9,433

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.

27. 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.

Wates Construction Limited Annual accounts and reports 2022

Notes to the accounts

Subsidiary Undertakings

At 31 December 2022

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%	