

WATES GROUP LIMITED
COMPANY No. 01824828

THIS COPY IS FOR FILING WITH THE
ACCOUNTS OF

WATES LIMITED
COMPANY No. 03599183

SEE NOTE RE AUDIT EXEMPTION ON
PAGE 77

MONDAY



A14 *A2C5IH8H* #33
08/07/2013
COMPANIES HOUSE

“Performance. Commitment. Quality.
In a word, **Wates**. The Wates Group
is driven by a commitment to its
customers, partners, shareholders,
employees, communities and the
environment. As a family-owned
business with 116 years’ experience,
we share a deeply held sense of
responsibility to provide outstanding
projects for our customers and to
make a lasting difference to the
communities in which we work.”

PAUL DRECHSLER
Chairman and Chief Executive

02 Business and Financial Overview

04 Chairman and Chief Executive’s Review

08 Case studies

- 08 Luton Aquatic Centre
- 10 University of Manchester
- 12 Building Futures – Gateways to Oldham
- 14 John Lang
- 16 Marks and Spencer
- 18 Kirklees – Excellent Homes for Life
- 20 Community Energy Saving Programme
- 22 Picket Piece Andover
- 24 PINCH

26 Business and Financial Review

- 26 Business Review
- 42 Financial Review

44 Governance

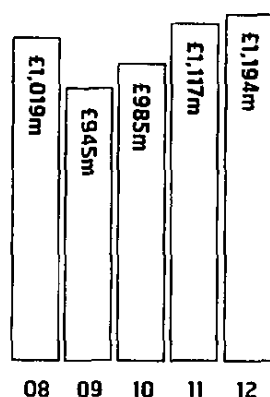
- 44 Risk Management
- 46 Board of Directors
- 48 Executive Committee
- 50 Directors’ Report
- 52 Corporate Governance Report
- 57 Directors Remuneration Report
- 59 Statement of Directors’ Responsibilities

60 Accounts

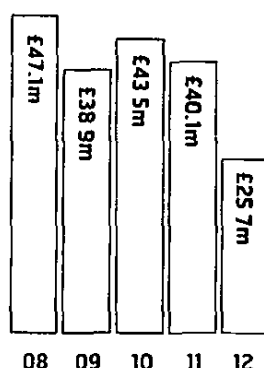
- 60 Independent Auditors’ Report
- 61 Consolidated Profit and Loss Account
- 62 Consolidated Balance Sheet
- 63 Consolidated Statement of Total Recognised Gains and Losses
- 63 Reconciliation of Movements in Group Shareholders’ Funds
- 64 Company Balance Sheet
- 65 Consolidated Cash Flow Statement
- 66 Notes to the Accounts
- 86 Principal Subsidiary Undertakings

87 Other information

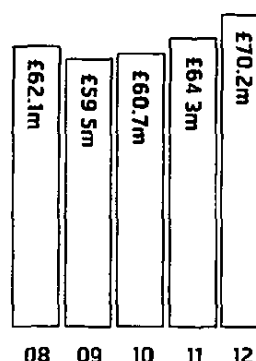
- 87 Group Five Year Summary
- 87 Advisors
- 88 Addresses



GROUP TURNOVER*



GROUP PROFIT BEFORE TAX



NET ASSETS

includes share of joint ventures and associate's turnover

£1.2bn^{}**
GROUP TURNOVER 2012

WHAT WE DO

Wates Group is a family-owned construction services and development company that is fully committed to delivering the highest quality projects to our customers while making a difference to the lives of people in the communities in which we work

Keeping people safe from harm remains a top priority and we continue to engage with site operatives and our supply chain to ensure we are constantly striving to improve

Our business includes Developments with expertise in land, planning and joint venture developments, Needspace² which provides flexible workspace for entrepreneurial businesses and our general Construction business which includes Living Space and Construction, delivering for core markets such as education, new build affordable housing, local authorities, heritage, commercial and mixed-use developments, planned and responsive maintenance as well as Interiors and Retail which provides high quality fit-out, structural re-engineering and national roll-out of high volume projects. It is this diversity across market sectors that underlines the strength and stability of the Group

In 2012, Wates performed strongly in challenging market conditions for the construction industry as a whole. Our experience in delivering outstanding projects means that we continue to build long term relationships with our customers and enjoy high levels of repeat business

This annual report sets out the achievements of the Group and all our people and outlines the opportunities for the year ahead

GROUP PERFORMANCE

CONSTRUCTION TURNOVER

£547m^{*}

With many years' experience, Wates Construction specialises in maximising value for our customers and delivering outstanding buildings across the UK. We have a strong track record in all our core markets: education, prisons, local authorities, heritage, commercial and mixed-use developments and a real understanding of our customers' needs

LIVING SPACE TURNOVER

£455m^{}**

Wates Living Space is one of the UK's leading affordable housing construction services providers. We work with local authorities and social landlords to provide the best all-in-one service for our clients across the UK. In 2012 we built or refurbished over 22,000 properties and our successful integration of Linbrook Services enables us to provide a full responsive maintenance offering. However, we do more than provide good quality homes, we make a real difference to residents' lives by contributing to the wider regeneration of communities

£29.3m[†]

UNDERLYING PROFIT BEFORE TAX 2012

Business and Financial Overview

Chairman and Chief Executive's Review

Case studies

Business and Financial Review

Governance

Accounts

Other information

DIVERSE CUSTOMER BASE

INTERIORS AND RETAIL TURNOVER

£117m

During 2012 we restructured our Interiors and Retail businesses, combining them under one leadership to provide a national infrastructure and greater flexibility for our customers. Interiors and Retail is now focused on delivering high quality fit-out, structural re-engineering and national roll-out of high volume projects. Servicing a number of sectors including high street brands, supermarkets, retail and office landlords and banks. Our track record in delivering on time, on budget, in live environments with minimum disruption, ensures long term repeat business relationships with our customers.

NEEDSPACE? TURNOVER

£2m

Needspace? provides affordable and flexible managed office, workshop and studio units for small businesses in London and the South East. At each of our high quality business centres we aim to create a community of entrepreneurs developing their businesses alongside others in a supportive environment.

DEVELOPMENTS TURNOVER

£73m^{*}

Wates Developments combines expertise in land acquisition, planning consent for brown and greenfield sites and joint venture residential developments. Our financial strength and commercial acumen makes us an attractive partner for both land owners and developers across Southern England and we plan to continue to grow our portfolio of land investments.

^{*} includes share of joint ventures turnover

^{**} includes share of joint ventures' and associate's turnover

[†] underlying profit before tax stated before restructuring costs and profit on sale of investments

CONTINUING TO DELIVER A STRONG PERFORMANCE IN A CHALLENGING MARKET

I am pleased to report that the
Wates Group delivered solid
results in 2012, in challenging
market conditions

The UK and European economies
continued to exhibit low growth
and public sector investment
in UK construction projects
declined significantly

The Group's diverse portfolio
and excellent performance in
some businesses drove turnover
up by 7% to £1.2bn*. This same
diversity insulated the Group
from tightening margins in
Construction with underlying
pre-tax profit* of £29.3m

Reduced demand for construction, some unsustainable pricing by competitors and an increasing number of supply chain failures combined to create the most demanding trading conditions. This together with some operational challenges placed pressure on margins in our construction business. Excellent performance in residential development, however, enabled us to deliver pre-tax profit of £29.3m* at a net margin of 2.7%.

The Wates Group is a wholly family owned business, founded on principles of sustainability: using positive business growth to help improve the environment and advance the well-being of local communities today and for future generations.

Our Group's purpose is to deliver business with increased value, potential and reputation from one generation to the next.

The key to this is a strong, resilient balance sheet, built over the years by strategic long term investment and a year on year focus on sustainable profit delivery.

Further investment during the year increased capital employed in residential and commercial property to £77m. This investment and Wates prudent approach has resulted in a strong balance sheet.

Shareholder funds grew during 2012 by 9% to just over £70m, with both the long term future and financial stability at the core of our business decision making. The result is that we are a strong, reliable and stable business which benefits our partners and customers alike.

The Wates construction business includes Construction with a turnover of £547m** with core markets including education, both in the UK and the Middle East, local authority frameworks, heritage projects and commercial and mixed-use developments.

Living Space with a turnover of £455m*, providing new-build affordable housing and refurbishment, together with planned and responsive maintenance enhanced by the successful integration of Linbrook Services.

"OUR FINANCIAL STABILITY, THE DIVERSITY OF OUR PORTFOLIO AND THE VALUES OF A FAMILY RUN BUSINESS THAT HAS BEEN COMMITTED TO THE CONSTRUCTION INDUSTRY FOR GENERATIONS, ENSURE THAT WE WILL CONTINUE TO BUILD LONG TERM RELATIONSHIPS WITH OUR CUSTOMERS"

PAUL DRECHSLER
Chairman and Chief Executive

Interiors and Retail with a turnover of £117m providing interiors and fit-out related services to some of the UK's biggest retailers and commercial customers including Marks and Spencer, John Lewis and Lloyds Banking Group.

Alongside our financial stability and resilience is the diversity of our portfolio. Extending the Wates business across several market sectors with strong differentiation and diverse customer profiles reduces risk and builds in further resilience to the financial performance that underlines the strength and stability of the Group.

This prudent approach to growth has proven successful.

RESILIENCE AND ADAPTABILITY TO ACHIEVE RESULTS

In addition to demonstrating resilience, the Group has adapted to tougher market conditions. We restructured our Interiors and Retail businesses and reorganised our Construction business to help us respond more efficiently to our customers' changing needs and to make better use of our talent and resources.

To ensure we remain competitive, we have right-sized the business where necessary. With an overall headcount reduction in 2012 of 283, we have made annualised savings of over £18.5m and the business will continue to target further improvements to deliver better value and improve efficiency.

Despite the economic climate, we continued to invest in our people, their training and development, with 17,335 training requirements delivered across the Group since 2010, an average of 5,778 per annum and 3 training needs per person per annum. Over the past 3 years, 111 trainees have progressed through our training programmes with great ambition and potential for the future.

Our balance sheet and cash position remain strong and our rigorous financial management, together with strong commitment from the Wates family, gives us a real basis for competitive advantage and means that we are in a strong position to keep developing the business for the future.

Safety is a core value. I am pleased with the progress we made in 2012. A significant improvement in our safety performance resulted in a 53% reduction in reportable accidents and a 48% improvement in our near miss reporting. The initiatives we put in place, Plan Right, Start Right and Look and Feel assessments, which focus on the active management of sites, have had a positive impact on our safety record and I am confident that we will continue to improve in 2013.

On behalf of the Wates Group Board, I would like to thank the management teams who have steered a clear course through most difficult times. I would also like to thank all our employees for their continued dedication and commitment – it is their efforts that have enabled us to continue to prosper in a challenging environment and have given us so many reasons to be proud of Wates throughout 2012.

* Before restructuring costs and profit on sale of investments ** Including share of joint ventures * Including share of joint ventures and associate

£1.6bn

FORWARD ORDER BOOK

£3.1bn

PIPELINE OF BUSINESS OPPORTUNITIES

"THE CONSTRUCTION INDUSTRY DECLINED A FURTHER 10% IN 2012 (A REDUCTION OF CIRCA 30% SINCE THE START OF THE ECONOMIC DOWNTURN) WE WILL CONTINUE TO REMIND GOVERNMENT THAT PUBLIC INVESTMENT IN CONSTRUCTION IS THE MOST BENEFICIAL USE OF STIMULATIVE PUBLIC EXPENDITURE IN BOTH THE SHORT AND LONG TERM. EVERY £1 INVESTED IN CONSTRUCTION GENERATES £2.84 IN TOTAL ECONOMIC ACTIVITY"

PAUL DRECHSLER
Chairman and Chief Executive

OUR COMMITMENT TO OUR CUSTOMERS

Our customers have had to contend with exceptionally challenging trading conditions and their focus continues to be on value for money and certainty. Understanding and responding to their needs and delivering excellent projects safely, on time and on budget are at the heart of our business goals. In 2012, we delivered some outstanding projects across the UK from the headquarters for American Express in Brighton to innovative work for the Metropolitan Police and new affordable housing as part of the Kirklees Excellent Homes for Life PFI. We have continued to grow our market position in education, social housing, banking and responsive maintenance.

To ensure that we provide real value to our customers, we have made greater use of collaborative tools such as Building Information Modelling (BIM). This brings together all the information about a building's design and construction and enables us to develop more efficient, cost-effective and sustainable solutions for our customers. We are already using BIM on a number of projects and recognise its long-term benefits for customers and for the Wates Group. We have also introduced a new commercial and procurement structure which integrates activities across our businesses and enables us to offer greater efficiencies to our customers. Central professional procurement also means that we have been able to strengthen our relationships with our strategic supply chain partners.

To help us manage our relationships with our customers, we have made good use of our new CRM system. It is now widely used across the business and is vital in supporting customer relationships, marketing and business planning. We have also invested a great deal of time and energy in building stronger relationships with existing customers. Our best source of future quality business is today's customers and we are very pleased with the level of repeat business.

OUR PRIORITIES FOR 2013

In addition to safety, our focus in 2013 is to continue to strengthen our balance sheet and we will look to leverage our financial position through further careful investment and

business growth. Winning the right projects at the right price, terms and conditions will be key in 2013 as competition intensifies. We are focusing on smarter bidding for projects so that the opportunities for margin enhancement and the avoidance of risk are managed better right from the start. We are committed to delivering high quality projects on time, on budget for all our customers with a clear focus on professional project delivery which will underpin our financial performance.

In the year ahead, we will continue to focus on what we do best, delivering outstanding projects for our customers, providing support for the communities in which we work and developing the skills of our employees.

NEW OPPORTUNITIES

While the economic outlook remains uncertain, there are still many new opportunities available to our businesses. We have been working with the energy supplier npower as part of the Government's Community Energy Saving Programme (CESP). This requires energy suppliers to deliver energy-saving measures such as building insulation to domestic consumers in specific low-income areas of the UK. Living Space has already gained a significant share of the market. From 2013, energy suppliers will support the insulation of homes and reduce the costs of heating to an affordable level under a new scheme – the Energy Company's Obligation (ECO). We are supporting social landlords in improving the energy efficiency of their homes by gaining access to the funds available under these energy suppliers' programmes.

The UK faces a significant housing shortage and, along with our industry peers, we will continue to make the case to the government that there is a need for new housing and that capital expenditure is the most effective way to stimulate the economy. In the meantime, we are exploring innovative ways in which we can form joint ventures to fund new housing.

Our expertise in the education sector also offers new opportunities and we are promoting our Adapt School Solutions programme which enables local authorities to convert existing commercial buildings into primary and secondary schools or to create new buildings efficiently and cost-effectively.

£295m

WORK WON IN 2013 TO DATE

Business and Financial Overview

Chairman and Chief Executive's Review

Case Studies

Business and Financial Review

Governance

Accounts

Other Information

The integration of Unbrook also enables us to grow our presence in the responsive maintenance sector. We have already signed a new framework with Town and Country Housing Association in Tunbridge Wells and we are looking to continue to grow this area of our business nationally.

WATES PEOPLE

As I meet Wates people on site and at our offices, their enthusiasm, commitment and professionalism never fails to inspire me. Our people are what make Wates the company it is. I am very proud of the achievements of all our employees in what has been a tough year but I would like to mention in particular, James Wates who was awarded a CBE for his services to construction and the charitable sector and Huw Davies who was appointed as the HRH The Prince of Wales Ambassador for the South East region of Business in the Community. In addition, I would like to thank the Wates team that scaled Kilimanjaro and raised over £60,000 for our charity partner Barnardo's and everyone that took part in our annual Wates Community Day, donating 8,700 hours to over 90 different projects.

SUPPORTING COMMUNITIES

We recognise that business is a powerful force for good in society. A commitment to supporting the communities in which we work is embedded in everything we do and is shared by everyone at Wates. We have continued to support local communities across the UK, creating local employment and training opportunities, raising the aspirations and skills of young people and providing ways in which our people can give something back. We supported 2,400 students through Business Class events in the 2011/2012 academic year and more than 616 adults have taken part in our Building Futures programme to date.

We were pleased to be able to collaborate with other companies in the construction industry in the Prince's Trust Get into Construction Programme which offers work experience to young people aged 18-25. Together we helped 700 young people through this programme in 2012.

COMPANY LEADERSHIP

I would like to thank the Wates family and members of the Group Board for their guidance and support over the last year. The Wates family has worked for 4 generations to ensure that the business delivers the highest quality work for our customers and also gives something back to the communities we serve. Wates combines the stability, longevity and values of a family-run business with the dynamism and innovative thinking that will take the business forward for future generations.

There have been a number of changes to the Wates Group Board during 2012.

I would like to express our thanks and appreciation to Nick MacAndrew for his committed and most valuable contribution to the Wates Group Board over the past 9 years and for his diligent leadership of the Audit Committee for much of that time. Nick retired at the AGM in 2012. We also announced that Fritz Ternofsky would retire at the forthcoming AGM and I take this opportunity to thank him for his support and contribution over the past 6 years and for his thoughtful leadership of the Remuneration Committee.

We were very pleased to welcome David Barclay to the Board in October 2012 and welcomed Deena Mattar in February 2013.

I thank Ian Burnett, Managing Director of Wates Living Space until December 2012, for his contribution to Wates over 18 years and we were pleased to welcome Andy Hobart as his successor in January 2013.

Rod Stewart left the Group in October to return to managing an international civil engineering consultancy. As the Group Production Director for the past 2 years, Rod provided leadership and organisational structure to our operations and support functions. He is succeeded by John Howell who will build on the progress made to further improve project delivery and technical leadership.

OUTLOOK

We do not expect recovery in the UK construction market until at least 2014. Company reputation can make all the difference to winning new business and retaining existing customers. Wates brand values, commitment to safety, corporate responsibility and ability to deliver high-quality projects all stand us in good stead. We have a reputation for creating innovative solutions, for example in our work with the Metropolitan Police and our Adapt School Solutions programme. We also have a reputation for reliability and stability in an increasingly uncertain market.

We are proud to be a 4th generation family-owned business with 116 years of experience behind us and we are here for the long term for our customers, communities and employees. We are financially strong today and we are committed to remaining so in the future. Our aim is to continue to enhance Wates position as one of the UK's leading companies in the built environment and our experience, professional people and strong relationships with customers and our supply chain will help us to achieve that goal.

PAUL DRECHSLER
Chairman and Chief Executive

FOCUS POISE AGILITY

In a word, Wates

Business and Financial Overview
Chairman and Chief Executive's Review
▶ Case studies
Business and Financial Review
Governance
Accounts
Other information

"This centre will help to regenerate the town and move Luton into a different league in terms of leisure and sporting facilities."

**Lord McKenzie
of Luton**

Inspire: Luton Sports Village

To inspire people of all ages and abilities to take up sport and to dramatically improve leisure facilities in the town, Luton Borough Council commissioned Wates to create a £26m world-class, 50m swimming pool diving centre and sports hall.

In addition to the 8 lane pool that is capable of holding national swimming competitions with space for 424 spectators, we built a 20 metre, 4 lane community pool (with moveable floor), a dry diving facility with floor mounted trampolines and harnesses to allow divers to practice in safety, a 100 station gym, exercise studios, group cycling room, and café. It was a challenging project so we took on lessons learned, best practice

and peer review. We had to deal with tight dimensional tolerances, particularly with the 10 metre precast diving board in order to meet the exacting standards set out for competition swimming pools. We also had to deal with an archaeological dig and very severe weather conditions during the early stages of the project.

The centre, now called Inspire, was officially opened in October and, true to its name, is inspiring locals to get fitter and healthier. The outstanding facilities have also attracted the attention of Olympic bronze medalist Tom Daley, who has filmed *Splash!*, a TV celebrity diving competition, in the pool.

SUSTAINABLE EFFICIENT INSPIRING

In a word, Wates

The Alan Gilbert Learning Commons, University of Manchester

The University of Manchester is the largest university in the UK with almost 40 000 students and an extensive campus. It wanted to create a focal point at the heart of the University where students could get together and learn – either on an individual basis or collaboratively in groups. It is based on the 'Learning Commons' concept developed in the US and Australia.

The result is the Alan Gilbert Learning Commons, a £12m state of the art, sustainable facility that offers a stimulating secure environment for studying, 24 hours a day. The project focused on energy conservation and sustainability measures in the building, design and construction processes to create a world-class facility.

The work included the re-cladding and complete fit-out of an existing 1960s concrete tower block which was originally 14 storeys and has now been reduced to 4 storeys and the construction of a new extension.

Reusing the existing concrete building frame and foundations resulted in reduced project time, lower costs and carbon footprint and less waste. The building achieved a BREEAM Excellent rating with a score of 72.49 and will generate 10% of the energy needed on site. The building is heated by a steam main on the university campus and also includes a passive ventilation system and solar heating supplements.

"I am proud to have been a part of providing a university facility that is undoubtedly among the best in the UK. The university has invested in the Alan Gilbert Learning Commons Building to create a multitude of innovative, technology-rich facilities that create an ultra-modern, high quality and stimulating space dedicated to the students where they are free to relax and learn. To see their delight and enthusiasm in using the building is truly rewarding."

Shane Benson, Project Manager

SKILLS OPPORTUNITIES SUPPORT

In a word, Wates

Business and Financial Overview

Chairman and Chief Executive's Review

▶ **Case studies**

Business and Financial Review

Governance

Accounts

Other information

Building Futures – Gateways to Oldham

Many communities across the UK lack real employment opportunities. Since 2005 we have been running a pioneering return to work / training programme called Building Futures which helps people gain the skills and training they need to make the move into employment or further education.

"I'm learning so much on site and really looking forward to becoming a fully qualified plumber. The team I work with are great and I appreciate them showing me the ropes."

**Chris Yarwood,
Apprentice Plumber**

In Oldham, where Wates Living Space is working on the £71m Gateways to Oldham PFI we have worked with our supply chain and the local Council's Employability Team to provide training in construction skills and career guidance workshops. In 2012, we provided 2,824 weeks of paid employment, helped 227 local residents into employment and a further 95 into training.

Joanne Jamieson, Regional Managing Director for Wates Living Space says: "We have always intended our work on Gateways to Oldham to be used as a catalyst for boosting opportunities for local people. The candidates have shown real promise and our programme of training and practical work experience has given them a chance to develop their obvious talent."

MODERN PROFESSIONAL CREATIVE

In a word, Wates

Business and Financial Overview
Chairman and Chief Executive's Review
▶ Case studies
Business and Financial Review
Governance
Accounts
Other information

John Laing

Wates has a long standing relationship with infrastructure specialists, John Laing so when it had to move from its head office – which was being demolished as part of a regeneration programme in Victoria, London – it asked us to work on the £1.6m interior fit-out of its new flagship building.

One Kingsway is a prime central London mixed-use new build development behind an original listed façade. John Laing has taken the 1st and 2nd floors of the building and needed a modern, professional and flexible space to represent its business. We provided a quality fit-out in just 13 weeks.

"The Wates site team were fantastic to work with and delivered a quality job under a tight timeframe."

**Duncan Brisbane,
Senior Development
Manager John Laing**

FLEXIBLE RESPONSIVE COMMITTED

In a word, Wates

Business and Financial Overview
Chairman and Chief Executive's Review
▶ Case studies
Business and Financial Review
Governance
Accounts
Other information

Marks and Spencer

We have been working with Marks and Spencer for 12 years on a range of fit-outs and refurbishment projects. Our most recent work for the retailer is the upgrading of its in-store bakeries nationwide from Devon to the North of Scotland to give them the look and feel of an artisan baker. Rather than creating new stores, Marks and Spencer's focus is currently on maximising the value of its existing outlets and improving the brand experience for consumers. As part of that strategy, we are also installing deli counters that sell a range of upmarket fresh pasta, charcuterie, cheeses and other products, intended to add a sense of theatre to its food halls. Both projects have a total value of £10m.

The work is logistically challenging as it has to be carried out overnight so that trading is not disrupted. The bakeries take between 4 and 7 nights and the delis up to 6 weeks.

We have worked closely with Marks and Spencer to ensure that we are flexible and as responsive to their needs as possible so that customers and staff are not inconvenienced by the work. The bakeries and the delis have been very successful and have led to an increase in sales.

"Our relationship with Wates Retail has grown stronger over many years and is based on a high level of trust. Wates provides us with high quality, innovative people who take on more responsibility with every project they undertake for us. We value the on-time, budget and quality certainties that result from our partnership with Wates."

**Richard Gillies,
Director of Plan A at Marks and Spencer**

QUALITY COMMUNITY AFFORDABLE

In a word, Wates

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
Business and Financial Review
Governance
Accounts
Other information

Kirklees – Excellent Homes for Life

Wates Living Space is currently building 445 new high quality affordable homes for rent across 34 different sites in Kirklees

The project which will have an immensely positive impact upon the local neighbourhoods and communities includes the new-build of 140 homes for older people – offering care and support, 291, 1 and 2 bedroom homes for smaller households and 42 homes specifically designed for wheelchair users

As part of our work in Kirklees we are actively engaging with the local community in order to provide tangible training opportunities and maximise the impact of the scheme upon the local economy. This includes the creation of a total of 8 apprentice opportunities, 18 trainee positions and the annual provision of 4 1-week work placements throughout the course of the project.

“Wates has completed 44 units out of 445, 1 and 2 bedroomed units. These have been completed to a very high standard and ahead of programme. This has helped enable us to keep tenant satisfaction levels higher than anticipated. Wates has performed professionally and has continuously strived to improve throughout the project.”

Daniel Mulhail, Pinnacle

SUSTAINABLE ENVIRONMENTAL ENDURING

In a word, Wates

Business and Financial Overview
Chairman and Chief Executive's Review
▶ Case studies
Business and Financial Review
Governance
Accounts
Other information

Community Energy Saving Programme

The UK government's £350m Community Energy Saving Programme (CESP) is funded by energy suppliers and is intended to improve energy efficiency, reduce fuel bills and tackle the issue of fuel poverty in low income households. During 2012, Wates Living Space was awarded £40m of CESP work. Among the schemes we've been involved in are 2 projects in Coventry to make energy saving improvements for WM Housing Group to over 900 Whitefriars homes in Willenhall and 285 in Henley.

The work included installing replacement boilers, double glazing, external wall insulation and photovoltaic panels. At the Willenhall scheme alone, 188 PV installations were completed, utilising the government's Feed-in-Tariff scheme. While on site we also undertook a range of other works to improve the overall appearance of the homes.

The programme also provided 6 week work placements where students surveyed residents on their energy bills and usage. The exercise will be repeated next year to track the benefits of the scheme.

"It's cheaper for us to heat the house now. It has made a huge difference, especially during the cold weather. It looks 100% better now that the rendering has been done and it will make a real difference to the community."

Karen Spence, Whitefriars resident

VISIONARY ENTERPRISING ENGAGING

In a word, Wates

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
Business and Financial Review
Governance
Accounts
Other information

Picket Piece, Andover

The Wates Developments team work on the most challenging and complex of sites

Over 9 years the business brought together 43 landowners, comprising 25 different landholdings to create the 1st phase of a large new village development outside Andover in Hampshire

Following a planning refusal by the Test Valley District Council in 2010 Wates Developments opted to pursue a planning consent on appeal. We chose to positively engage with the local community gathering local and political support. Wates Developments presented the scheme as the answer to Test Valley District Council's housing shortfall and won the support of Eric Pickles MP, Secretary of State for Communities and Local Government who granted the consent in 2011.

The team worked hard to conclude complex land value negotiations with landowners which enabled the purchase and sale of this site into a partnership with David Wilson Homes and building of the scheme is soon to commence. Wates Developments is now committed to delivering the 2nd phase, a further 470 homes and ensuring the development of this new village is successfully integrated into the existing community.

The Developments Team is committed to growing our portfolio of land investments every year and to continue doing what we do best: selective investment in the best sites in the best locations, working with the best partners, to develop much-needed new homes.

43
landowners

25
pieces of land

9 years of
negotiation

1 great
development

ENTREPRENEURIAL DYNAMIC DARING

In a word, Wates

Business and Financial Overview
Chairman and Chief Executive's Review
▶ Case studies
Business and Financial Review
Governance
Accounts
Other information

Design company PINCH expands with Needspace?

Award-winning furniture product and interior design company PINCH moved into the Clapham North Arts Centre run by Needspace? in 2009 and is now in its 4th phase of expansion into adjacent units at the site.

Neespace? provides flexible managed workspace and gives growing businesses the flexibility they need to thrive. Russell Pinch, owner of the eponymous design company, says: "We were looking for an architecturally interesting environment and a company that would be prepared to offer us real flexibility in terms of the décor and dressing of our space to provide a showroom for our products." Needspace? allowed the business to repaint and install new lighting and a wood-burning stove. "They've worked with us well beyond what you'd normally expect of a landlord and tenant arrangement and have allowed us to create the right sort of environment for our business to flourish. There's a brilliant buzz about the place," he says.

"Neespace? has given us the flexibility to transform an interesting architectural space into a fitting studio and showroom for PINCH. They are far more personable, dynamic and daring than any landlords we have previously worked with."

Russell Pinch, Owner PINCH

2012 BUSINESS REVIEW

Wates delivered another solid performance in 2012 despite continuing uncertainty in the UK economy and difficult market conditions for the construction industry as a whole. Our heritage, financial stability and willingness to adapt to meet our clients' changing needs means that we have continued to deliver 1st class projects for existing clients and to win new business in an extremely competitive market.

Among the projects we have delivered this year are Inspire Luton Sports Village, high quality stores for Waitrose and Marks and Spencer Simply Food, the new Prudential Regulation Authority's headquarters for the Bank of England and the refurbishment of Somerset House. We also started an innovative PFI contract delivering 445 new homes, 44 of which were handed over to the people of Kirklees in 2012.

New homes for Luton

Wates Living Space has completed the 1st phase of a series of projects to build 450 new affordable homes to reduce the acute housing shortage in the town. Phase 1 of the New Homes for Luton scheme has provided 16 apprenticeships for Luton's residents and 12 work experience placements for local 6th form college students.

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
▷ Business and Financial Review
Governance
Accounts
Other information

EXTENDING OUR CAPABILITIES

Wates Living Space is a leading affordable housing contractor and enjoyed a very successful year in 2012 with a turnover of £455m*. Among the highlights was our work for Orbit Homes on the Larner Road Estate in Erith in the London Borough of Bexley. It is one of the largest projects of its type in London and involves replacing 6 high-rise blocks with 343 family homes.

A significant proportion of our turnover was due to the successful integration of Linbrook in 2011, which has put the business at the forefront of the UK's affordable housing market. This enables us to offer a fully integrated range of services from new-build, to refurbishment and energy efficiency solutions, as well as increasing our presence in the £4bn responsive maintenance sector. It also offers us the potential to develop responsive maintenance nationally and in new sectors such as education and public buildings.

During 2012, Linbrook renewed a number of existing frameworks. It was also awarded a contract with the London Borough of Harrow for £11m over 5 years and the London Borough of Camden – its biggest win of the year (£40m over 5 years). It is also working as part of a new venture with Town and Country Housing Association in Tunbridge Wells using an innovative model that provides significant financial benefits.

SEIZING NEW OPPORTUNITIES IN THE ENERGY SECTOR

Wates Living Space has also benefited enormously from its strength and experience in the energy sector. During 2012, we were awarded £40m of work as part of the Government's Community Energy Saving Programme (CESP) – a sizeable share of the market. CESP is funded by energy suppliers and aims to improve energy efficiency, reduce fuel bills and tackle the issue of fuel poverty in low-income households. Our role involved insulating homes and installing new boilers and solar panels. In 2013, a new scheme ECO – the Energy Company's Obligation – will be introduced to provide efficient central heating and insulation to the most vulnerable people in society. We are exploring the most effective ways to deliver our energy commitments and serve communities through local employment and training programmes with energy suppliers.

DEVELOPING INNOVATIVE IDEAS TO DEAL WITH THE HOUSING SHORTAGE

One of the biggest issues facing the UK today is the shortage of new affordable housing. Wates Living Space is working in partnership with the Homes and Communities Agency, Arms-Length Management Organisations (ALMOs), housing associations and local authorities, to provide new homes in joint ventures using innovative financial solutions.

Our extensive track record and experience means that we are an ideal partner for local authorities and housing associations to step up to the challenge of providing much needed affordable housing across the UK. The business delivered 22,600 new and refurbished homes during 2012, working with 131 different clients, responding to 138,000 different jobs.

Linbrook invests in new venture with Town and Country

The Linbrook team has launched a new venture with Town and Country Housing Group called Countrywise Repairs, which will deliver a repairs service to almost 6,000 properties in the Tunbridge Wells area and create employment for local people.

Larner Road Estate, Erith

Living Space is creating 343 family homes in the 1st phase of a £128m housing scheme for Orbit Housing Association to create a total of 523 new homes. Orbit Homes managing director Paul High, says "Wates Living Space has a fantastic track record of delivering high quality homes. We are delighted to be working with them to transform this area."

* including share of joint ventures and associate

"THE WATES DEVELOPMENTS TEAM DEMONSTRATES DRIVE, PASSION AND PROFESSIONALISM IN THEIR APPROACH TO PLANNING THEIR COMMITMENT TO A COLLABORATIVE APPROACH AT THE ARBORFIELD MAJOR EXPANSION IS LEADING THE WAY IN ENGAGING POSITIVE COMMUNITY SUPPORT FOR THE DEVELOPMENT OF 2,000 NEW HOMES"

HENRY SCRASE LANDOWNER
Aegean Trust Company Limited

Community engagement at the Arborfield major expansion

Wates Developments embarked on a series of successful workshops involving local community groups, providing the opportunity to take part in the design of the settlement expansion for 2,000 new homes, 3 schools and a retail centre

King Harry Park, St Albans

Wates Developments working in partnership with Linden Homes, launched its 13-acre prime site King Harry Park close to the historic centre of St Albans and will deliver 150 1 to 5 bedroom homes between 2012 and 2014. The site promises to be an outstanding success.

DEVELOPMENTS TEAM BUILD ON SUCCESS

Wates Developments delivered very strong results in 2012. Success was achieved through our focused strategy in land investment and residential development. The key returns were secured from land transactions and high performing residential joint venture investments with some of the UK's leading house builders.

Our financial strength, corporate stability and commitment to residential development make us a strong and attractive partner for both landowners and developers. Wates Developments' unique blend of skills and expertise in land acquisition and planning combined with commercial acumen produces winning developments. This approach has enabled us to acquire some of the best development opportunities in the best locations in London and the South East.

In 2012 we successfully secured planning consent for a number of important residential schemes. A key focus for the business was our new village development at 'Picket Piece' a 1st phase 62-acre scheme near Andover in Hampshire with consent for over 530 homes. In a complex site assembly, bringing together 43 different landowners and 25 land holdings we successfully managed the acquisition and sale of the site entering into a partnership with

David Wilson Homes. Over the next 10 years we will deliver in excess of 1,000 new homes and a wide range of neighbourhood facilities.

Wates Developments also secured valuable planning permission on appeal for the re-development of a 3-acre subterranean reservoir site in West Hampstead, London winning acclaim for the development's high quality and innovative design for 16 five-bedroom homes in a sensitive location. Further consents in East Grinstead, Worthing and Cranleigh were achieved creating a strong platform for future joint ventures. During 2012 we secured a range of sites adding 207 acres to our existing land portfolio throughout London and the South East now totalling over 2,400 acres.

Wates Developments focus for the year ahead remains constant, to secure more new land and to continue to succeed in delivering planning permission balancing the needs of landowners, and their desire to optimise value, with the needs of local communities for well-designed and beneficial developments. We will continue to support our partners by investing in new house building joint ventures despite the on-going challenge of the housing market. We plan to continue growing our exposure to some of the best new developments in London and the South East.

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
Business and Financial Review
Governance
Accounts
Other information

MEETING OUR CUSTOMERS' CHANGING NEEDS

Our customers are facing challenging times. Continuing uncertainty about the economic climate means that they are seeking ever-greater value for money and their needs are changing. The focus of our interiors and retail customers has generally switched from major capital programmes towards asset management and upgrading existing stores and offices where necessary, rather than investing in new ones.

Wates has responded to its customers' shift in focus by integrating its Interiors and Retail businesses under one leadership to provide a national infrastructure so that it can better serve its customers from Cornwall to the north of Scotland across their entire portfolios.

Bringing the 2 businesses together deepens and strengthens our operational and commercial teams, giving us more flexibility, enabling us to share knowledge and resources and providing greater responsiveness to customers.

We are focused on delivering interior and retail fit-outs for example: the new Prudential Regulation Authority's headquarters for the Bank of England, structural re-engineering

such as Royal Mail extensions and the refurbishment of their distribution facilities, and the national roll-out of high volume work for example in-store bakeries and delis in Marks and Spencer stores across the UK.

LONG TERM REPEAT RELATIONSHIPS

Today we are focusing on delivering for major high street retail brands: supermarkets, retail landlords and their shopping centres, banking, public and private offices including our collaboration with our Construction business to deliver the base build and fit-out for the new Microsoft research headquarters in Cambridge.

The banking and office sector continues to be a growing part of the Wates Interiors and Retail business and we are delighted to be a part of the Lloyds One Contractor Alliance delivering collaboratively with partners: high street branches, offices and critical data facilities across the UK. We have a long term relationship with American Express, having completed over 22 successful projects with them. We are currently working with them to complete the 377,000 sq ft fit-out of its headquarters in Brighton, and also with DLA Piper on the fit-out of its offices in London. We are working closely with retail landlords

such as Land Securities for whom we have worked on the refurbishment of the O2 Shopping Centre on Finchley Road in London and Hammerson on upgrades to the Oracle Shopping Centre in Reading.

Asda, Tesco and Marks and Spencer are customers for whom Wates Interiors and Retail is working on a high volume roll-out of in-store pharmacies, cafés, bakeries and 'Click and Collect' facilities. For Royal Mail we are creating regional distribution centres and we have fitted out part of the Selfridges store in the Trafford Centre.

In the last year Wates Interiors and Retail has delivered over 1,000 projects across the UK. Often logistically challenging, working in live environments or working out of hours – at night and during the weekend – so that our customers' trade is not disrupted.

Waitrose, Bedford – Structural re-engineering and Fit-Out

This structural re-engineering fit-out involved the refurbishment of an existing furniture store in Bedford to create a new Waitrose store. The project provided a fantastic opportunity to revitalise an under-used site and to deliver substantial benefits to the town, including a significant number of new jobs.


Lloyds Bank – National Roll Out

We have worked on a wide range of projects for Lloyds Bank from overnight PE installations in High Street branches to office refurbishments all with minimal disruption to trading. Our work on the Lloyds Bank framework will continue throughout 2013.

Business and Financial Overview

Chairman and Chief Executive's Review

Case studies

 Business and Financial Review

Governance

Accounts

Other information

Selfridges, Trafford Centre, Manchester – Refurbishment and Fit-Out

This high-profile re-fit in one of the world's most famous department stores had to be meticulously planned over 3 phases. Our highly experienced professional design and retail teams worked closely with concept designers and internal Selfridges stakeholders to great effect to ensure minimum disruption to trading

times, but to keep their employees motivated and to boost productivity, they are refreshing their workspaces. Our experience means we are well placed to take advantage of renewed activity in this sector. In 2012 we delivered high quality projects for a number of clients including the Home Office, the Ministry of Justice, the Bank of England, American Express, DLA Piper and John Laing. We also completed Olympic hospitality suites for Deloitte and American Express.

Both Interiors and Retail operated throughout the year in extremely challenging trading conditions, and consequently experienced some disappointing outcomes. However, we remain confident that our extensive capabilities, longstanding relationships with some of the UK's best brands, and agility in responding to customers' needs are just some of the reasons why customers continue to choose Wates Interiors and Retail.

Wates International, Abu Dhabi

In December 2012 Wates International held a topping out ceremony at the Al Faha and Al Zakhar schools in Al Ain, Abu Dhabi. The client expressed its satisfaction at the progress made on both projects which have an outstanding safety record and are ahead of schedule. Dignitaries in attendance were particularly delighted to learn about the traditions of topping out and were amused to hear that the biggest challenge for the site team was locating an evergreen branch for the ceremony.

ADOPTING NEW WAYS OF WORKING

As our customers' needs have changed so has our own way of working. In order to deliver high volume projects we have had to become much more adaptable, flexible and responsive. While competition in the market is intense, we have taken a sensible approach to pricing so that we know we can deliver on our promise: on time and on budget, safely. Our experience enables us to work closely with our customers to drive inefficiencies out of the process and to explore new ways of working. We have professional partnerships in place that enable us to respond to customers' needs faster and more efficiently with the confidence that quality and safety are not compromised.

NEW OPPORTUNITIES

The nature of the retail business environment is evolving rapidly. The growth of internet shopping means that retailers have to work much harder to provide consumers with an experience that will encourage them to come into stores. This provides us with new business opportunities. Marks and Spencer, for example, is rolling-out in-store bakeries and delis to enhance the shopping experience and Wates Interiors and Retail has worked on over 292 of them. We're also working with Tesco on its 'Click and Collect' concept which offers customers the benefits of shopping online with the added convenience of picking up their groceries at a time that suits them.

In the office market we are also seeing new opportunities to deliver high quality refurbishment projects. Companies are less likely to invest in new office buildings in difficult

OUR CONTINUED FOCUS ON LANDMARK BUILDINGS

During 2012 Wates Construction worked with a number of clients to produce landmark buildings. In Cambridge we've created a new state-of-the-art, 78,000 sq ft flagship headquarters for Microsoft Research, enabling this global leader to relocate to Cambridge city centre with sufficient space to support its future growth. We've also worked with Great Portland Estates on Marcol House (page 26), a commercial development on 3 amalgamated sites on the corner of London's Regent Street and Margaret Street. It includes a new, 7 floor modern office building on Margaret Street which is clad in Portland Stone to match the existing grade II listed façade on Regent's Street. The building has achieved a BREEAM Excellent rating and provides enhanced site biodiversity through the introduction of a living green roof. This was a challenging project as the bar and restaurant operating in the ground floor unit, remained open throughout the development.

DEVELOPING HIGH QUALITY SCHOOLS ACROSS THE UK

Our education team has continued to deliver high quality facilities across the UK from pre-school centres, to primary and secondary schools and to university buildings. Our expertise in this area is well recognised and in 2012 we completed work on the £11m Campsmount Technology College in Doncaster, which featured heavily in the James Review of capital spending on schools as an example of best practice demonstrating how to build new schools more efficiently and to provide better value for money. We are also working on the £30m Dixons Allerton Academy in Bradford which will provide high quality learning facilities for children aged between 3 and 18.

During 2012 we also worked on the £42m Birmingham Primary Places Programme. The city has to cope with a dramatically increasing birth rate and needs to provide 6,000 additional school places. Wates Construction built extensions to 20 existing primary schools, taking on average, 6.5 months each. The project used innovative Cross Laminated Timber (CLT) technology, which uses spruce boards stacked at right angles and glued together in layers. It's fast, effective and balances aesthetics with robustness. We were able to deliver school extensions without intruding on the school timetable or day-to-day operations. In addition, the use of CLT saved £6m and delivered substantial carbon savings of 4,262 tonnes.

Our aim for 2013 is to be one of the leading players in the government's £2.4bn Priority Schools Building Programme, which will focus capital spending on those schools most in need of investment, rebuilding and refurbishment. We are also focusing on retaining our place on the National Academies Framework, which will be up for renewal in 2013, and on retaining our current position by winning new work on regional frameworks. The Free Schools programme also offers new opportunities which we will actively pursue.

DELIVERING SCHOOLS FASTER AND MORE COST EFFECTIVELY

Our patented ADAPT School Solutions programme, which enables local authorities to convert existing commercial buildings such as offices into schools and to create new buildings at significantly lower cost, was launched in 2011 and has attracted interest from central and local government. Using a ground-breaking new model which standardises design, ADAPT cuts the construction phase of new school delivery, typically from 60 weeks to just 36 weeks and can create capital savings of 40% for new-build and 60% for refurbishments. It is fast, affordable and flexible and provides high quality learning environments where students feel inspired. We have enhanced the product, added more efficiencies and are planning to promote it during 2013 to meet the urgent need for a more efficient and cost-effective way to deliver school places.

Dixons Allerton Academy, Bradford

This £30m project has involved the transformation of an existing secondary school in Bradford to create Dixons Allerton Academy, an inspiring educational facility for children from primary age to 6th form, specialising in health and science. As part of Wates' commitment to the local community, we took part in the UKCG's Open Doors Weekend at the Academy which gave people the opportunity to tour the site, learn more about its development and find out about some of the exciting career opportunities available in construction.

Djanogly Northgate Academy, Nottingham

We are working on the £2.15m expansion of the school's buildings to cater for growing demand for student places. The project includes the creation of 8 new flexible classrooms, a purpose built unit to provide a further 236 places for local children and an external play area.

De Warenne Academy, Doncaster

We used our ADAPT School Solutions programme to remodel and upgrade existing teaching facilities and refurbish the sports hall. The project took just 54 weeks and the school remained operational during that time.

**"OUR SURVEY SHOWS THAT
MANY UNIVERSITIES ARE
ALREADY ON THE FRONT
FOOT AND ARE INVESTING IN
1ST CLASS BUILDINGS AND
FACILITIES IN ORDER TO ATTRACT
STUDENTS AND TALENT WHILE
IMPROVING EFFICIENCY AND
CONTROLLING COSTS"**

IAN VICKERS
Regional Managing Director –
Construction London and South

SUCCESS IN THE UNIVERSITY SECTOR

Universities are an important sector for Wates and our education team continues to deliver high quality stimulating learning environments for students and staff. We often work on 'live' campuses where disruption must be kept to a minimum.

Among the projects we are working on is the £54m Boldrewood Campus at the University of Southampton. This new facility, which aims to position the University as an Engineering Centre of Excellence, will incorporate the Lloyds Register Group Technology Centre. The University Engineering Centre of Excellence and will eventually house a new institute for Marine and Maritime Research.

We are also working with the University of Essex, South Essex College of Further and Higher Education and Southend-on-Sea Borough Council on a £22m project called the Forum – a new library and learning facility which provides the growing number of students in Southend with a high-quality library, gallery and state-of-the-art research and learning facilities.

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
Business and Financial Review
Governance
Accounts
Other information

POTENTIAL FOR FURTHER GROWTH

Universities face a challenging future with cuts in public funding of 12.6% and falling student applications. However, we commissioned research that shows that many universities are already on the front-foot and are investing in 1st class buildings and facilities in order to attract students and talent while improving efficiency and controlling costs. Our research indicates that 81% of UK universities surveyed will carry out a major construction project worth over £5m within the next year. Our expertise in this sector means we are well placed to capitalise on any investment by university estates.

DELIVERING HIGH QUALITY AND VALUE FOR THE METROPOLITAN POLICE

As part of the Metropolitan Police's strategy to improve the quality and efficiency of its custodial estate across London, Wates Construction has developed a number of new custody facilities. In Croydon, for example, we built a new fit-for-purpose 40-cell custody centre on an existing brownfield site in the shortest possible time for the best possible value. The challenge was to provide more for less without compromising either design or build quality. Roger Harding, Director of Construction for the Metropolitan Police, said: "The Croydon Custody Centre is an excellent example of what the public sector and contractors can deliver with clear strategic objectives and a willingness to innovate to achieve against time and cost pressures."

Your Future, Your Choice

Wates, in partnership with Business in the Community (BiTC) and a range of businesses in Coventry, took part in an event called 'Your Future, Your Choice' at the Ricoh Arena in November. It provided interactive workshops and advice on training and employment opportunities for 1,200 local young people and is part of a programme developed by BiTC to inspire businesses and schools to work together in supporting young people in achieving their potential.

BUILDING ON OUR EXPERIENCE WITH ICONIC AND LISTED BUILDINGS

Wates has extensive experience in heritage refurbishment and we have continued to strengthen our presence in this sector with the successful completion of the refurbishment of the east wing of Somerset House. King's College— one of London's most iconic buildings. Additions and alterations carried out in the last 220 years had to be stripped out and structural repairs made to safeguard the building's future and to bring it up to modern standards. During the work we discovered the remains of Saxon and Tudor foundations and installed a bespoke back-lit glass floor to exhibit the excavations. We also created a perfect stone replica of the original cantilevered staircase to serve new rooms in the building's attic. Somerset House's east wing is now home to the College's School of Law and a new cultural hub the Inigo Rooms, which opens the building up to the public for the first time in its history and was opened by HM Queen Elizabeth II as part of the Diamond Jubilee celebrations.

Lion Salt Works, Northwich

We're working on the £5.6m restoration of the historic Lion Salt Works in Northwich, Cheshire which will open as a living museum in 2014.

Ironmonger Row Baths, Islington

Owned by Islington Council, this iconic historic Grade II listed building in the heart of London's Old Street was one of the most challenging projects that Wates Construction has ever carried out. We successfully preserved the heritage of the building while significantly enhancing its environmental specifications.

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
Business and Financial Review
Governance
Accounts
Other information

Metropolitan Police Custody Suites

We are using Building Information Modelling (BIM) as part of our work on the £56m development of new custody suites for the Metropolitan Police. It enables our people and our supply chain partners to get a clear overview of the project and saves time and money.

POSITIONING THE COMPANY AS A THOUGHT LEADER

Wates longstanding commitment to the construction sector together with our firmly held values and innovative ideas gives us the privilege and responsibility of being an influential voice in the industry. Consequently in 2012, Wates Construction commissioned an independent research project to identify the trends and challenges facing higher education estates. The survey reveals that attracting students is the main driver behind building projects at UK universities and this will help to shape our future strategy for the education sector. In addition, Wates Giving sponsored a report 'No place to call home: The social impacts of housing undersupply on young people' by the Institute of Public Policy Research (IPPR). This demonstrates how housing undersupply – in combination with a number of other social, economic and cultural forces – is having a real and substantial effect on the experiences and future aspirations of young people. It provides a number of potential policy responses including the need to build more homes. It also states that new ideas to create pathways towards homeownership for young people are needed, as are reforms to the private rented sector in which more and more young people find themselves for an extended phase of their lives. We hope that this report will contribute to the debate about the housing crisis and galvanise government and other bodies to take action.

Wates Living Space, in partnership with the IPPR and Orbit Group, also co-hosted a debate on 'Housing the Nation' at the Conservative Party conference in October 2012. This fringe event was intended to put housing at the top of the political agenda, highlighting its importance for economic recovery and supporting Wates wider strategy to influence government policy in this area.

Wates Giving has also sponsored a new initiative by the UK Green Building Council that will create an online platform – called Pinpoint – that will enable built environment professionals to identify the best resources, tools and guidance available. It will go live in 2013 and demonstrates our on-going commitment to sustainable building practices.

WORKING WITH CUSTOMERS AND THE SUPPLY CHAIN TO INCREASE EFFICIENCY

We recognise that our customers and supply chain are facing difficult times which is why we are working ever more closely with them for our mutual benefit. To provide customers with increased efficiencies we have used Building Information Modelling (BIM) on a number of projects including custody suites for the Metropolitan Police at Wood Green police station and First Street, a new cultural building in Manchester city centre. BIM produces a virtual prototype of a building before work begins. It speeds up the design process, streamlines construction, ensures that we are procuring the right products for the build and reduces risk. Over the

next 2 years we plan to use BIM across the organisation in line with government targets to use it on all public construction projects over £5m by 2016.

In 2012 we also introduced a new commercial and procurement structure which will help improve the competitiveness of the business for the next 5 to 10 years. For the first time we have central procurement managers in place to ensure greater integration across the businesses and to strengthen our strategic relationships with supply chain partners.

NEEDSPACE? PROVIDING ENTREPRENEURS WITH INSPIRATIONAL SPACE

Needspace? offers entrepreneurs and small businesses affordable, flexible, managed workspace in prime locations. Our aim is to create a community of entrepreneurs working to develop their businesses alongside others in a supportive and enterprising environment. This ethos, together with our flexible terms, enables businesses to take space for as little as 3 months at a time and means that in 2012 Needspace? achieved 85% occupancy and its highest ever turnover of £1.8m. Tenants range from traditional office based businesses to a yoga studio, bespoke furniture designer and an explorer who plans to retrace Captain Robert Scott's 1912 trek to the Antarctic. Our plan is to grow the business by further increasing occupancy levels and to expand into new sites as and when suitable property becomes available.

CREATING OPPORTUNITIES FOR PEOPLE

Wates has a long-standing commitment to supporting the communities in which we work and 2012 was no exception. As a national partner of Business in the Community's flagship education programme Business Class, Wates currently has 8 partnerships sponsored by Wates Giving, located in Leeds, Manchester, Liverpool, Coventry, Leatherhead, London, Bristol and Southampton. We supported 2,400 students through Business Class events in the 2011/2012 academic year. The exam board for Business Class school, St. Matthew's in Manchester said: "The centre has an excellent relationship with a national construction company which provides comprehensive support in specific construction skills and general employability skills to learners."

We have also provided 389 days of work experience for young people through our Work Inspiration programme and more than 115 adults have taken part in our Building Futures programme in 2012 alone, with 57% of them moving into employment or further learning. Wates continues to support The Prince's Trust's 'Get into Construction' programme, with Wates Giving funding, which helped 726 young people gain work experience in 2012. Last year, Paul Drechsler also took over the position of Chair of the Construction and Business Services Group, which administers this programme.

Supporting young entrepreneurs

Wates Giving is supporting projects developed by students at the Royal College of Art's entrepreneur unit, providing funding to develop a number of innovative products including a bicycle powered machine for recycling copper cable in India.

Changing Paths stonemasonry project

Changing Paths, a charitable trust set up by Wates, with Wates Giving awards, helps ex-offenders into employment. It is now running a stonemasonry training project and those that have taken part are now getting commissions for maintenance work on cathedrals and listed buildings.

We are also committed to supporting those seeking a career in construction, and associated industries. Wates Giving is supporting a number of Masters students at University College London who are studying the built environment, planning and architecture and it is providing bursaries for students at the University of Sussex in law, architecture and engineering. It is also sponsoring a series of lectures on the use of concrete in architecture at universities across the UK.

TRADING WITH BUSINESSES WITH A PURPOSE

We set a goal to work more with social enterprises and have made good progress with over £3.8m traded with social enterprises since June 2010. Currently we trade with 22 social enterprises on over 137 projects and are exploring ways in which we can integrate more into our supply chain. Wates Giving has invested £75,000 in a pilot brokerage system which will help the construction industry identify social enterprises in the communities in which they work and with whom they can do business.

GIVING SOMETHING BACK

Wates employees and our supply chain have continued to give their time to support the local communities in which they live and work. During Wates annual Community Day they donated 8,700 hours to deliver 90 projects across the UK. In addition, our Lend a Hand volunteering scheme reached 880 hours of volunteering by Wates employees, equating to a value of more than £43,120.

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
Business and Financial Review
Governance
Accounts
Other information

Greenwich University Technical College Partnership

Wates along with Transport for London, is sponsoring a new University Technical College (UTC) – a 600-place school for 14-19 year olds – in Greenwich, London. In addition to the basic GCSE subjects of English, Maths, Science and IT, the UTC will specialise in engineering, construction, transport and green technologies. It will focus on developing the employment prospects of young people by engaging them in high quality practical work and business related learning.

"WATES HAS BEEN AT THE FOREFRONT OF HELPING DRIVE THE UTC FORWARD AND THEIR CONTRIBUTION HAS BEEN INVALUABLE TO EVERYONE INVOLVED IN THE PROJECT"

MIKE SHARP
Principal, The Royal Greenwich UTC

Celebrating supply chain performance

We recognise that we are only as strong as our supply chain so in recognition of their hard work and professionalism we introduced our 1st ever National Supply Chain Awards which were judged against 6 key performance areas. The strongest overall performance across the board was from Toureen Mangan which received an overall Supply Chain award

8th annual Community Day

Wates Community Day is hugely important to the Group and all our people. This year 1,084 employees, customers and supply chain partners gave up their day jobs to volunteer their time and expertise to help the local communities in which they work. Projects this year focused on educational activities as well as woodland clearance projects, interior and exterior building refurbishment, gardening and working in Barnardo's stores nationally.

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
▶ Business and Financial Review
Governance
Accounts
Other information

Scaling Kilimanjaro

An intrepid team from Wates took on one of the toughest challenges – climbing Africa's highest peak, Mount Kilimanjaro. Altitude sickness and enormous blisters didn't put them off and they raised over £60 000 for Wates charity partner Barnardo's.

CONTINUED FOCUS ON SUSTAINABILITY

Our Reshaping Tomorrow initiative provides a clear focus to ensure we have a positive impact on the environment and that we support the communities in which we live and work. Among our many achievements during 2012, we diverted 97% of waste from landfill, reduced our CO₂ emissions by 5% and retained our Platinum Plus status in Business in the Community's Corporate Responsibility Index, the only contractor to receive this accolade.

Responsible sourcing

Wates is committed to sourcing responsibly. We worked closely with staff from Great Portland Estates and from FSC accredited certification body BM Trada to gain project certification on 2 schemes for Great Portland Estates – Wigmore Street and Marcol House.

"GREAT PORTLAND ESTATES PLC ARE COMMITTED TO DEVELOPING SUSTAINABLE BUILDINGS. OUR SUSTAINABLE DEVELOPMENT BRIEF AND FRAMEWORK GUIDES INFORM EACH STAGE OF THE DESIGN AND CONSTRUCTION PROCESS. RESPONSIBLE SOURCING OF MATERIALS IS A KEY ELEMENT OF THIS PROCESS. WE THEREFORE REQUIRE THAT ALL MAJOR DEVELOPMENTS ACHIEVE FSC PROJECT CERTIFICATION. THE CO-OPERATION OF ALL MEMBERS OF THE PROJECT TEAM IS ESSENTIAL IN MEETING THIS REQUIREMENT AND WE ARE DELIGHTED TO BE WORKING WITH WATES GROUP ON ACHIEVING FSC PROJECT CERTIFICATION AT 33 MARGARET STREET AND 95 WIGMORE STREET."

MARTIN QUINN
Project Manager, Great Portland Estates

Site Supervisor Environmental Training

The UK Contractors Group, of which Wates is a part, is committed to improving the environmental knowledge and skills within the industry. We worked in partnership with Costain and Skanska and the UK's Sector Skills Council CITB-Construction Skills to develop the 1st nationally accredited environmental training programme for site supervisors and managers working in the construction industry. "It was a good introduction and provided clear help on our legal requirements," says one of the participants, Tony Mitchell of O'Brien Contractors.

FINANCIAL REVIEW

GROUP HIGHLIGHTS

Turnover increased by 7% to £1.2bn*

Underlying profit before tax at £29.3m**

Net assets increased by 9% to 70.2m

Cash at bank of £121.3m

CONSTRUCTION HIGHLIGHTS

Underlying profit before tax £23.4m**

Turnover increased by 3% to £1.1bn*

Order book of £1.6bn

DEVELOPMENTS HIGHLIGHTS

Profit before tax increased by 154% to £9.2m

includes share of joint ventures and associate's turnover
** Underlying profit before tax stated before restructuring costs and profit on sale of investments

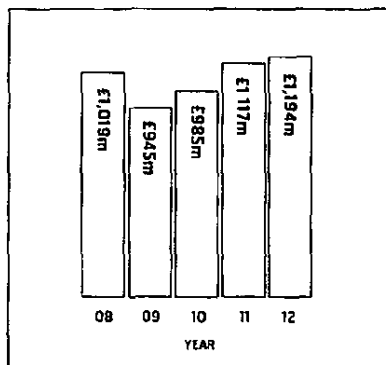
£1.2bn*

GROUP TURNOVER 2012

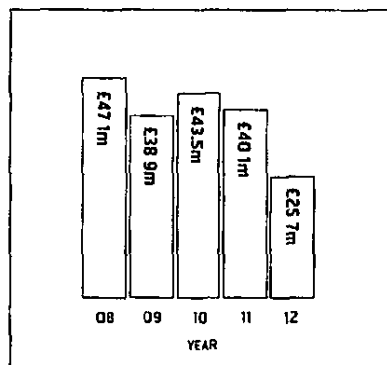
£29.3m**

UNDERLYING PROFIT BEFORE TAX 2012

GROUP TURNOVER*



GROUP PROFIT BEFORE TAX



GROUP TRADING PERFORMANCE

The Group produced another solid operating and financial performance in 2012. This underlines the resilience of our construction activities in what continues to be a challenging economic and trading environment, and further reflects the strength of the Group's overall portfolio.

Group turnover including the Group's share of joint ventures and associate increased by 7% to £1.2bn. Headline pre-tax profits reduced to £25.7m (2011: £40.1m) with underlying profit before non-recurring restructuring costs and sale of investments down 11% at £29.3m (2011: £33.0m).

During 2012 the Group incurred restructuring costs of £4.9m relating mainly to redundancy payments. These costs were incurred to secure the long term future of the Company and resulted in an overall headcount reduction in 2012 of 283, creating annualized savings of over £18.5m. The business will continue to target improvements to deliver better value and increased efficiency.

Profit on sale of investments £1.3m (2011: £7.2m) relates to the sale of a PFI investment and further details are provided in note 6 to the financial statements.

The balance sheet further strengthened during the year with a 9% increase in net assets to £70.2m (2011: £64.3m). A strong cash position was maintained throughout

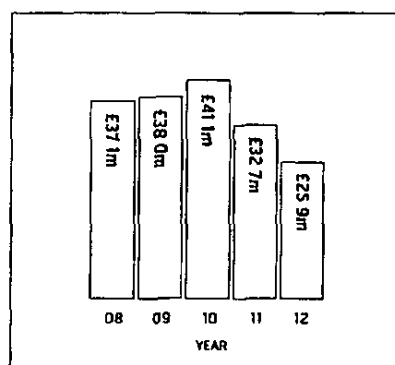
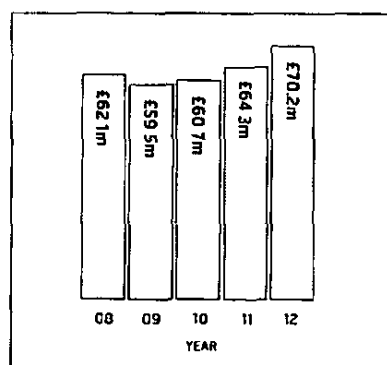
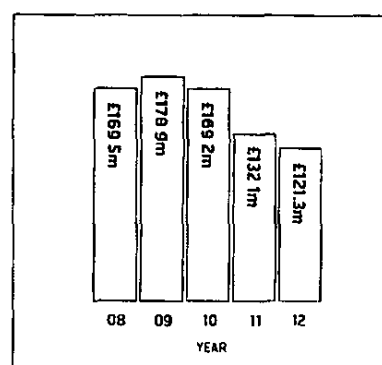
2012 and the year-end cash at bank was £121.3m (2011: £132.1m). The Group continued selective investment in residential land and development and commercial property increasing its capital employed to £76.6m (2011: £73.8m).

The Group has in place a revolving credit facility of £25m, although it has remained unutilised, and the balance sheet remains ungeared.

The foundation of the long term family ownership of the Wates Group is sustained financial strength and stability. The tangible ungeared nature of our balance sheet continues to give great comfort to our customers, prospective customers and supply chain providing them the certainty of covenant that they demand. We go into 2013 with a substantial order book £1.6bn (2012: £2bn) and in a strong and resilient financial position.

CONSTRUCTION

The Group's construction activity turnover including share of joint ventures and associate, which includes Construction, Living Space and Interiors and Retail, increased by 3% to £1.1bn. Pre-tax profits reduced to £19.8m (2011: £38.2m) with underlying profit before non-recurring restructuring costs and sale of investments down 25% at £23.4m (2011: £31.1m), reflecting the challenging market and operating conditions.

TOTAL OPERATING PROFIT**NET ASSETS****CASH AT BANK****DEVELOPMENTS**

The Developments business continued its established strategy of creating value through residential land management. In 2012 pre-tax profit increased significantly to £9.2m (2011: £3.6m) with year-end capital employed of £61.2m (2011: £58.6m).

NEEDSPACE?

Needspace? provides flexible managed workspace across London and the South East for small and medium sized businesses. During the year revenue increased by 8% to £1.8m (2011: £1.7m) returning a pre-tax profit of £0.4m (2011: £0.3m). At the year-end capital employed in the business was £15.4m.

CASH FLOW

The Group finished the year with a cash at bank balance of £121.3m (2011: £132.1m). Profits after tax and dividends paid in the year were £4.8m but due to one-off payments to the pension fund of £5.7m, and an unwind in operating cash (including the impact on deferred receipts on land sales of £14m), there has been a net outflow in the year. This is partially offset by an equity injection of £5m from shareholders.

PENSIONS

The financial statements reflect the defined benefit scheme deficit calculated in accordance with FRS17 (as amended). At the end of 2012 the net deficit was £33.2m (2011: £30.8m). The market value of the scheme's assets was £162.0m (2011: £149.0m) and the net present value of the liabilities £205.1m (2011: £190.1m). During the year the Group made special contributions of £5.7m (2011: £1.5m). This had no effect on the profit and loss account for the year but reduced both cash and the pension deficit. There was an actuarial loss in the year of £5.1m (2011: £8.8m). Pension charges of £5.4m (2011: £4.8m) were made to the profit and loss account in accordance with FRS17.

SHAREHOLDERS' FUNDS

Movements in shareholders' funds were

	£m
Shareholders' funds at 31 December 2011	64.3
Profit for the financial year	18.7
Pension movements	(4.7)
Dividends	(13.9)
Currency translation difference	0.3
Called up share capital	5.0
Revaluation reserve	0.5
Shareholders' funds at 31 December 2012	70.2

TAX

The tax charge for the year was £7.0m, which gave an effective rate of 27.3% (2011: 24.4%). This compares to the UK main corporation tax rate of 24.5%. The tax charge exceeds the UK main corporation tax rate due to disallowable costs in the Middle East and amortisation of goodwill. The Group's tax liabilities arise in and are met wholly in the UK.

DIVIDEND

During the year dividends totaling £13.9m (2011: £19.9m) were paid. All of this related to the final dividend for 2011.

WATES GIVING

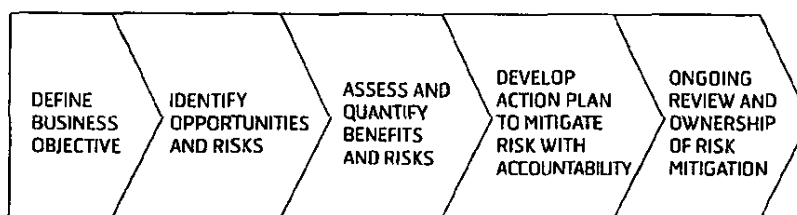
The Group contributed £1.1m during the year to Wates Giving, the charitable programme of the Wates Family Enterprise Trust. The programme's priority continues to be investment in local projects which benefit communities for the long term.

HUW DAVIES

Chief Financial Officer

RISK MANAGEMENT

RISK MANAGEMENT PROCESS



RISK MANAGEMENT FUNDAMENTAL TO SUSTAINABLE GROWTH

Risk management is key to delivering project success for our customers and driving sustainable growth for our stakeholders. Our customers require us to provide solutions, and we must manage a number of risks to do this safely, on time and on budget.

Our customers are also looking for partners who are financially secure. Wates has an excellent trading position due to its many years of careful risk management.

The diagram above shows the risk management process within the Group. The Board leads the discussions relating to risk and provides direction. This approach is cascaded down the Group through the executive committee, risk committee and regional boards to individual project teams.

ONGOING RISK MANAGEMENT

Wates involves customers and partners in agreeing risk matters and how these are best mitigated. Although risk is managed constantly on every one of our projects, we also have risk management discussions across the Group at the following key check-points when:

- Discussing and agreeing the business strategy
- Tendering for new work
- Planning for projects
- Monitoring existing projects
- Reviewing business performance

The main challenge for any company is its culture in respect of risk management. At Wates, this essential part of our business

operations is clearly led by the Board and is visible to all our people. Management of risk is not something that is outsourced to a specialist team. It is embedded in our processes and owned by everyone.

SPECIFIC RISK MANAGEMENT

As expected, 2012 was another challenging year; we describe below some of the key areas of focus. Infrastructure investment in both the public and private sectors was limited during the year as a result of the economic downturn. Our response was to devote significant time to improving our competitiveness and to seeking even more effective solutions for our customers. Loss-making contracts caused by either poor tendering or poor project performance continued to be a risk. We are continuing to invest in developing our commercial and operational people and processes.

Insolvency of both customers and supply chain partners has been an increasing concern for the construction industry. Steps taken in 2012 were robust, which means the impact on our customers has been low. In 2013, we expect to see more financial challenges for our supply chain and are developing our assessment and monitoring activities further.

Another risk relates to our reputation, which we manage constantly. It is in this area that we have focused a high level of attention, raising awareness of its importance with our people and training in the high profile aspects of competition law and the Bribery Act.

PRINCIPAL RISKS

RISK	POTENTIAL IMPACT	MITIGATION
ECONOMIC ENVIRONMENT. Our clients may cancel, postpone or reduce existing or future projects due to the effects of global economic conditions	Significant changes in client spending or investment plans may adversely affect our order book and ultimately turnover and profit	Focus on repeat business and strategic clients and market sectors Broad exposure to construction market sectors mitigates the risk of change in any one market sector. Exploration of new markets
TENDERING We may not be successful at winning tenders for new work or tender errors/decisions adversely affect performance	Not winning work or winning work at an unprofitable price, so adversely affecting order book and margins	Significant attention is paid to the tendering processes and the quality of the presentations to potential customers Regular feedback is sought to examine potential improvements Defined authority levels exist for the approval of all tenders with all major and significant contracts subjected to Group review and approval
PROJECT DELIVERY Projects may not be delivered to our high standards of safety, on time, on budget and to the required quality	May affect the profitability and reputation of the Group and ability to secure repeat work	The risk is mitigated by allocating the right people, operating controlled processes and rigorous monthly project reviews Safety and Operational Excellence initiatives seek to continuously improve processes and controls
TRADING PARTNERS Heightened exposure to counterparty risk i.e. suppliers, subcontractors, consultants, clients, joint venture partners and financial institutions This risk mostly relates to the creditworthiness of clients and stability of our supply chain, but could also include default not caused by insolvency	Failure in counterparties could result in non-collection of amounts owed or disruption and delays to contract progress	Rigorous stability checks are carried out for all counterparties before contracts are entered into. Ongoing reviews are carried out on regular basis to mitigate financial or disruption exposure Specialised insurance (Subguard) is also taken out in our Construction business to indemnify us and our clients against subcontractor default
PEOPLE Employees may not have the right skills to cope with a radically changing and demanding market	Without appropriately skilled and trained people, our ability to deliver successful contracts and our future growth may be affected	Our business is all about people, their experience, their quality and their ability to work in teams. There is significant focus on our employee proposition, including recruitment, training, challenge, reward and being the employer of choice
FINANCE AND LIQUIDITY Cash and longer-term financing may reduce if cash is not collected and costs not controlled	Reduced growth and expansion opportunities and ability to pay suppliers on time	Balance sheet and cash management is closely controlled by our Finance team, including daily reporting, cash forecasting, investment analysis and scenario modelling. High cash levels are maintained generally on short-term deposit
PENSION: Changes in longevity, inflation and investment assumptions materially affecting the pension fund	Additional funding may be required and could have a substantial effect on our balance sheet	Steps have been taken over the past 10 years to lessen the exposure, including the closure of the scheme to new entrants in 2002 and benefit curtailment in 2007 The performance of our pension scheme is regularly reviewed by the Group and the Trustees of the pension scheme who, as appropriate, take advice from external consultants
REPUTATION. Our good standing within the construction industry could be affected if business conduct falls below our high standards or if we are not seen to comply with legal or regulatory requirements	The dilution of our brand name may adversely affect profitability, growth and impact across the industry and communities we work in	We clearly set out our expectations for our employees for dealing with all stakeholders The Code of Conduct and continued training supports our employees in delivering to the highest standards of ethics and integrity

BOARD OF DIRECTORS

PAUL DRECHSLER Chairman and Chief Executive

Paul joined Wates Group in 2004 as Chief Executive and was appointed

Chairman and Chief Executive in 2006. He was previously an Executive Director of ICI, Chairman of ICI Pension Trustees and a member of the World Business Council for Sustainable Development. He is the Senior Non-Executive Director of Filtrona and Chairman of its Remuneration Committee. Paul is a board member of the CBI and of Business in the Community where he is Chairman of the Education Leadership Team. Paul is also Chair of the Prince's Trust Construction and Business Services Leadership Group and a member of the Trinity College Dublin Business School Advisory Board.

HUW DAVIES Chief Financial Officer and Company Secretary

Huw was appointed Chief Financial Officer of the Wates Group

Board in 2005. He was previously Head of Corporate Finance at Taylor Woodrow and has held key positions with KPMG, Ernst and Young and the Government of Oman. Huw is a member of the Wates Developments Executive Committee, which he chaired until mid-2012 and a director of Needspace? the Wates Group managed workspace division. He is Chairman of the BITC South East Advisory Board and is HRH The Prince of Wales Ambassador for responsible business in the South East. He was a Non-Executive Director of WSP until July 2012 and is a Trustee of the children's communication charity, I Can.

DAVID SMITH Chief Operating Officer and Managing Director, Wates Construction

Dave started his career in construction as a

surveyor with Sir Robert McAlpine. He joined Wates in 1985, later leading the specialist refurbishment division in London. In 1999 he became MD of Wates, public sector business and in 2005 he was appointed MD of Wates Construction, taking responsibility for the Company's education, commercial and public sector work. Dave was appointed to the Wates Group Board in 2009. He is the Company's representative for the UK Contractors Group and chairs the UKCG Health and Safety Leadership Group.

JAMES WATES Deputy Chairman

James joined Wates Construction in 1983 and the Wates Construction Board as Marketing Director

in 1994. He was appointed to the Wates Group Board in 1997. He is Chairman of the Nominations Committee and a member of the Remuneration Committee. Outside the Group, James is involved with several industry bodies. He is Chairman of CITB-ConstructionSkills, Chairman of the UK Contractors Group, a Vice Chairman of the CBI Construction Council, President of the British Council for Offices, a Commissioner for the UK Commission for Employment and Skills and Past President of the Chartered Institute of Building. He is a Trustee of the Building Research Establishment and the College of Estate Management, a Governor of Emanuel School, a member of the Court of Governors of the University of Westminster, Vice Chairman of Queen Elizabeth's Foundation for the Disabled and a member of the London Regional Council of The Prince's Trust. He is also a patron of the Wates Family Enterprise Trust. In January 2012, James was awarded the CBE for services to Construction and the Charitable sector.

TIMOTHY WATES Director

Tim started his career at Cazenove and Co prior to joining Wates Group in 1990. He re-joined the Wates Group Board in 2011,

having previously been a director of the Group between 2006 and 2008, and is a member of the Audit Committee. He Chairs Wates Developments and the Wates Pension Fund and is Chairman of the Wates Family Council – the Family Shareholder forum. He is Vice Chairman of the Coast to Capital Local Enterprise Partnership and a Non-Executive Director of Tampopo and Podder Property. Tim is a Trustee of various Wates Family charities, a Director of the Clink Charity and a School Governor. He has an MBA from the Judge Business School, University of Cambridge.

ANDREW WATES Director

Andy joined the Wates Group in 1995 having spent 6 years gaining experience of the construction industry

with Costain Construction and John Shreeves and Partners. Andy was appointed to the Wates Group Board in May 2011. He is a Non-Executive Director of MynadCEG, Trustee of the Wates Family Enterprise Trust, Norman Wates Memorial Trust and Construction Youth Trust. Formerly the Managing Director of Wates Interiors, Andy was appointed the Group's Portfolio Development Director in 2012 to lead advancements in the Group's long term investment portfolio. He holds an MBA from Roffey Park Business School.

Business and Financial Overview
Chairman and Chief Executive's Review
Case Studies
Business and Financial Review
Governance
Accounts
Other information

CHARLES WATES Director

Charlie is a chartered surveyor with over 10 years experience in the commercial property sector. He is founder and joint Managing Director of Needspace? the Wates Group managed workspace division. Charlie joined the Wates Group Board in May 2011 and is a member of the Developments Executive Committee. He is a member of the British Council for Offices and a Governor of Dawnay school.

JONATHAN WATES Director

Having started his career at Grand Metropolitan (now Diageo), Jonny joined Wates Developments in 1995 and later held the position of Group Marketing Director until 2006. He was appointed to the Wates Group Board in 2008. He is a Non-Executive Director of Gambado Limited and Chairman of MyriadCEG, a provider of on-site renewable energy solutions. Jonny is a Trustee of the Wates Family Enterprise Trust, the William Wates Memorial Trust, a Governor of Cranleigh School and has an MBA from Cranfield University.

DAVID BARCLAY Independent Non-Executive Director

David was appointed as a Non-Executive Director of Wates Group in December 2012 and is a member of the Remuneration Committee. David is Deputy Chairman of The John Lewis Partnership and chairs their Remuneration Committee. He also holds Non-Executive positions at The British Library and Wessex Water Services, where he chairs the Audit Committee. Previously he held the post of Senior Independent Director of Gartmore Group and was a Non-Executive Director of VT Group. David's career in the City included roles as Vice-Chairman of Dresdner Kleinwort, the investment bank and Head of European Corporate Finance at Nat West Markets. He previously spent 10 years in the UK civil service, including 2 years as private secretary to the then Prime Minister, Margaret Thatcher.

PETER JOHNSON Independent Non-Executive Director

Peter was re-appointed to the Wates Group Board in May 2011 having previously been a Director of the Group between 2002-2006. He is the former Chairman of Rank Group and the Senior Independent Director of Bunzl. Peter is Vice President of the motor industry charity BEN and Vice President of the Institute of the Motor Industry. He has been involved with the automotive industry for more than forty years with Rover Group, the Marshall Group of Companies and was former Chairman of Inchcape.

GRAEME MCFALL Independent Non-Executive Director

Graeme was appointed Non-Executive Director of Wates Group in 2009 and has chaired the Audit Committee since July 2011. He is also a member of the Wates Remuneration and Nominations Committees. He is currently Executive Chairman of Delin Capital and Chairman of the charity Transaid. Graeme was previously Chief Executive of Wincanton.

FRIEDRICH TERNOFSKY Independent Non-Executive Director

Fritz was appointed Non-Executive Director of Wates Group in 2006. He is Chairman of the Wates Group Remuneration Committee and a member of the Audit Committee. Fritz is Chairman of Albion Income and Growth VCT and a Director of Graysons Hospitality Associates (part of Graysons Restaurants). Fritz was a former Senior Non-Executive Director of Punch Taverns, a main board director of Compass Group and until 2011 Chairman of Kew Green Hotels.

EXECUTIVE COMMITTEE

1 PAUL DRECHSLER
Chairman and Chief Executive

2 HUW DAVIES
Chief Financial Officer and
Company Secretary

3 DAVID SMITH
Chief Operating Officer and Managing
Director, Wates Construction

4 HELEN BUNCH
Managing Director, Wates Interiors
and Retail

Helen joined Wates in 2006 as Group Strategy Director with fifteen years of international sales, marketing and business management experience. She worked in a number of different divisions of ICI based at various times in Europe, Japan and America. Helen became Managing Director of Wates Retail in January 2011 and took on responsibility for the Interiors business in June 2012. Helen is school governor at Westminster Academy.

5 ANDY HOBART
Managing Director, Wates Living Space

Andy was previously Managing Director at Balfour Beatty Workplace, a £600m turnover support services business employing over 8,500 people. In this role and his previous role as Divisional Managing Director of Rentokil, he has extensive experience of dealing with Public Sector Clients. Andy has an excellent track record of strategic development, organic and acquisitive growth, operational excellence and client satisfaction. Andy joined Wates in December 2012.

6 JOHN HOWELL
Group Production Director

John spent over 30 years with Bovis Lend Lease, rising through the ranks to become Operations Director and subsequently MD of Bovis Lend Lease (South). In 2007 John joined Developers Candy and Candy as Group Construction Director where he oversaw a number of industry-leading developments including the prestigious One Hyde Park scheme. He has most recently been with Galliford Try to deliver its Athletes Village project and is a member of the Constructing Excellence Steering Group. John joined Wates as Group Production Director in January 2013.

7 STUART TOGWELL
Group Commercial Director

Stuart joined Wates as a trainee surveyor in 1986 and has progressed through line management to his appointment in September 2011 as Group Commercial Director. With over 25 years of experience, Stuart is responsible for all commercial activities in the Group, including surveying, risk management, legal, supply chain management and tendering and has experience of most procurement routes from PFI to long term partnering contracts and most construction products ranging from £2m to over £100m in size across the UK and more recently the Middle East. Stuart is a member of the RICS UK Project Management Professional Group Board and also sits on the CBI South East Council.

8 JULIA TYSON
Group HR Director

Julia joined Wates as Group HR Director in 2006. As a career HR professional she has over 25 years' experience of working with businesses to generate success through people that creates opportunities for personal growth. She spent her early career with the Boots Company, Marconi and TDG, later working for Centrica, RBS and Barclays. Julia is the Executive Sponsor of the Wates Skills and Employability Programme and the Wates Community Investment Programme, including Building Futures Volunteering and Apprenticeships. She is a leading campaigner for Inclusion within the Construction sector, chairing the UKCG Diversity Group and is member of the CBI Employment and Skills forum.

9 PETER WHITTLE
Group Strategy Director

Peter has extensive UK and international business strategy and operating experience. His previous roles include Board Director and Head of Strategy at Tarmac Group where his responsibilities included group strategy, marketing, communications, technical and also business development in the Middle East, India and China. Peter has held a variety of roles in engineering services, paints, speciality chemicals and was a Director at the Met Office. He is also a strategic advisor to a UK Charitable Trust. Peter joined Wates in April 2011.

IAN BURNETT

"I would like to take this opportunity to thank Ian Burnett, Managing Director of Wates Living Space until December 2012, for his contribution to the development of Wates over the last 18 years."

Paul Drechsler, Chairman and Chief Executive

DIRECTORS' REPORT

INTRODUCTION

The directors present their annual report and audited financial statements for the year ended 31 December 2012. This report should be read in conjunction with the Chairman and Chief Executive's Review, the Corporate Governance Report and the Directors' Remuneration Report.

PRINCIPAL ACTIVITIES

The Group is one of the UK's leading construction contractors, with a substantial portfolio of private and public sector projects, and is a residential land developer. The Group operates in the UK and has a developing business division in the Middle East. A review of the Group's business, progress during the year and outlook for 2013 and beyond is included in the Business Review on pages 26 to 41.

RESULTS AND DIVIDENDS

	£000s
Profit on ordinary activities before taxation	25,735
Taxation	(7,024)
Profit for the financial year	18,711

The directors declared dividends in 2012 totalling £13,865,000 (2011: £19,913,000). These were paid on 16 April 2012. No further dividends have been declared in respect of the financial statements to 31 December 2012.

HEALTH & SAFETY

The Board remains committed to the effective management and monitoring of health and safety and providing a safe working environment for all employees and partners and keeping members of the public, with whom the Business comes into contact, free from harm.

EMPLOYEES

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

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

The directors recognise the importance of good relations and communication with employees as fundamental to achieving the Business strategy and long-term objectives. The Group's Annual Roadshow, which is open to all employees, is the forum by which the directors inform and update staff on the Business performance and outlook for the future. The Group also holds a conference twice a year for its top 50 business leaders to discuss business priorities and to share business knowledge and practice across the Group. In addition, regular formal and informal meetings are held at Business Unit and regional levels and further communication is effected through the use of in-house magazines, electronic bulletins, notice boards, the Company website and Chairman's regular Blog.

The Group is committed to improving the skills of employees through training and development and through nurturing a culture in which employees feel valued for their contribution and motivated to achieve their full potential.

Statistics relating to the average number of people employed by the Group during the year can be found in Note 4 to the Accounts.

CORPORATE RESPONSIBILITY

Corporate responsibility continues to remain an integral part of the Group's business and an outline together with examples of the ways in which our corporate responsibility principles are applied, can be found on pages 38 to 41

RESEARCH AND DEVELOPMENT

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

SHARE CAPITAL

Details of the Group's share capital are set out in Note 18 to the Accounts

ARTICLES OF ASSOCIATION

The Company's Articles of Association may be amended by a special resolution of the Company's shareholders. The current Articles were adopted by shareholders on 13 November 2012

CONFLICTS OF INTEREST

The Company's Articles permit the Board to consider and, if deemed fit, to authorise situations where a director has an interest that conflicts or may possibly conflict with the interests of the Company. The Board considers that the procedures in place for reporting and considering conflicts of interest are effective

DIRECTORS INDEMNITIES AND INSURANCE

The Company's Articles of Association provide for the indemnification of its directors and the company secretary to the extent permitted by the Companies Act 2006 and other applicable legislation, out of the assets of the Company in the event that they incur certain expenses in connection with the execution of their duties in addition, and in common with many other companies, the Company has insurance in favour of its directors, company secretary and other officers, in respect of certain losses or liabilities to which they may be exposed due to their office

Certain directors benefited from qualifying pension scheme indemnity provisions during the financial year and benefit from these at the date of this report.

DIRECTORS

Biographical details of the directors of Wates Group as at 31 December 2012 are shown on pages 46 and 47. Nick MacAndrew retired as a director of the Group with effect from 26 April 2012

Biographical details of the Wates Executive team are shown on pages 48 and 49. Ian Burnett and Rod Stewart retired as members of the Executive Committee in 2012

POLICY FOR PAYMENT OF SUPPLIERS

The Group agrees payments with its suppliers and subcontractors on an individual contract basis rather than following a formal code. The Group's policy is to abide by these agreed terms whenever it is satisfied that the suppliers or subcontractors have provided the goods or services in accordance with the contractual terms and conditions. The Group maintains a good reputation for consistent and timely settlement of supplier accounts

DONATIONS

During the year the Group made charitable donations amounting to £1,090,000

The 8th annual Wates Community Day was held on 21 September 2012. Our entire workforce and many of our supply chain partners and customers volunteered in excess of 8,700 man hours and donated materials to 90 community projects around the country. Wates Giving, the charitable programme of The Wates Family Enterprise Trust, donated £25,000 to charitable organisations that we worked with on the day

During the year a subscription of £50,000 was paid by Wates Group Services Limited to the Conservative Party

GOING CONCERN

The Group has considerable financial resources together with a strong forward order book with a number of customers and suppliers across different geographic areas and market sectors. As a consequence, the directors believe that the Group is well placed to effectively manage the principal business risks and uncertainties set out on pages 44 and 45. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence

for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's financial statements

DISCLOSURE OF INFORMATION TO AUDITORS

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

1. so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
2. 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

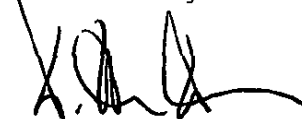
ANNUAL GENERAL MEETING

The 2013 Annual General Meeting of the Company will be held on Tuesday 30 April 2013

POST BALANCE SHEET EVENTS

There were no post balance sheet events requiring disclosure

Approved by the Board of Directors on 12 March 2013 and signed on its behalf by:



D H DAVIES
SECRETARY

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The Board firmly believes that good business and sustained performance derives from good corporate governance and remains firmly committed to achieving the highest standards in the interest of all stakeholders. Governance enables business to be conducted responsibly with openness and integrity and in accordance with all laws and regulations to which business activities are subject. Governance is focused across the entire business and not just at Board level which enables strategic objectives to be met, value to be created and a sustainable business to be built for the long term. The Board is clear that by doing the right things in the right way, the Group can protect its brand, reputation and relationships with shareholders, customers, employees, supply chain and the local communities in which it works.

UK CORPORATE GOVERNANCE CODE

The Company is fully compliant with the UK Corporate Governance Code, except where, as a family-owned company, appropriate alternative procedures are in place, or elements of the Code are not applicable. Throughout the year ended 31 December 2012, the Group complied with all principles of the Code except that the role of the Chairman and Chief Executive was exercised by the same individual, Paul Drechsler. The Wates family and Board consider that having a joint Chairman and Chief Executive is appropriate for the current ownership structure, and that robust controls are maintained, which enable the Group to benefit from his leadership experience.

ROLE OF THE CHAIRMAN

As Chairman and Chief Executive, Paul Drechsler is ultimately responsible for appraising the Board of all matters affecting the Group and its performance. He is also responsible for the effective operation and chairing of the Board and ensuring that all directors are able to play a full part in its activities. The Chairman ensures effective communication with shareholders and that all Board members are aware of the

views of shareholders. As Chief Executive, he is responsible for leading the Executive Committee in running the Group's business, including formulating strategy proposals for Board approval and ensuring that the agreed strategy is implemented in a timely and effective manner.

BOARD OF DIRECTORS

The Board consists of a Chairman and Chief Executive, Chief Financial Officer, Chief Operating Officer, four independent non-executive directors and five family directors. The number and calibre of independent non-executive directors on the Board, together with their diverse backgrounds and experiences, ensure that the principles of the UK Corporate Governance Code are met.

The directors update their skills, knowledge and familiarity with the Company by attending appropriate external seminars and training courses, meeting with senior management and visiting regional and divisional operating offices. An induction programme is available for all new directors, which is tailored to specific experience and knowledge. The Board believes that the independent non-executive directors are wholly independent.

BOARD AND COMMITTEE ATTENDANCE IN THE YEAR

TYPE OF MEETING		BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE
Number of Principal Meetings held		9	4	4
Number of Meetings attended by				
Paul Drechsler	Chairman/CEO	9	[4]	[4]
James Wates	Deputy Chairman	9	-	4
Huw Davies	Chief Financial Officer	9	[4]	-
David Smith	Chief Operating Officer	9	-	-
David Barclay	Non-Executive Director	1*	-	2*
Peter Johnson	Non-Executive Director	9	-	-
Nicholas MacAndrew	Non-Executive Director	3**	2**	1**
Graeme McFaul	Non-Executive Director	9	4	3*
Friedrich Ternofsky	Non-Executive Director	9	3*	4
Andrew Wates	Director	9	-	-
Charles Wates	Director	9	-	-
Jonathan Wates	Director	9	-	-
Timothy Wates	Director	9	4	-

joined during 2012 ** resigned during 2012 [] Brackets mean attendance by invitation, not as a member

in that they have no material business or relationships with the Group that might influence their independence or judgement

The Board is responsible to shareholders for the success of the Group. There is a formal schedule of matters reserved to the Board, including the determination of the Group's long term direction, business objectives, key policies and strategy. The Board also monitors business performance and reviews risk controls. The Board has delegated authority for all day-to-day management of the Group's affairs to the Executive Committee.

The Board had a programme of nine principal Board meetings in 2012, plus 2 additional days for the annual strategy conference with the Executive Committee. The Board is provided with regular and timely information on the financial performance of the Group together with reports on operational matters, market conditions, sustainability, competitor environment and other relevant issues. The directors have equal voting rights when making decisions, except the Chairman who has a casting vote. All directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the Group's expense.

From time to time matters arise which require urgent approval prior to the next scheduled Board meeting and in such instances approval of all directors is sought via a telephone conference call. Directors unable to attend are invited to provide feedback to the Chairman prior to the meeting.

ACTIVITIES OF THE BOARD IN 2012

During the year, the Board approved and endorsed:

- the Annual Report and Accounts
- Group and Business Unit budgets
- strategic plans and cross theme priorities
- capital allocation and investment priorities
- land and joint venture investments
- the issue of new preference shares, and
- continued personal development of the Executive Committee

They also considered and reviewed:

- the impact of the prevailing economic conditions on the Group's short and long term strategies
- management's response to challenging market conditions
- competitor analysis and benchmarking
- potential funding models for social housing schemes,
- the Group's Risk Register and mitigation controls
- corporate responsibility issues
- succession plans for senior management

They also received:

- presentations from each of the Business Units and Function Heads, providing updates on operational, commercial and financial performance and risk management
- progress reports on the Middle East business
- updates on progress against the strategic plan,
- progress reports on the Linbrook Services integration plan,
- Group investment performance briefings
- proposals for potential diversification options within the built environment, and
- business cases for oil projects over £25m, including risk profile

BOARD DIVERSITY

The Group is an equal opportunities employer and promotes an environment free from discrimination. The Group's policy on diversification extends to the Board and appointments are objective, free from bias and based solely upon relevant experience, knowledge and individual merit.

COMMITTEES AND THEIR ACTIVITIES DURING THE YEAR

The Board delegates certain governance responsibilities to Board Committees and these are detailed below.

AUDIT COMMITTEE

The Audit Committee constantly monitors, interrogates and challenges management on its risk mitigation, financial performance and the effectiveness of its internal controls. The Committee looks to the internal and external auditors to ensure that their activities remain focused in the right areas which enables the Committee to act in accordance with its terms of reference, and that management respond to the auditors' key findings in a timely manner.

The Audit Committee comprises three non-executive directors and is chaired by Graeme McFaul, a chartered management accountant. The Board is satisfied that the recent and relevant financial experience of the Audit Committee Chairman and its members enables the Committee to fully discharge its duties in accordance with the UK Corporate Governance Code. Membership of the Committee during the year comprised Graeme McFaul as Chairman, Tim Wates and Fritz Ternofsky, who succeeded Nick MacAndrew in April 2012 when he retired from the Board.

The Committee met four times in 2012 and the Committee Chairman reported its conclusions to the Board after every meeting. The PricewaterhouseCoopers external audit partner attended all four meetings during the year, as did the Chairman and Chief Executive, the Chief Financial Officer, the Head of Internal Audit and the Group Commercial Director, all at the invitation of the Committee's Chairman. At each meeting, the Committee considered whether the withdrawal of management from the meeting was required in order that it might freely discuss any items with the internal and the external auditors without the executive management's presence. Twice a year the external auditor withdraws from the meeting in order that the Committee may freely discuss its performance with management. Minutes of the Audit Committee are circulated to all members of the Committee and Board.

CORPORATE GOVERNANCE REPORT CONTINUED

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

The Committee assessed the effectiveness of the external auditor following completion of the 2011 audit plan. The evaluation took the form of a questionnaire to a cross section of Wates staff involved in the audit process, including members of the financial, commercial, IT and internal audit functions and members of the executive committee. The calibre of the external auditor, their governance, independence and professionalism received good feedback. Areas of weakness that were addressed during the 2012 audit included improved communication around the collation of information and documentation.

The Committee also has the responsibility for overseeing the Internal Audit function, including approval of the annual risk-based audit plan and monitoring the work recommendations and effectiveness of the function. The Head of Internal Audit meets with the Chairman of the Audit Committee twice a year without the executive management's presence.

The Committee monitors the independence and objectivity of the external auditor, by agreeing the level of their remuneration and the extent of their non-audit services.

Apart from its usual duties described above during 2012 the Committee

- tracked management's response to key findings in the external auditor's management letter
- discussed the effect of the economic downturn on the Group and the major risks arising, including counterparty risk
- considered the output from the Group-wide process used to identify, evaluate and mitigate risks, including review of specific Business Unit Risk Registers,
- received a progress report on improvements in operational processes
- reviewed priority areas where improvements to controls and their operation could lead to an improved internal audit opinion
- received quarterly reports on contract reviews and financial movements in the period
- reviewed the Group's Bribery Act training and development programme
- reviewed the Group's whistleblowing policy and received reports on activity and actions arising and
- reviewed material changes to the Group's delegated authority listings, including increases in authority levels commensurate with contract risks

REMUNERATION COMMITTEE

The Remuneration Committee's primary objective is to set remuneration packages at a level that will enhance the Group's resources by attracting, retaining and motivating quality senior management who can deliver the Group's strategic ambitions. The Committee firmly believes that the best people on the right remuneration with an emphasis on performance related pay enables the Group to face the challenges of economic and market uncertainty and to deliver long term sustainable value for all stakeholders.

The Remuneration Committee comprises four non-executive directors and is chaired by Fritz Ternoisky. Members include James Wates and Graeme McFaul, who succeeded Nick MacAndrew when he retired from the

Board in April 2012. David Barclay joined the Committee in November 2012. The Committee met four times in 2012 and the Chairman and Chief Executive and the Human Resources Director attended the meetings at the invitation of the Chairman.

The Committee has defined terms of reference which are reviewed annually. The Committee is responsible for making recommendations to the Board concerning the remuneration strategy, recruitment framework and long term incentive plans for senior executives. In doing so, the Committee takes the advice of independent external consultants New Bridge Street.

Minutes of the Remuneration Committee are circulated to all Committee and Board members, but may be subject to redaction, with the agreement of the Committee where this is considered necessary to exclude matters relating to specific directors.

During 2012 the Committee

- reviewed and recommended criteria for bonus and LTIP payments,
- approved employee participation of the LTIP plan, including transition and retention issues
- undertook analysis of earnings progression in the Business and industry
- considered market trends and benchmarking data for purposes of salary recommendations
- reviewed guidelines on executive remuneration and the Group's response
- considered the effectiveness and independence of its advisors
- reviewed and recommended changes to employee benefits
- reviewed its own effectiveness and
- satisfied itself that the Group's remuneration policy did not create any undue pressures or risks

NOMINATIONS COMMITTEE

James Wates chairs the Nominations Committee comprising the independent non-executive directors Peter Johnson and Graeme McFaul. The Committee's role is to consider the future composition and structure of the Board and, when necessary, to identify and evaluate candidates for future appointments. In doing so, the Committee takes the advice of independent external recruitment consultants.

The Committee's objective is to ensure that the Board remains balanced and effective, that succession plans are in place and that its structure, composition and skill set remain aligned to the Group's strategic objectives.

The Committee meets at least twice a year and as required.

EXECUTIVE COMMITTEE

The Executive Committee, chaired by the Chief Executive, consists of individuals responsible for the strategic Business Units and key functions. It meets formally twice a month and focuses on safety, performance, people and strategy. Responsibility and authority are set by the Board and delegated by the Chief Executive to individual members of the Executive Committee. They in turn are accountable to him for the performance of their Business Units and submit medium to long term strategic plans, annual budgets and quarterly forecasts for approval.

Details of the achievements of the Executive Committee in 2012 are highlighted in the Chairman and Chief Executive's Review and Business Review at the front of this report.

Wates Developments and Needspace? are Business Units within the Group that have different reporting and governance requirements. Developments reports to the Board under the chairmanship of Tim Wates, while Needspace? reports directly to the executive committee.

RISK MANAGEMENT

The Group operates a Risk Committee to ensure that inherent or emerging risks in the Business are timely identified and managed at an appropriate level. The Committee reviews the organisation's response to specific areas of risk and approves standards and processes where control weaknesses are considered to exist.

The Risk Committee is chaired by the Chief Executive and comprises members of the Executive Committee, together with senior Business Unit and Function leaders. The Board are satisfied that the composition of the Committee and its terms of reference, which are reviewed annually, strengthens the Group's approach to risk management and mitigation.

The Committee meets four times a year, the timings of which are set to report into the Executive Committee and Board. Minutes of the meeting are circulated to all members of the Committee, Executive Committee and Board.

During 2012, the Risk Committee

- reviewed the Group and Business Unit Risk Registers and interrogated the risks identified
- satisfied itself that mitigating actions were in place for specific risks within each register
- reviewed the Group Commercial Report at every meeting and focused on risks specific to individual projects,
- considered the Group's appetite for risk and the protection of its reputation,
- regularly reviewed counterparty risk and associated risks
- tracked management's response to key findings in the auditor's management letter and control weaknesses identified by the internal assurance certification
- reviewed the Group's Bribery Act training and development programme
- considered the Group's resilience to fraud and satisfied itself that appropriate prevention and detection methods were in place and effective,
- updated the Group's process for collating existing and potential conflicts of interests

- approved material changes to the Group's delegated authority listings, including increases in authority levels commensurate with contract risks
- ensured that adequate insurance policies were in place to protect the Group's long term aims
- evaluated the Group's whistleblowing arrangements, and
- reviewed the Committee's composition and governance

2013 ACTION PLAN

Focus of the Group Risk Committee's future action plan will include risks associated with

- counterparty failure
- failure of a major contractor,
- resource capability
- cash management
- project selection and delivery,
- contract terms and conditions, and
- inhibitors that prevent early identification and intervention of issues

The Group's operational risks and their mitigation are outlined on pages 44 and 45.

COMMUNICATE WITH SHAREHOLDERS

The Wates Group is 100% owned by the Wates family. 4th generation family members are actively involved in the business. The Board continues to engage and interact with the Family Enterprise Strategy, seeking to align the Group's strategic objectives with the family's long term aspirations for sustainability and growth and to explore diversification options and alternative investment opportunities in the built environment.

The Board confirm that the 2012 Annual Report and Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

CORPORATE GOVERNANCE REPORT CONTINUED

FINANCIAL REPORTING

A statement of the responsibilities of the directors in relation to the financial statements follows this report

The Group's business activities together with the factors likely to affect its future development, performance and position, are set out in the Business Review on pages 26 to 41. The financial position of the Group, including its cash flow, liquidity position and the management of principal risks and uncertainties, are described on pages 42 to 45.

The Group has considerable financial resources together with a strong forward order book, with a number of customers and suppliers across different geographic areas and market sectors. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the continued uncertainty of the economic outlook.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

INTERNAL CONTROLS

The Board takes ultimate responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness. The Group's principal risks and uncertainties and how they are mitigated are summarised on pages 44 and 45.

The Board assessed the effectiveness of the risk management process and internal controls during 2012 and to the date of this report. Such assessment was based on reports made to the Board Audit and Risk Committees including:

- a Group-wide certification through a letter of assurance process that effective internal controls had been maintained, or where any significant non-compliance or breakdown had occurred, the status of corrective action;
- the results of internal audit's reviews and annual internal audit opinion;
- quarterly reporting of Key Control Monitors by each Business Unit;
- a paper prepared by management on its analysis of its internal control systems; and
- reports from the external auditors on internal control issues arising during the course of the audit.

The Group's systems and controls are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key features of the Group's system of internal controls are:

- an established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authorities;
- operating guidelines with authorisation limits set at appropriate levels in both Business Units and Group functions;
- a comprehensive budgeting and forecasting system, which is regularly reviewed and updated;
- a formal quarterly review of each Business Unit's year-end forecast, business performance, risk and internal control matters as carried out by the directors of each Business Unit with the Chief Executive and Chief Financial Officer in attendance;
- monthly management reporting including regular comparison of actual results against latest forecasts;
- established standards governing the Group's client and contract selection processes, tendering and settlement processes and contract risk management process;

- established standards governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposures;
- approval of investment decisions;
- regular monitoring, review and reporting of health, safety and environmental matters; and
- Internal Audit function reviews of risks and controls.

The Board received regular reports from all operating units to monitor their performance and the Audit Committee received regular reports from the Internal Audit function. All directors are properly briefed on issues arising at Board meetings.

DIRECTORS' REMUNERATION REPORT

POLICY

The objective of the remuneration policy is to provide remuneration packages which allow the business to attract, retain and motivate the quality of senior management needed to deliver the Group's strategic aspirations and create sustainable shareholder value. The Remuneration Committee believes that shareholders' interests are best served by remuneration packages having a large emphasis on performance-related pay. It is therefore the aim of the Remuneration Committee to encourage and reward superior performance by executives.

The Committee's policy is to set the main elements of the remuneration package at the following quartiles in comparison to the Group's Comparator Group:

Base Salary	Annual bonus potential @ target	Pension	Benefits in kind	Long term incentives
Median	Median	Median	Market practice	Upper quartile

REMUNERATION COMMITTEE

The membership and responsibility of the Committee are outlined in the Corporate Governance Report.

Committee members have no personal financial interest other than as shareholders, in matters to be decided, no potential conflicts of interest arising from cross directorships and no day-to-day involvement in running the business.

Formal written terms of reference are in place, a copy of which is available from the Company Secretary.

BENCHMARKING

The Remuneration Committee take independent advice on executive compensation and associated scheme design. The Group's remuneration is annually benchmarked against companies of a similar size and complexity and other companies in the same industry. The Committee's current advisors, New Bridge Street, were appointed in July 2008 and the Committee are satisfied that their advice remains objective and independent.

In determining executive directors' and senior executives' remuneration for the year, the Committee consulted with the Chairman and Chief Executive, Paul Drechsler, and Group Human Resources Director, Julia Tyson, although no executive played any part in discussions about their own remuneration.

ELEMENTS OF DIRECTORS' REMUNERATION

BASE SALARY

Salaries for Executive Committee members take account of external market data, the individuals' responsibilities, experience and personal performance. Salaries are reviewed annually in line with the stated policy of achieving median positioning with the stated comparator group. Base salaries exclude annual bonus.

ANNUAL BONUS

A bonus is paid to all Executive Committee directors at a percentage of annualised base salary. A maximum bonus of 150% of the on target bonus level can be achieved if the Group's pre-tax profit attains pre-set targets each year. These targets are agreed by the Committee. The annual bonus is not pensionable.

LONG TERM INCENTIVE PLAN

The Group's LTIP is payable in cash after a specific performance period, generally 3 years, and is dependent on the achievement of performance conditions over that period which are set at the beginning of each three year term.

Payment is made with reference to an individual's salary and annual bonus percentage, which generates differential levels of payment for different individuals based on their contribution to the business and comparative market positioning.

The scheme applies to a senior management group of 37 participants.

Performance targets are set annually for each three year plan against a baseline profit figure at three different performance levels, threshold, target and stretch and by taking sector outlook into consideration.

There are further Chairman specific LTIP schemes in respect of performance relating to the provision of services to the shareholders in terms of family strategy, generational transition and individual development.

BENEFITS IN KIND

In line with market practice, the Group's policy is to provide the standard benefits in kind appropriate for executive directors such as private health insurance and life assurance.

PENSION ARRANGEMENTS

The Group operates both a Defined Benefit scheme, which has been closed to new members since 2000, and a Defined Contribution pension plan. Executive directors either participate in the Wates Pension Fund, or they receive a contribution of up to 25% of basic salary towards a money purchase scheme or, by taking the cash alternative, an arrangement of their own choosing.

DIRECTORS' REMUNERATION REPORT CONTINUED

SERVICE CONTRACTS

EXECUTIVE DIRECTORS

The Company has service agreements with its executive directors which have a notice period of one year. The Group's policy on termination is that the Group does not make payments beyond its contractual obligations and executive directors are expected to mitigate their loss.

Executive Director	Company Notice Period	Contract Date	Unexpired term of contract	Potential termination payment
Paul Drechsler	12 months	6 September 2004	rolling contract	12 months salary
David Huw Davies	12 months	1 February 2005	rolling contract	12 months salary
David Smith	12 months	1 July 2001	rolling contract	12 months salary

EXTERNAL DIRECTORSHIPS

With the approval of the Board and shareholders, in the case of the Chairman, executive directors are permitted to hold external appointments. During the year Paul Drechsler was a non-executive director of Filtrona plc and Huw Davies was a non-executive director of WSP plc. Dave Smith holds no external appointments.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The remuneration of the independent non-executive directors is determined by the Board and reflects the anticipated time commitment to fulfil their duties and is based on annual salary data of non-executive directors' fees.

Independent non-executive directors do not have service contracts as their terms of engagement are regulated by letter of appointment. They are appointed for an initial fixed term of three years and are able to resubmit themselves for re-election after each three year period. They are required to retire at age 65. The dates of re-election, where applicable, of independent non-executive directors are:

Non-executive director	Contract date	Re-election date
David Barclay	1 October 2012	1 October 2015
Peter Johnson**	4 May 2011	4 May 2014
Graeme McFaul	1 September 2009	1 September 2015
Friedrich Ternofsky*	1 June 2006	1 June 2015

* Shareholders have approved the re-election of Peter Johnson and Fritz Ternofsky beyond age 65.

** Peter Johnson had a break in service between 25 April 2006 and 4 May 2011.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 the 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;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF WATES GROUP LIMITED

Company number 01824828

We have audited the Group and parent company financial statements (the 'financial statements') of Wates Group Limited for the year ended 31 December 2012 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Consolidated Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Group Shareholders' Funds, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 59 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2012 and of the Group's profit and cash flows for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

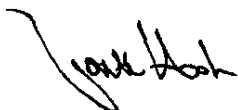
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



Jonathan Hook (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 March 2013

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000s	2011 £000s
Turnover			
Group and share of joint ventures and associate		1 193,568	1,117 041
Less share of turnover of joint ventures and associate		(96,577)	(83 112)
Group turnover continuing operations	2	1,096 991	1 033 929
Cost of sales		(1,001,922)	(924 662)
Gross profit		95,069	109,267
Administrative expenses (including restructuring costs)		(78,241)	(80 300)
Group operating profit			
Continuing operations	3	16,828	28,967
Operating profit from interests in joint ventures and associate	11	9,046	3 699
Total operating profit – Group and share of joint ventures and associate			
Before restructuring costs		30,778	32,666
Restructuring costs		(4 904)	-
Total operating profit – Group and share of joint ventures and associate		25,874	32 666
Profit on sale of investments	6	1,302	7,169
Deficit on revaluation of investment properties		(220)	(40)
Profit on ordinary activities before interest and taxation		26,956	39,795
Net interest receivable	7	2,672	3 532
Net interest payable – joint ventures		(1,763)	(1 580)
Net other finance charges	7	(2,130)	(1 603)
Profit on ordinary activities before taxation			
Before restructuring costs and profit on sale of investments		29,337	32,975
Restructuring costs		(4,904)	-
Profit on sale of investments		1,302	7 169
Profit on ordinary activities before taxation	2	25,735	40 144
Taxation	8	(7,024)	(9 794)
Profit for the financial year	19	18,711	30 350

The above results have been derived from continuing operations

There is no material difference between the reported results and the results calculated on an unmodified historical cost basis.

A statement of movements in reserves is set out in note 19

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012

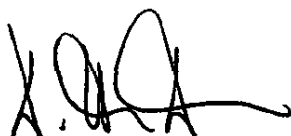
	Notes	2012 £000s	2011 £000s
Fixed assets			
Intangible assets			
Goodwill	9	26,232	27,842
Tangible fixed assets	10	19,260	19,705
Investments in joint ventures			
Share in gross assets	11	79,930	84,293
Share in gross liabilities	11	(71,272)	(79,845)
Loans provided to joint ventures	11	37,920	46,773
Total investments in joint ventures	11	46,578	51,221
Other investments	11	2,679	2,631
		94,749	101,399
Current assets			
Stocks	12	9,726	15,035
Debtors			
Amounts falling due within one year	13	182,965	167,197
Amounts falling due after more than one year	13	15,174	11,010
		198,139	178,207
Cash at bank and in hand		121,254	132,095
		329,119	325,337
Creditors amounts falling due within one year	14	(301,482)	(312,734)
Net current assets		27,637	12,603
Total assets less current liabilities		122,386	114,002
Creditors amounts falling due after more than one year	15	(13,497)	(14,241)
Provisions for liabilities	16	(5,470)	(4,648)
Net assets excluding pension liability		103,419	95,113
Net pension liability	24	(33,198)	(30,815)
Net assets including pension liability	2	70,221	64,298
Capital and reserves			
Called up share capital	18	14,777	9,777
Share premium account	19	956	956
Capital redemption reserve	19	17,447	17,447
Revaluation reserve	19	1,770	1,220
Profit and loss account	19	35,271	34,898
Shareholders' funds		70,221	64,298

The notes on pages 66 to 86 form part of these accounts

Approved by the Board of Directors on 12 March 2013 and signed on its behalf by



P. J. Drechsler
Chairman and Chief Executive



D. H. Davies
Chief Financial Officer

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000s	2011 £000s
Profit/(loss) for the financial year			
Group		12,677	28,911
Joint ventures		6,068	1,439
Associate		(34)	-
		18,711	30,350
Unrealised surplus on revaluation of investment properties	19	550	476
Currency translation difference on foreign currency net investment	19	255	(88)
Actuarial loss recognised in the pension scheme	19	(5,073)	(8,834)
Deferred taxation credit attributable to actuarial loss	19	345	1,571
Total recognised gains and losses relating to the year		14,788	23,475

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000s	2011 £000s
Profit for the financial year		18,711	30,350
Dividends paid		(13,865)	(19,913)
Other recognised gains and losses relating to the year (net)	19	(3,923)	(6,875)
New preference shares issued	18	5,000	-
Net increase in shareholders' funds		5,923	3,562
Opening shareholders' funds		64,298	60,736
Closing shareholders' funds		70,221	64,298

COMPANY BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000s	2011 £000s
Fixed assets			
Investments	11	58 412	58 071
Current assets			
Debtors	13	24,567	20 208
Cash at bank and in hand		721	314
		25,288	20,522
Creditors amounts falling due within one year	14	(32,742)	(41 138)
Net current liabilities		(7,454)	(20,616)
Net assets		50,958	37 461
Capital and reserves			
Called up share capital	18	14,777	9,777
Share premium account	19	956	956
Capital redemption reserve	19	17,447	17 447
Profit and loss account	19	17,778	9,281
Shareholders' funds		50,958	37 461

The notes on pages 66 to 86 form part of these accounts

Approved by the Board of Directors on 12 March 2013 and signed on its behalf by



P J Drechsler
Chairman and Chief Executive



D H Davies
Chief Financial Officer

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 £000s	2011 £000s
Cash (outflow)/inflow from Group operating activities	20	(7,769)	37,137
Dividends received from joint ventures		1,815	608
Returns on investments and servicing of finance			
Interest received		2,632	2,919
Interest paid		(10)	(2,543)
Net cash inflow from returns on investments and servicing of finance		2,622	376
Taxation			
Corporation tax paid		(6,235)	(9,881)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,317)	(2,994)
Purchase of investments		(109)	(2,216)
Disposal of tangible fixed assets		15	63
Disposal of investments		1,333	1,746
Net loans repaid by/(to) joint ventures		7,669	(11,970)
Net cash inflow/(outflow) from capital expenditure and financial investment		7,591	(15,371)
Acquisition and disposal			
Purchase of subsidiary undertaking		-	(40,804)
Cash acquired with subsidiary undertaking		-	9,118
Disposal of subsidiary undertaking		-	5,580
Cash disposed of with subsidiary undertaking		-	(2,986)
Net cash outflow from acquisition and disposal		-	(29,092)
Equity dividends paid		(13,865)	(19,913)
Net cash outflow before financing		(15,841)	(36,136)
Management of liquid resources			
Cash withdrawn from short-term deposit		11,080	95,745
Net cash inflow from management of liquid resources		11,080	95,745
Financing			
Issue of preference share capital		5,000	-
Repayment of borrowings		-	(982)
Net cash inflow/(outflow) from financing		5,000	(982)
Increase in cash	21	239	58,627

NOTES TO THE ACCOUNTS

31 DECEMBER 2012

1 Accounting policies

i) Basis of accounting

These accounts have been prepared on the going concern basis, under the historical cost convention as modified by the revaluation of investment properties, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies which have been applied consistently throughout the year are set out below.

ii) Basis of consolidation

The consolidated accounts include the accounts of Wates Group Limited and its subsidiary undertakings made up to 31 December 2012. The acquisition method of accounting has been adopted. Under this method, where subsidiaries are acquired or sold during the year, or where joint arrangements are entered into or terminated during the year, the consolidated accounts include the results for the part of the year for which they were subsidiaries or joint arrangements.

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. A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. Associates and joint ventures are accounted for using the equity basis, in the consolidated profit and loss account as the Group's share of profits less losses and in the consolidated balance sheet at cost, including advances, plus the appropriate share of post acquisition retained profits and reserves. Where the Group trades with a joint venture, the proportion of turnover and profit in respect of the proportion of the joint venture owned by the Group is eliminated on consolidation. Such profit is taken when the assets purchased by the joint venture are sold by it.

Where a Group company is party to a joint arrangement that is not an entity, that company accounts directly for its share of the income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated accounts on the same basis.

Where the accounting policies of associates and joint ventures do not conform to the Group's accounting policies, adjustments are made on consolidation in order to present the Group accounts on a uniform basis.

In accordance with Section 408 of the Companies Act 2006, no separate profit and loss account has been presented for the Company; however, the profit for the year has been disclosed in note 19.

iii) Turnover

Turnover represents the value of work done on contracting activities, sales of residential properties and development properties that are legally completed within the year, sales of land on which unconditional exchange of contracts has taken place by the year end and other fees receivable.

Turnover excludes the value of intra-group transactions and Value Added Tax and includes the Group's share of turnover of joint ventures and associates.

iv) Pre-contract costs

Private Finance Initiative (PFI) bid costs are charged to the profit and loss account until such time as the Group is virtually certain that it will enter into contracts for the relevant PFI project. Virtual certainty is generally achieved at the time the Group is selected as preferred bidder. From the point of virtual certainty, bid costs are capitalised and held in the Group balance sheet as a debtor prior to achieving financial close. On financial close of PFI project and financing agreements, the Group recovers capitalised bid costs from the relevant project company. If the recovery of bid costs exceeds the amount capitalised by the Group to financial close, the over-recovery is credited to the balance sheet as deferred income. Deferred income is released to the profit and loss account over the period of construction.

Tender costs on construction contracts are written off to the profit and loss account up until the point it is virtually certain that the Group will be awarded the contract.

v) Research and development

Research and development costs are written off as incurred.

NOTES TO THE ACCOUNTS

CONTINUED

1. Accounting policies continued

vi) Intangible assets – goodwill – and negative goodwill

Goodwill arising on the acquisition of subsidiary undertakings, 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. Provision is made for any impairment. There is no negative goodwill arising on or after 1 January 1998.

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs, any goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

vii) Tangible fixed assets and depreciation

Investment properties are revalued annually at their open market value. Net surpluses on valuations of individual investment properties are credited to revaluation reserve. Any impairment in value of individual investment properties below cost or the reversal of such a deficit is charged (or credited) to profit and loss account. Depreciation is not provided in respect of freehold investment properties. The directors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 'Accounting for investment properties'. The financial effect of the departure from the statutory accounting rules is not material.

Tangible fixed assets are initially recorded at cost. Subsequent expenditure on tangible fixed assets is capitalised to the extent that it provides an enhancement to the economic benefits of the asset above its previously assessed standard of performance. All other subsequent expenditure is charged to the profit and loss account as incurred.

Depreciation is provided in equal annual instalments over the estimated useful lives of assets so as to write off the cost less the estimated residual values over the following periods:

Leasehold land and buildings	period of lease
Plant and machinery	3 to 10 years
Fixtures, fittings, tools and equipment	2 to 10 years

viii) Investments

In the Company's accounts, investments in subsidiary undertakings, associates and joint ventures are stated at cost less any provision for impairment. Equity loans and unquoted investments are stated at cost less any provision for impairment. Income from investments is included in the Group profit and loss account as approved.

ix) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost, including attributable overheads and interest, and net realisable value.

x) Long term 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.

Profits on long term contracts are calculated in accordance with SSAP 9 'Stocks and long term contracts'. For our Construction segment profits do not relate directly to turnover. Profit on contracts is only taken at a stage near enough to completion for that profit to be reasonably certain. 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 construction projects, the application of a percentage complete profit taking rule is not deemed appropriate. Profit is therefore taken on these agreements where the final accounts have been agreed with the client in the year.

NOTES TO THE ACCOUNTS

CONTINUED

1. Accounting policies continued

x) Long term 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.

xi) Finance debtors

The Group has adopted the provisions of FRS 5 Reporting the substance of transactions (Application Note F) in determining the appropriate treatment of the principal assets of and income streams from PFI contracts. Where it has been demonstrated that the balance of risks and rewards derived from the underlying asset are not borne by the Group, the asset created and/or provided under the contract is accounted for as a finance debtor under FRS 5.

During the construction phase of PFI projects, all attributable expenditure and interest is included in amounts recoverable on contracts and turnover.

Upon becoming operational, the total costs of the PFI project are transferred to the finance debtor and income derived from the PFI contract is allocated between the provision of the asset and the provision of subsequent services. Upon acceptance of the constructed asset, the finance debtor is amortised over the life of the contract against the relevant portion of the contract income.

xii) Residential developments

For our Residential Development segment, profits are on the basis of actual property sales to date compared to forecast final sales and costs for each development site.

xiii) Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided fully and on a non-discounted basis at the average corporation tax rates expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

xiv) Leases

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

xv) Cash and liquid resources

For the purpose of the cash flow statement, cash comprises cash in hand and deposits repayable in not more than one working day less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than or equal to one year, other than cash and investments in money market managed funds.

xvi) Pension costs and post retirement benefits

The Group operates a defined benefit pension scheme providing benefits based on pensionable pay which is now closed to new entrants. The assets of the scheme are held separately from those of the Group.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

NOTES TO THE ACCOUNTS

CONTINUED

1. Accounting policies continued

xvi) Pension costs and post retirement benefits continued

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit shown in the profit and loss account is split between operating charges and finance items. Actuarial gains and losses are shown in the consolidated statement of total recognised gains and losses.

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.

xvii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as an appropriation of profits.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the profit and loss account as interest expense.

xviii) Foreign currency

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

The results of overseas companies are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on the translation of opening net assets and results of overseas companies are reported in the consolidated statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

NOTES TO THE ACCOUNTS

CONTINUED

2 Segmental information

	2012 Turnover £000s	2011 Turnover £000s	2012 Profit before tax £000s	2011 Profit before tax £000s
Construction				
Before restructuring costs and profit on sale of investments			23,406	31,075
Restructuring costs			(4,904)	-
Profit on sale of investments			1,302	7,169
Construction	1,071,129	1,029,524	19,804	38,244
Residential development	24,009	2,649	9,165	3,613
Other activities	1,853	1,756	(3,234)	(1,713)
Group total				
Before restructuring costs and profit on sale of investments			29,337	32,975
Restructuring costs			(4,904)	-
Profit on sale of investments			1,302	7,169
Group total	1,096,991	1,033,929	25,735	40,144

	2012 Net assets £000s	2011 Net assets £000s
Construction	(103,944)	(111,053)
Residential development	61,244	58,632
Other activities	(8,333)	(15,376)
Cash and net debt	121,254	132,095
	70,221	64,298

The Construction segment is Wates Construction's construction activity for Construction, Living Space and Interiors and Retail customers

Other activities include the Group's provision of workplace and support services activity and the net pension liability (note 24)

3 Group operating profit

	2012 £000s	2011 £000s
This is stated after charging		
Auditors' remuneration*		
- audit of these accounts	21	14
- audit of subsidiaries' accounts	179	202
- taxation compliance services	26	17
- non-audit services	10	6
Amortisation of goodwill	1,610	1,045
Depreciation of tangible fixed assets		
(including loss on disposal £13,000 2011: £8,000)	2,077	1,931
Hire of plant and machinery	5,074	6,060
Operating lease payments		
- land and buildings	2,757	2,738
- plant and machinery	704	556
Research and development	3,641	4,534

* Excludes fee payments made through joint ventures

NOTES TO THE ACCOUNTS

CONTINUED

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

	2012 Number	2011 Number
Operations	1,660	1,909
Administration	707	741
	2,367	2,650

The aggregate payroll costs for the Group were as follows

	2012 £000s	2011 £000s
Wages and salaries	117,964	126,522
Social security costs	13,272	14,004
Other pension costs	8,710	9,075
	139,946	149,601

The pension operating cost for the year under FRS17 was £3,295,000 (2011: £3,236,000) in respect of defined benefit arrangements and £5,415,000 (2011: £5,839,000) in respect of defined contribution arrangements

5 Remuneration of directors

	2012 £000s	2011 £000s
Directors' emoluments – executive and family directors	2,067	1,992
– independent non-executive directors	185	174
Amounts receivable under long term incentive scheme	–	3,232
Contributions to money purchase pension scheme	100	87
	2,352	5,485

Five (2011: five) directors have retirement benefits accruing under the Group's defined benefits pension scheme and three (2011: three) directors have benefits accruing under a money purchase pension scheme

	2012 £000s	2011 £000s
Highest paid director – emoluments	722	606
– amounts receivable under long term incentive scheme	–	1,755

6 Profit on sale of investments

The profit on sale of investments includes the sale of the Group's investment in 72% of QED Luton (Challinor) Holdings Limited in 2012, and in QED (Slough) Holdings Limited, Education Support (Enfield 2) Holdings Limited, Education Support (Newham) Holdings Limited and QED (Clacton) Holdings Limited in 2011 and is included within the Construction segment

NOTES TO THE ACCOUNTS

CONTINUED

7. Net interest receivable and other finance charges

	2012 £000s	2011 £000s
Interest receivable		
Bank	540	968
Other	2,142	4,892
Interest receivable	2,682	5,860
Interest payable		
Bank	-	(2,325)
Other	(10)	(3)
Interest payable and similar charges	(10)	(2,328)
Net interest receivable	2,672	3,532
Other finance (charges)/income		
Expected return on pension plan assets	6,714	7,678
Interest on pension plan liabilities	(8,844)	(9,281)
Net other finance charges	(2,130)	(1,603)

8. Taxation on profit on ordinary activities

a) Analysis of the charge in the year

	2012 £000s	2011 £000s
Current tax		
UK corporation tax on the profit for the year at 24.5% (2011: 26.5%)	3,528	8,742
Adjustments in respect of prior years	33	(29)
Total current tax (note 8b)	3,561	8,713
Deferred tax		
Deferred tax movement on pension deficit	701	(101)
Origination and reversal of timing differences	1,389	238
Decrease in tax rate	310	325
Adjustments in respect of prior years	(186)	(61)
Total deferred tax	2,214	401
Joint venture tax (note 11)	1,249	680
Associate tax (note 11)	-	-
Total tax on profit on ordinary activities	7,024	9,794

NOTES TO THE ACCOUNTS

CONTINUED

8 Taxation on profit on ordinary activities continued

b) Factors affecting the current tax charge for the year

The current tax charge for the year is lower than the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	2012 £000s	2011 £000s
Profit on ordinary activities before taxation	25,735	40,144
Less share of profit before tax of joint ventures and associate taxed as separate entities	(4,759)	(1,323)
Group profit on ordinary activities before tax	20,976	38,821
Group profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	5,139	10,288
Effects of:		
Permanent disallowable costs	1,275	854
Utilisation of tax losses	(134)	(55)
Additional deduction for research and development	(268)	(360)
Depreciation in excess of capital allowances	92	22
Franked investment income	(12)	(14)
Untaxed capital gains	(319)	(1,900)
Short-term timing differences and other provisions	(1,499)	(200)
Tax timing difference in relation to pension liability	(746)	107
Adjustments in respect of prior years	33	(29)
Current tax charge for the year	3,561	8,713

c) Factors that may affect future tax charges

The Group is not aware of any significant factor that may affect future tax charges other than the reductions in the main rate of corporation tax already reduced from 24% to 23% from 1 April 2013 with a proposed further reduction to 21% from 1 April 2014 which is expected to be enacted in 2013.

If the deferred tax assets of the Group were all to reverse after 2014, the effect of the proposed change from 23% to 21% would be to reduce the deferred tax assets by £1,068,000. To the extent that the deferred tax reverses more quickly than this, the impact on the deferred tax assets will be reduced.

NOTES TO THE ACCOUNTS

CONTINUED

9 Intangible assets – goodwill

Group	£000s
Cost	
At 1 January 2012 and 31 December 2012	29 652
Amortisation	
At 1 January 2012	1 810
Provided during the year	1,610
At 31 December 2012	3 420
Net book amounts	
At 31 December 2012	26,232
At 31 December 2011	27 842

Goodwill is being amortised over ten years and twenty years which is, respectively, its estimated useful economic life

10. Tangible fixed assets

Group	Land and buildings		Plant and machinery £000s	Fixtures fittings tools and equipment £000s	Assets in the course of construction £000s	Group total £000s
	Investment properties – freehold £000s	Short leasehold £000s				
Valuation or cost:						
At 1 January 2012	14 320	4,603	633	13 218	481	33 255
Additions	-	9	67	669	572	1,317
Revaluations	330	-	-	-	-	330
Transfers	-	-	-	959	(959)	-
Disposals	-	-	(56)	(27)	-	(83)
At 31 December 2012	14 650	4,612	644	14 819	94	34 819
Depreciation						
At 1 January 2012	-	2 575	399	10,576	-	13 550
Provided during the year	-	530	96	1 438	-	2 064
Disposals	-	-	(34)	(21)	-	(55)
At 31 December 2012	-	3 105	461	11,993	-	15 559
Net book amounts						
At 31 December 2012	14 650	1,507	183	2,826	94	19,260
At 31 December 2011	14 320	2,028	234	2,642	481	19 705

The investment properties of the Group were valued as at 31 December 2012 by Richard M Trimming BSc FRICS a director of a subsidiary of the Group on an open market value basis at £14 650 000. The cost of investment properties at 31 December 2012 was £13 189 000. Other tangible fixed assets are stated at cost less depreciation.

NOTES TO THE ACCOUNTS

CONTINUED

11. Joint ventures and other investments

Group	Interests in joint ventures £000s	Interest in associate £000s	Unquoted investments £000s	Equity loans £000s	Total other investments £000s
At 1 January 2012	51 221	-	1 874	757	2 631
Additions	15 011	98	-	-	98
Repayments	(24 538)	-	-	(22)	(22)
Provision released	-	-	-	6	6
Transferred to debtors falling due within one year	(1 184)	-	-	-	-
Share of profit/(loss)	6,068	(34)	-	-	(34)
Disposals	-	-	-	-	-
At 31 December 2012	46,578	64	1,874	741	2,679

Principal joint ventures

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

	Interest	Activity
Luton Learning and Community Partnership Limited	80.0%	PFI
Regenter Excellent Homes for Life Holding Company Limited	20.0%	PFI
Annington Waters (Cove) Limited	50.0%	Residential development
Barratt Waters (East Grinstead) Limited	50.0%	Residential development
Barratt Waters (Horley) Limited	21.5%	Residential development
Barratt Waters (Worthing) Limited	50.0%	Residential development
DWH/Waters (Thame) Limited	50.0%	Residential development
Linden Waters (Cranleigh) Limited	50.0%	Residential development
Linden Waters Developments (Chichester) Limited	50.0%	Residential development
Linden Waters Developments (Folders Meadow) Limited	50.0%	Residential development
Linden Waters (Dorking) Limited	50.0%	Residential development
Linden Waters (Fulham) Limited	50.0%	Residential development
Linden Waters (Ridgewood) Limited	50.0%	Residential development
Linden Waters (West Hampstead) Limited	50.0%	Residential development

The Group holds the following interests in unincorporated joint ventures

	Interest	Activity
Al Ain Schools Joint Venture	24.5%	Construction
Al Bateen Secondary School Joint Venture	24.5%	Construction
British School Joint Venture	24.5%	Construction
Address of the above three joint ventures Suite 702, 7th Floor Al Fara a Corporate Head Office Behind Municipality Court Off Delma Street Defence Area, Abu Dhabi United Arab Emirates		
Linden Waters St Albans Joint Venture	50.0%	Residential development
Address Linden House Linden Square Harefield Middlesex UB9 6TQ		

NOTES TO THE ACCOUNTS

CONTINUED

11. Joint ventures and other investments continued

The Group's joint venture interests are analysed segmentally as follows

Group	Construction 2012 £000s	Residential development 2012 £000s	Total 2012 £000s	Construction 2011 £000s	Residential development 2011 £000s	Total 2011 £000s
Turnover	46,493	49,069	95,562	61,120	21,992	83,112
Operating profit/(loss)	132	8,948	9,080	(393)	4,092	3,699
Profit/(loss) before taxation	33	7,284	7,317	(480)	2,599	2,119
Taxation	(7)	(1,242)	(1,249)	(16)	(664)	(680)
Profit/(loss) after taxation	26	6,042	6,068	(496)	1,935	1,439
Share of gross assets						
Fixed assets	-	-	-	7	-	7
Current assets	21,569	58,361	79,930	31,309	52,977	84,286
Share of gross assets	21,569	58,361	79,930	31,316	52,977	84,293
Share of gross liabilities						
Liabilities due within one year	(11,475)	(15,717)	(27,192)	(6,057)	(7,885)	(13,942)
Liabilities due after one year	(10,086)	(33,994)	(44,080)	(25,241)	(40,662)	(65,903)
Share of gross liabilities	(21,561)	(49,711)	(71,272)	(31,298)	(48,547)	(79,845)
Loans provided to joint ventures	1,622	36,298	37,920	3,886	42,887	46,773
Total investment in joint ventures	1,630	44,948	46,578	3,904	47,317	51,221

Turnover from Group trading with joint ventures, which is disclosed in note 27, includes £34,807,000 (2011: £38,324,000) which was eliminated on consolidation being the proportion of turnover relating to the proportion of those joint ventures owned by the Group.

Associate

The Group holds a 49% interest in the ordinary share capital of Countrywise Repairs Limited, which is included within the Construction segment. The Group's share of the turnover and loss of the associate company is as follows:

Group	2012 £000s	2011 £000s
Turnover	1,015	-
Operating loss	(34)	-
Loss before taxation	(34)	-
Taxation	-	-
Loss after taxation	(34)	-

NOTES TO THE ACCOUNTS

CONTINUED

11. Joint ventures and other investments continued

Unquoted investments

These principally comprise the Group's interest in the following company

	Interest	Activity
Gambado Limited	100% non-voting Preference shares and 1.4% Ordinary shares	Children's entertainment centres

The cost of shares in unquoted investments is £1,874,000 (2011: £1,874,000)

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 £1,137,000 (2011: £1,158,000), are repayable when the underlying property is sold together with a share in the capital appreciation included in this total are loans with a cost of £199,000 (2011: £199,000) which are repayable if the properties are not sold by 2021. The loans are mainly secured by a charge over the property. Loans with a cost of £391,000 (2011: £391,000) are interest free and loans with a cost of £745,000 (2011: £767,000) are interest free until 2016 when a fee of 1.75 percent is receivable, rising annually by the Retail Price Index plus one percent.

Company	Shares in Group undertakings £000s	Unquoted investments £000s	Total £000s
At 1 January 2012	56,203	1,874	58,077
Reductions	(1,900)	-	(1,900)
Provisions released	2,235	-	2,235
At 31 December 2012	56,538	1,874	58,412

The cost of shares in Group undertakings is £75,262,000 (2011: £77,162,000)

The cost of shares in unquoted investments is £1,874,000 (2011: £1,874,000)

For the year ending 31 December 2012 the following subsidiary companies were entitled to exemption from audit of individual company accounts under Section 479A of the Companies Act 2006

Wates Limited (company number 03599183)

Wates Group Services Limited (company number 0340931)

Wates Lancewood Estates Limited (company number 0965116)

QED Education Environments Limited (company number 0629832)

The Group's principal subsidiary undertakings are set out on page 86

NOTES TO THE ACCOUNTS

CONTINUED

12. Stocks

Group	2012 £000s	2011 £000s
Raw materials and consumables	283	152
Residential land and work in progress under development	9,443	14,883
	9,726	15,035

13 Debtors

	2012 £000s	Group 2011 £000s	2012 £000s	Company 2011 £000s
Amounts falling due within one year				
Trade debtors	79,193	61,061	41	17
Amounts recoverable on contracts	96,360	96,553	-	-
Amounts owed by subsidiary undertakings	-	-	23,248	18,894
Amounts owed by joint ventures	1,323	1,214	-	-
Deferred taxation (note 17)	1,845	2,436	-	-
Other debtors	1,308	2,923	33	1,017
Prepayments and accrued income	2,936	3,010	95	180
	182,965	167,197	23,417	20,108
Amounts falling due after more than one year				
Amounts recoverable on contracts	13,362	9,325	-	-
Deferred taxation (note 17)	521	1,443	-	-
Other debtors	1,291	242	1,150	100
	15,174	11,010	1,150	100
	198,139	178,207	24,567	20,208

14 Creditors amounts falling due within one year

	2012 £000s	Group 2011 £000s	2012 £000s	Company 2011 £000s
Advance payments on account of contracts	56,013	74,988	-	-
Trade creditors	55,062	52,934	-	-
Amounts owed to subsidiary undertakings	-	-	32,742	41,138
Amounts owed to joint ventures	1,998	-	-	-
Corporation tax payable	1,926	4,601	-	-
Other taxes and social security	15,203	14,453	-	-
Other creditors	4,005	4,207	-	-
Accruals and deferred income	167,275	161,551	-	-
	301,482	312,734	32,742	41,138

NOTES TO THE ACCOUNTS

CONTINUED

15 Creditors' amounts falling due after more than one year

	2012 £000s	Group 2011 £000s	2012 £000s	Company 2011 £000s
Accruals and deferred income	13,497	14,241	-	-

16 Provisions for liabilities

Group	2012 £000s
At 1 January	4,648
Utilised during the year	(539)
Profit and loss account – charged during the year	1,361
At 31 December	5,470

All provisions are construction related and are the group's estimates of the amounts which are expected to be paid when finalised generally after one year after the balance sheet date

17. Deferred taxation

Group	2012 £000s
At 1 January	3,879
Charged to profit and loss account	(1,513)
At 31 December	2,366

Deferred taxation is provided as follows

	2012 £000s	2011 £000s
Accumulated depreciation in excess of capital allowances	459	471
Short-term timing differences	1,842	3,337
Tax losses available	65	71
	2,366	3,879

	2012 £000s	2011 £000s
Deferred taxation asset under one year	1,845	2,436
Deferred taxation asset over one year	521	1,443
	2,366	3,879

NOTES TO THE ACCOUNTS

CONTINUED

18 Called up share capital

	Number	2012 £000s	Number	2011 £000s
Issued and fully paid				
A ordinary shares of £1 each	323,854	324	323,854	324
B ordinary shares of £1 each	323,854	324	323,854	324
C ordinary shares of £1 each	323,854	324	323,854	324
A second ordinary shares of £0.0277 each	60	-	60	-
B second ordinary shares of £0.0277 each	60	-	60	-
C second ordinary shares of £0.0277 each	60	-	60	-
Non-voting second preference shares of £1 each	5,000,000	5,000	-	-
Non-voting A preference shares of £1 each	2,914,677	2,914	2,914,677	2,914
Non-voting B preference shares of £1 each	2,914,677	2,914	2,914,677	2,914
Non-voting C preference shares of £1 each	2,914,677	2,914	2,914,677	2,914
Index linked non-voting A shares of £1 each	20,750	21	20,750	21
Index linked non-voting B shares of £1 each	20,750	21	20,750	21
Index linked non-voting C shares of £1 each	20,750	21	20,750	21
	14,778,023	14,777	9,778,023	9,777

The second preference shares noted above were allotted by the Company during the year for £5,000,000 in cash.

19. Share premium account and reserves

Group	Share premium account £000s	Capital redemption reserve £000s	Revaluation reserve £000s	Profit and loss account £000s
At 1 January 2012	956	17,447	1,220	34,898
Revaluation surplus	-	-	550	-
Currency translation difference on foreign currency net investment	-	-	-	255
Profit for the financial year	-	-	-	18,711
Dividends paid	-	-	-	(13,865)
Actuarial loss recognised in the pension scheme	-	-	-	(5,073)
Deferred tax credit arising on loss in the pension scheme	-	-	-	345
At 31 December 2012	956	17,447	1,770	35,271

Company	Share premium account £000s	Capital redemption reserve £000s	Profit and loss account £000s
At 1 January 2012	956	17,447	9,281
Profit for the financial year	-	-	22,362
Dividends paid	-	-	(13,865)
At 31 December 2012	956	17,447	17,778

NOTES TO THE ACCOUNTS

CONTINUED

20 Reconciliation of Group operating profit to operating cash flows

	2012 £000s	2011 £000s
Group operating profit including joint ventures and associate	25,874	32,666
Depreciation and amortisation	3,687	2,976
Provisions movement	816	(680)
Joint ventures and associate	(9,046)	(3,699)
Decrease in stocks	5,309	2,715
(Increase)/decrease in debtors	(20,211)	5,653
Decrease in creditors	(14,198)	(2,494)
Net cash (outflow)/inflow from operating activities	(7,769)	37,137

21 Analysis of changes in net funds

	At 1 January 2012 £000s	Cash flow £000s	At 31 December 2012 £000s
Cash at bank and in hand	132,095	(10,841)	121,254
Less deposits due after one day	(19,094)	11,080	(8,014)
		239	
Liquid resources deposits due after one day	19,094	(11,080)	8,014
Net funds	132,095	(10,841)	121,254

22 Reconciliation of net cash flow to movement in net funds

	2012 £000s	2011 £000s
Increase in cash in the year	239	58,627
Cash inflow from decrease in liquid resources	(11,080)	(95,745)
Cash outflow from decrease in bank loans	-	982
Change in net funds resulting from cash flows	(10,841)	(36,136)
Bank loans disposed of with subsidiary	-	42,559
Amortisation of issue costs of debt	-	(22)
Movement in net funds in year	(10,841)	6,401
Net funds at 1 January	132,095	125,694
Net funds at 31 December	121,254	132,095

NOTES TO THE ACCOUNTS

CONTINUED

23 Operating lease commitments

	Land and buildings 2012 £000s	Other 2012 £000s	Land and Buildings 2011 £000s	Other 2011 £000s
Annual Group commitments to operating lease payments within one year in respect of leases expiring				
Within one year	233	197	14	125
Between two and five years	2,095	411	2,266	313
After five years	10	-	144	-
	2,338	608	2,424	438

24. Pension schemes

The Group operates a funded defined benefit pension scheme the Wates Pension Fund (the Scheme*), for all qualifying employees working in the UK and personal pension schemes providing benefits on a defined contribution basis. The funds of the Scheme are administered by trustees and are separate from the funds of the Group. The Scheme is closed to new entrants.

The latest full actuarial valuation of the Scheme was carried out at 1 January 2011 and was updated to 31 December 2012 by a qualified independent actuary.

The current practice of increasing pensions in line with inflation is included in the measurement of the defined benefit obligation. The pension cost charged to the profit and loss account makes no allowance for actuarial gains and losses during the year. Actuarial gains and losses are recognised in the Consolidated Statement of Total Recognised Gains and Losses in the year they occur.

	2012 £000s	2011 £000s
Changes in present value of the defined benefit obligation		
Defined benefit obligation at 1 January	190,069	169,886
Current service cost	3,295	3,236
Interest cost	8,844	9,281
Scheme participants' contributions	56	58
Actuarial losses	10,959	13,941
Benefits paid	(7,144)	(6,333)
Expenses paid	(840)	-
Taxes paid	(112)	-
Defined benefit obligation at 31 December	205,127	190,069
Changes in fair value of Scheme assets		
Fair value of Scheme assets at 1 January	148,982	138,035
Expected return on Scheme assets	6,714	7,678
Actuarial gains	5,886	5,107
Employer contribution	8,471	4,437
Scheme participants' contributions	56	58
Benefits paid	(7,144)	(6,333)
Expenses paid	(840)	-
Taxes paid	(112)	-
Fair value of Scheme assets at 31 December	162,013	148,982
Funded status	(43,114)	(41,087)
Related deferred tax asset	9,916	10,272
Net pension liability in balance sheet	(33,198)	(30,815)

NOTES TO THE ACCOUNTS

CONTINUED

24. Pension schemes continued

Components of pension cost	2012 £000s	2011 £000s
Recognised in the profit and loss account		
Current service cost	3,295	3,236
Interest cost	8,844	9,281
Expected return on Scheme assets	(6,714)	(7,678)
Total	5,425	4,839

Recognised in the statement of total recognised gains and losses

Actuarial losses immediately recognised	5,073	8,834
---	-------	-------

Cumulative amount of actuarial losses immediately recognised

53,204	48,131
--------	--------

Scheme assets	2012 %	2011 %
Major categories of Scheme assets as a percentage of total Scheme assets.		
Equity securities	26.2%	13.9%
Debt securities	65.5%	70.7%
Property	3.4%	7.0%
Other	4.9%	8.4%
	100.0%	100.0%

To develop the expected long term rate of return on assets assumption, the Group considers the current level of expected returns on risk-free investments (primarily government bonds) the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This results in the selection of the 4.5 per cent assumption shown below (year ended 31 December 2012).

NOTES TO THE ACCOUNTS

CONTINUED

24 Pension schemes continued

	2012 £000s	2011 £000s
Actual return on Scheme assets	12,600	12,785

Principal actuarial assumptions at the balance sheet date
(expressed as weighted averages)

	2012	2011
Discount rate	4.45%	4.70%
Rate of compensation increase	3.95%	4.10%
Rate of price inflation	2.95%	3.10%
Rate of pension increase (2.5% limited price indexation)	2.50%	2.50%
Expected long term return on Scheme assets	4.50%	5.60%

Weighted average life expectancy for mortality tables used
to determine benefit obligations at year end

	2012 £000s	2011 £000s
Male member age 65 (current life expectancy)	23.2	22.7
Female member age 65 (current life expectancy)	24.8	24.1
Male member age 45 (life expectancy at age 65)	25.0	24.1
Female member age 45 (life expectancy at age 65)	26.8	25.6

Five year history	2012 £000s	2011 £000s	2010 £000s	2009 £000s	2008 £000s
Defined benefit obligation	205,127	190,069	169,886	147,641	133,289
Scheme assets	162,013	148,982	138,035	126,698	118,513
Deficit	(43,114)	(41,087)	(31,851)	(20,943)	(14,776)
Experience gains and (losses) on Scheme liabilities	-	(9,465)	-	-	(7,382)
Difference between expected and actual return on Scheme assets	5,886	5,107	5,839	3,097	(17,582)

Contributions

The Group expects to contribute approximately £6,721,000 including expenses to the Scheme in 2013.

Creditors at 31 December 2012 include £nil (2011: £492,000) of pension contributions payable in respect of defined contribution schemes.

25 Capital commitments

At 31 December 2012 the Group had no contracted capital expenditure (2011: £nil).

Business and Financial Overview
Chairman and Chief Executive's Review
Case studies
Business and Financial Review
Governance
▶ Accounts
Other information

NOTES TO THE ACCOUNTS

CONTINUED

26 Contingencies

There are claims arising in the normal course of trading which are in the process of negotiation and which in some cases are likely to be protracted over several years. Provision has been made for all amounts which the directors consider will become payable on account of claims. There are contingent liabilities in respect of guarantees under buildings and other agreements entered into in the normal course of business. The Company has guaranteed the overdrafts of subsidiary undertakings.

27 Related parties

Turnover in respect of the value of contracting work done for and land sold to joint ventures in the year ended 31 December 2012 was £65,037,000 (2011: £54,801,000).

Amounts were due to the Group from joint ventures at 31 December 2012 of £39,243,000 (2011: £47,987,000). Additionally at 31 December 2012 the Group owed joint ventures £1,998,000 (2011: £nil).

At 31 December 2012, £1,000,000 (2011: £900,000) was due from Myriad CEG Group Limited (Myriad) and is included in other debtors of the Company and the Group. Myriad is related to the Company and the Group through common control. Myriad Group undertook contract work for the Group for £701,000 (2011: £1,482,000) during the year.

PRINCIPAL SUBSIDIARY UNDERTAKINGS

AT 31 DECEMBER 2012

All principal subsidiary undertakings are incorporated in England and Wales except where otherwise stated

The Wates Group Limited interest is 100% (except where otherwise stated) in the issued share capital of these undertakings included in the consolidated accounts

Construction companies

Wates Construction Limited*

Wates Construction International LLC (incorporated in Abu Dhabi; ownership interest 49%)

Wates Interiors Limited

Wates Maintenance Services Limited

Wates Regeneration (Coventry) Limited

Linbrook Services Limited

QED Education Environments Limited*

Residential development companies

Wates Developments Limited*

Wates Group Properties Limited

Provision of workplace and support services company

Needspace? Limited*

Group services company

Wates Group Services Limited*

*Owned directly by Wates Group Limited

Subsidiary undertakings not noted above will be included in a list filed at Companies House with the annual return

GROUP FIVE YEAR SUMMARY

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Profit and loss account					
Group turnover (plus share of joint ventures and associate's turnover)	1,019	945	985	1,117	1,194
Group turnover	1,009	904	895	1,034	1,097
Operating profit	37.1	38.0	41.1	32.7	25.9
Profit on ordinary activities before taxation	47.1	38.9	43.5	40.1	25.7
Balance sheet					
Net assets	62.1	59.5	60.7	64.3	70.2

ADVISORS

Auditors

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

Bankers

HSBC Bank plc
60 Queen Victoria Street
London
EC4N 4TR

Registered Office and Business Head Office

Wates House
Station Approach
Leatherhead
Surrey
KT22 7SW

T 01372 861000
W www.wates.co.uk

ADDRESSES

Registered Office and Business Head Office

Wates House
Station Approach
Leatherhead
Surrey
KT22 7SW
T 01372 861000
W www.wates.co.uk

Principal Offices

4th Floor
Network House
Basing View
Basingstoke
Hampshire
RG21 4HG
T 01256 301750

Wates House
11 Ridgeway
Quinton Business Park
Quinton
Birmingham
B32 1AF
T 0121 423 2323

Ground Floor
South Wing
Equinox North
Great Park Road
Almondsbury
Bristol
BS32 4QL
T 01454 615561

Suite 7225 Building 7200
Cambridge Research Park
Beach Drive
Waterbeach
Cambridge
CB25 9TL
T 01223 815666

Pavilion 5
Garden Court
Lockington Hall
Derby
DE74 2RH
T 01509 678935

Linbrook Services Ltd
Franklin House
Crown Road
Enfield
EN1 1FE
T 020 8804 7777

Westcourt
Gelder Road
Wortley
Leeds
LS12 6DB
T 0113 231 1880

The Peak
2nd floor
5 Wilton Road
London
SW1V 1AN
T 020 7630 4410

Mulberry House
Parkland Square
750 Capability Green
Luton
LU1 3LU
T 01582 400171

The Royals
4th Floor Offices
353 Altrincham Road
Sharston
Manchester
M22 4BJ
T 0161 946 8800

1 Clearwater
Lingley Mere Business Park
Lingley Green Avenue
Great Sankey
Warrington
WA5 3UZ
T 01925 791100

3 Seaward Place
Centurion Business Park
Glasgow
G41 1HH
T 0141 429 9440

26 Crewe Road Gardens
Edinburgh
EH3 2NN
T 0131 511 5014

Llanmaes
Michaelston Road
St Fagans
Cardiff
CF5 6DU
T 02920 675200

Wates Construction
International LLC
PO Box 3486
20th Floor
HH Skh Sultan Bin Hamdan
Al Nahyan Building
Corniche Road
Abu Dhabi
United Arab Emirates
T +971 2 643 1882