Company number: 01824828

WATES GROUP LIMITED

Annual Accounts and Reports

for the year ended

31 December 2018

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Wates Group Limited Annual Accounts and Reports 2018

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DIRECTORS AND ADVISORS

Directors	James G. M. Wates, CBE (Chairman) David O. Allen (Chief Executive) David M. Barclay Paul Chandler (Appointed 18 June 2018) Deena E. Mattar (Resigned 4 March 2019) Jeremy H. M. Newsum (Appointed 1 October 2018) Jonathan M. Oatley Philip M. Wainwright (Appointed 3 December 2018) Andrew E. P. Wates Charles W. R. Wates Jonathan G. M. Wates Timothy A. D. Wates
Company Secretary	David O. Allen (Resigned 3 December 2018) * Philip M. Wainwright (Appointed 3 December 2018)
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH
Bankers	HSBC Bank plc 60 Queen Victoria Street London EC4N 4TR
Registered Office and Business Head Office	Wates House Station Approach Leatherhead Surrey United Kingdom KT22 7SW
Telephone	01372 861000
Website	www.wates.co.uk

* David Allen remained a Director

Strategic Report

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

Chairman's Welcome

I'm pleased to present our annual report for 2018. In a turbulent year for the sector and for the UK economy as a whole, owing in large part to uncertainties surrounding plans for the UK leaving the European Union, we displayed strong performance in all of our business areas, having adhered to our clear strategic focus on construction, property services and residential developments.

Our success is also attributable to our being guided by a clear and strong ethos. The Wates Group is now in its fourth generation of family ownership and the shareholders are committed to a long-term perspective, with the goal of handing over to the next generation an even stronger, more sustainable business.

We, the shareholders, are guided by our belief that good business, well done, is a force for good in society. Through the company's core activities, we endeavour to leave the world a better place and we aim to generate social value for the communities in which we work.

I'm pleased that this ethos is shared by so many of our stakeholders, including clients. This is reflected in our success in 2018 with some very large client wins, including the project to renovate the Parliament's Northern Estate, part of the Wembley Park development for Quintain and the Estates Regeneration Programme for the London Borough of Havering. Social value is central to what we do and how we work and this is clearly aligned with our clients and delivery partners.

Notably, we continued to make improvements in our health and safety performance, having reduced the Lost Time Injury Rate by 29% and the Accident Frequency Rate by 25%. We have the systems and levels of awareness in place to enable us to continue to improve these numbers, as we work towards our goal of zero harm.

On behalf of the shareholders, I would like to thank all our employees for their hard work and commitment to our shared interest in generating social value for the long-term. Our people's personal efforts, insights and commitment are what make this company great. Together, we have all built something special in this company and we all have reason to be proud.

Thank you also to the Group's Board of Directors. In 2018 we welcomed three new Board Members – Paul Chandler, our Group MD for Construction, Philip Wainwright who joined as Chief Financial Officer and Jeremy Newsum who joined as a Non-Executive Director. Deena Mattar left the Board in March 2019 after having served as Non-Executive Director since 2013. I would like to extend my sincere appreciation to her for her work, in particular as Chair of the Audit Committee.

David Allen was named as permanent Chief Executive in April, having been appointed as Acting Chief Executive in November 2017 and I thank him for the excellent leadership he has demonstrated. The Executive Committee has responded positively to the change of Chief Executive and the smooth transition has reinforced that we have a strong team at senior levels, capable of guiding the company successfully in a complex and challenging business environment. The management team's performance in 2018 bodes well for our continued success.

During 2018, I was pleased to be asked by Secretary of State the Rt Hon Greg Clark MP to chair a group of organisations developing corporate governance principles for large private companies. This effort spanned the entire calendar year, culminating in the launch of the Wates Principles in December. I'm especially pleased that the Wates Group has become an early adopter of these principles. The relevant information is set out on pages 11 to 15 of this report.

Chief Executive's Review

Approach

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

Safety and wellbeing

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

Financial performance

Financially, 2018 was another very positive year for the Wates Group. In contrast to the challenging market conditions that affected many of our competitors, Wates grew pre-tax profits and achieved a level of turnover that was consistent with 2017. Nearly 80% of Wates' turnover is derived from frameworks and repeat customers. The Group entered 2019 with 3,863 (2017: 3,972) people and a record forward order book of £5.4bn (2017: £5.1bn).

Turnover, including the Group's share of joint ventures' and associates' turnover, decreased slightly to £1.601bn. Profit before tax and before taxation of joint ventures and associates, was up 0.6% to £35.9m. The Group's net assets increased by 13.7% to £135.8m. During 2018, we made significant investments in our Residential Developments businesses and increased contributions to our defined benefit pension scheme. We ended the year with cash of £114.2m.

Despite challenging market conditions, on 11 March 2019 the Group's Revolving Credit Facility, which has never been drawn, was extended to £120m from £60m. The expiry date was extended from 2022 to 2023 and the Group was delighted to secure the support of an additional bank. The increased facility size and its extended duration provide the Group with additional liquidity and even greater financial resilience.

Housing

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

Caring for communities

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

Strategic Report continued

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

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

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

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

Principal risks and uncertainties

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

Principal risks and uncertainties continued

Risk	Mitigation
E. Project Delivery Execution of projects involves professional judgement in estimating, planning, design and construction, often in complex environments. The Group's projects could encounter difficulties that could lead to cost and time overruns, lower revenues, litigation or disputes.	The Group's activities are guided by an Operating Framework that mandates rigorous policies and procedures throughout the project lifecycle. These, combined with comprehensive management oversight, the risk management process, project reviews, independent internal and external audits, peer reviews and customer feedback help mitigate the risk to successful project delivery. There is close scrutiny of the financial judgements made on projects and the Group takes a highly prudent view on the recognition of revenue and profit.
F. Liquidity (Financial Risk) Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due and could affect our ability to invest, win work or pay dividends	The Group manages liquidity such that it always has sufficient liquidity to meet its liabilities when due. The Group continually monitors and stress tests its liquidity position. Funding arrangements are reviewed regularly and approved by the Group Board (see details of group financing arrangements on page 8).
G. Appointing and retaining talent The success of the Group is dependent on being able to attract and retain people that have the necessary experience and expertise. Competition for high quality people is intense.	The Group knows that its people are at the heart of its on-going success. It seeks to offer market-competitive remuneration (which is reviewed regularly), training and career development opportunities, and to be an attractive and engaging employer. The Group is an Investors in People Gold accredited employer.
H. Pension Fund Liabilities (Financial Risk) The Group carries a funding obligation for our defined benefit pension scheme. The Pension Fund liabilities could increase significantly which could lead to increased pension deficit payments, resulting in less money to invest in the Group.	The performance, risks and funding arrangements of the pension scheme are regularly assessed by the Group Board and the independent trustees and advisors of the pension scheme. Investment strategies aim to limit the impact of increases in the liabilities and are well diversified, ensuring a reasonable balance on risk and return. The Group has committed to deficit funding payments to reduce the deficit.
I. Systems, Data, Cyber Security & GDPR A loss of our key systems through a lack of resilience or an information security breach or attack, could impact the successful delivery of our projects and lead to a loss of confidential data, damaging our reputation and brand.	Robust controls and procedures are in place to monitor the performance of our systems and to identify and mitigate external threats. The Group is continually developing and upgrading its IT infrastructure, software and cyber threat and assessment capabilities. We continue to develop and enhance our data protection procedures in line with regulations. The controls and procedures are subject to regular independent internal and external audit.

Analysis of Financial Key Performance Indicators

Group Performance

Group turnover, including the Group's share of joint ventures' and associates' turnover, decreased by 1.3% to £1.60bn (2017: £1.62bn). Total operating profit before interest and tax increased by 1.3% to £39.0m (2017: £38.5m), with a consistent trading performance; supported by another strong year for our Residential Developments business. The overall operating margin was maintained at 2.4%; pre-tax profits at £35.9m (2017: £35.7m) were up 0.6% on the previous year.

The Group maintained a strong cash position throughout the year. The Group finished the year with cash at bank of £114.2m (2017: £169.5m). The Group has in place a revolving credit facility of £120m, which expires in 2023.

The forward-order book increased by 5.9% and finished the year at £5.4bn (2017: £5.1bn).

Construction

Construction turnover, including its share of joint ventures, was £848.9m (2017: £934.8m), 9.2% down on 2017.

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

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

Residential Developments

Turnover for Residential Developments (including share of joint ventures) increased by 10.7% to £233.3m (2017: £206.1m). Residential Developments operates in the public and private sectors. The business controls 4,016 acres (12,687 plots) of privately owned land (2017: 3,587 acres, 11,945 plots) on which it seeks to create value by achieving planning permission for residential development. It also works on behalf of its public sector partners to deliver planning for development on publicly held brownfield sites, including in 2018, strategically important sites in Havering, Cardiff and Lee-On-The-Solent. In 2018, planning permission was achieved for 709 residential units (2017: 1,025) with decisions pending in relation to applications for a further 1,870 units (2017: 1,396).

In addition to seven land transactions (2017: three), house building through joint ventures and public sector collaborations delivered 828 completions (2017: 540) from 27 active sites (2017: 15). Across these sites, there are 3,416 properties (2017: 2,572) still to be completed. The business also operates as a contractor for public sector clients and has worked on residential projects in the year containing 964 residential units (2017: 423).

Property Services

Property Services turnover, including its share of associates' turnover, was £514.1m (2017: £477.3m), 7.7% up on 2017.

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

Needspace?

Needspace? provided flexible serviced office space to small and medium sized entities from 7 centres across London and the South East in 2018. In 2018, an independent valuation of the properties was performed resulting in an increase in the value of the portfolio to £52.0m (2017: £48.5m). At the end of 2018, 104,522 square foot (2017: 101,316) of floor space was occupied, being 84% (2017: 90%) of available space.

Strategic Report continued

Cash flow and financing

The Group's cash position was resilient throughout the year. At 31 December 2018, the gross cash balance was £114.2m (2017: £169.5m) and cash (net of debt) was £88.1m (2017: £148.8m). Inflows from bank borrowings (£5.8m) and dividends received from joint ventures and associates (£3.5m) were offset by outflows from investments in joint ventures (£25.3m), purchase of fixed assets (£18.2m), dividends paid (£11.6m) and Group operating activities (£9.8m). The outflow from Group operating activities includes contributions to the pension fund of £12.7m.

Pensions

The defined benefit scheme deficit is calculated in accordance with FRS102. At 31 December 2018 the pension deficit (net of deferred tax) had fallen to £25.4m (2017: £34.4m) principally as a result of an increased level of contributions from the Group. The market value of the scheme's assets was £251.7m (2017: £256.6m) and the net present value of the liabilities was £282.3m (2017: £298.1m). There was an actuarial gain in the year of £0.5m (2017: £34.5m). Pension charges of £2.3m (2017: £2.1m) were made to the profit and loss account in accordance with FRS102. On 26 October 2018, the High Court ruled on the Lloyds Bank GMP Inequalities case. In response to this, an allowance of £1.3m has been included at the 31 December 2018 year end to make provision for the estimated costs arising from the judgment.

Shareholders' funds

Shareholders' funds increased by 13.7% to £135.8m:

	£m
Shareholders' funds at 31 December 2017	119.4
Profit for the financial year	27.5
Pension movements	0.4
Dividends	(11.6)
Share of other comprehensive income of joint venture	0.6
Currency translation difference	(0.5)
Shareholders' funds at 31 December 2018	135.8

Tax

The Group's tax liabilities arise and are met fully within the UK. The tax charge for the year was £8.4m (2017: £8.1m), which gave an effective rate of 23.5% (2017: 22.8%). This compares to the UK mainstream corporation tax rate of 19%. The tax charge exceeds the UK mainstream corporation tax rate due to disallowable costs such as the amortisation of goodwill.

Dividend

Dividends of £11.6m were declared in 2018 and payments of £7.9m and £3.7m were paid on 6 April 2018 and 7 November 2018 respectively.

Wates Giving

The Group continued to contribute to Wates Giving, the charitable programme of the Wates Family Enterprise Trust. In 2018 this support amounted to £1.50m (2017: £1.25m). The programme's focus remains investment in local projects that provide sustainable benefits to communities.

Strategic Report continued

Section 172 Companies Act 2006

The Wates Corporate Governance Principles for Large Private Companies provides a framework for the Group to not only demonstrate how the Board makes decisions for the long term success of the company and its stakeholders (see Principle 6 – Stakeholders, on page 14), but also having regard to how the Board ensures the Group complies with the requirements of Section 172 of the Companies Act 2016. Our reporting against the Wates Principles has been included on pages 11 to 15.

Throughout 2019, the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

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

James G. M. Wates	**D. O. Allen**
Chairman	Chief Executive Officer

Corporate Governance Report

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

These new corporate governance reporting requirements will apply to company reporting for financial years starting on or after 1 January 2019 and Companies are able to adopt the Wates principles as an appropriate framework when making a disclosure regarding corporate governance arrangements. We have decided to adopt the disclosure early in our 2018 Report and Accounts and set out below how the Principles would have applied over the past year; for the next financial year we will be applying the Principles throughout our work.

Principle 1 – Purpose and leadership

The Wates Group was founded in 1897 and is in its fourth generation of family ownership. It operates in three areas of the built environment (construction, property development and property services) and seeks to generate social value routinely in all it does.

We have a guiding framework, "Creating Tomorrow Together" which defines our purpose, goals and behaviours:

- Our purpose is that "together we inspire better ways of creating the places, communities and businesses of tomorrow";
- Our goals are to be "sustainable", "trusted" and "progressive";
- Our behaviours are that "we care; we are fair; and we look for a better way".

The Group's purpose, goals and target behaviours were formalised during 2018, under the Board's direction, to guide the organisation's strategy, decisions, processes and culture. The purpose will be communicated to the workforce through the annual leadership conference and roadshows taking place during 2019. It builds on the Group's existing commitment to good governance and social responsibility. The Group promotes, amongst many other things: a health, safety and wellbeing programme called Zero Harm; incorporating Social Enterprises into our supply chain; performance against Considerate Contractor Scheme metrics; and a charity partnership with The Conservation Volunteers.

The family shareholders see themselves as actively engaged stewards of a socially responsible family enterprise. Five family shareholders are members of the board and maintain a visible presence in the company, promoting a long-term ethos, inclusion, diversity, community engagement, social responsibility, and environmental sustainability.

Principle 2 – Board Composition

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

The Group has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chairman plays a pivotal role in creating the conditions for overall Board and individual director effectiveness.

The Board comprises a Chairman, Chief Executive, Chief Financial Officer, Group MD Construction Group, four Independent Non-Executives and four family members. This size and composition is appropriate to our large yet focused business.

We acknowledge that there is a relative lack of diversity on the Board and recognise that this is a challenge across the construction sector as a whole. We are committed to making the company an ever-more inclusive environment, thereby fostering a more diverse workforce which should increase diversity at the most senior levels. We will be demonstrating our commitment to this area by publishing our Inclusion Strategy in 2019.

Corporate Governance Report continued

Independent Non-Executive Directors bring experience in construction, property development, engineering, finance, audit, in addition to perspectives and challenge from outside the sectors in which the Group operates.

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

The duties of the Board are executed partially through committees. The Non-Executive Directors attend and act as chair to relevant committees (as noted on pages 16 to 19) so that they are able to challenge and influence a broad range of areas across the Group.

The Executive Committee (a committee of the Board) ensures that the values, strategy and culture align, are implemented and are communicated consistently to the workforce - for example through regular leadership team conferences and the annual roadshows that are available to all employees.

Directors update their skills, knowledge and familiarity with the Group by meeting with senior management, visiting operations (such as visits to construction sites) and by attending appropriate external seminars and training courses. There is an induction programme for all new Directors which is tailored to their specific experience and knowledge and which provides access to all parts of the business, including access to shareholders.

The Board last undertook a formal effectiveness review facilitated by an independent external advisor in 2015 and has scheduled the next independent review for mid-2019. The 2015 Board Effectiveness Review assessed that the Board was competent and well run and had the potential to become even more effective by clearly aligning its agenda to strategic development, encouraging all directors to share their thoughts, observations and instincts for the benefit of all, and engaging the whole Board more routinely in the active management of investor relations.

Since the 2015 Board Effectiveness Review there has been a significant shift in strategic issues being considered on a monthly basis, with operational matters reviewed quarterly and performance monitoring spread over the course of the annual Board programme.

Between externally facilitated assessments the Board has conducted informal self-assessments to consider progress and success in the execution of the action plans agreed under formal review. The Board considers effectiveness assessments important in the identification of key areas for future improvements, focus and for strengthening its overall performance.

Principle 3 – Director Responsibilities

Accountability

Good governance supports open and fair business, ensures that the company has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience. Each Board member has a clear understanding of their accountability and responsibilities. The Board has a programme of nine principal meetings every year, plus two additional days for strategic planning with the Executive Committee. The Board's key areas of focus in 2018 are included on page 17.

The Directors, Committee members and other members of the wider leadership team complete an Annual Code of Conduct declaration confirming that they have behaved in accordance with the Group's behaviours and values. As part of this process, all individuals must declare any potential conflicts of interest. These declarations are collated by the Head of Internal Audit and communicated to the Group Risk Committee. Where there are potential conflicts, appropriate safeguards have been implemented.

Corporate Governance Report continued

Committees
The Board delegates authority for day-to-day management of the company to the Executive Committee which meets monthly and is chaired by the Chief Executive and whose membership includes the Chief Financial Officer and leaders of each Business Unit, Commercial, Human Resources, Strategy and Health & Safety functions.

The Independent Non-Executive Directors are wholly independent in that they have no material business or relationships with the company that might influence their independence or judgement. In addition, certain governance responsibilities are delegated to other Board committees (Audit, Remuneration, Nomination, Corporate Finance and Sustainability). These committees include both Independent Non-Executive Directors, together with Wates Family Directors, who support effective decision making and independent challenge.

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

Key financial information is collated from the Group's various accounting systems. The Group's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with regulatory changes. Financial information is currently externally audited by PricewaterhouseCoopers LLP on an annual basis, and financial controls are reviewed by the Group's internal audit function which is staffed by five people.

Other key information is prepared by the relevant internal function. Processes for collecting data, as well as the reporting of that data, is reviewed on a cyclical basis by the Group's internal audit function with quarterly reporting provided to the Audit Committee.

Principle 4 – Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk.

Opportunity
Long term strategic opportunities are highlighted in the annual Group Strategy process which is presented to the Group Board every year. The Board seeks out opportunities drawn from the business, the family enterprise strategy and the committees to which it delegates. Short term opportunities to improve performance, resilience and liquidity are collated through the quarterly business unit review process, which is attended by members of the Executive Committee.

Risk
The Risk Committee, consisting of Executive Committee members and business unit and functional leads, ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner. Its focus in 2018 was on monitoring the effectiveness of the Wates Group's approach to risk identification, classification and mitigation. The Committee meets on a quarterly basis and updates the risk register for any changes in underlying conditions. The Committee continues to refine and enhance the company's risk management framework and risk registers and works to ensure consistency across operations. The company's key operational risks and mitigations are outlined in the Strategic Report (on pages 6 to 7). A list of emerging risks is maintained by the Risk Committee and considered at each meeting – an emerging risk is included on the risk register once its likelihood and impact of occurrence becomes material to the Group.

The company's Strategic Report includes key risks that are monitored by the Risk Committee. The risk register is presented to the Group Board on a monthly basis – specific points raised by the Board are discussed in the subsequent Risk Committee.

The company's systems and controls are designed to manage, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising.

Corporate Governance Report continued

Responsibilities

The Group has developed an Operating Framework which encapsulates the Group's operating rules, processes, best practice standards and delegated authorities. It is the fundamental platform to our internal control framework which includes (but goes beyond) its certifications for ISO 9001, ISO 14001 and ISO 18001 which are available on our website (www.wates.co.uk/who-we-are/corporate-governance/).

Specifically, the Group Board approves any contract above a certain value (determined by the Board) or any transaction that requires an unbudgeted allocation of capital, to ensure that the appropriate level of diligence has been performed in understanding the obligations, risks and terms of the contract. This enables the Group to protect the integrity and long-term sustainability of all its businesses, to meet its strategic objectives and to create value for its shareholders, customers and suppliers.

Principle 5 – Remuneration

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

The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. In doing so, the Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the company operates and from other sectors. Pay is aligned with performance and taking in to account fair pay and conditions across the company's workforce.

An independent review was performed in 2018, which highlighted that the Group's remuneration policy for executives is consistent with companies of a similar size and complexity, as well as other companies operating within the construction sector. The directors' remuneration is disclosed on page 41 (note 5).

In 2018, the Group reported its Gender Pay Reporting for the first time which highlighted some specific areas of focus for 2019 and beyond. The Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

Principle 6 – Stakeholders

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

The Board continues to seek to align the company's strategic direction with its purpose and to the shareholders' long-term aspirations for sustainability, growth, diversification and investment in the built environment. James Wates, as Chairman of the Board, is the primary communication route between the Board and shareholders. Together with Timothy Wates, as Chairman of the Family Council (a semi-annual meeting of all eight shareholders), they work to ensure harmony and unity amongst the wider shareholder group.

Corporate Governance Report continued

External impacts
The Board is committed to social responsibility, community engagement and environmental sustainability. It achieves this in part through its commitment to: a culture of zero harm (ensuring the safety, health and wellbeing of everyone who works with us); creating positive environmental and social impact; being an employer of choice where everyone is valued and respected; and seeking new ways to ensure the sustainability of the buildings we create and maintain. The company's internal KPIs include metrics on spend with Social Enterprises, which are reported to the Board on a monthly basis.

Stakeholders
The Board promotes accountability and transparency with all external stakeholders and with representatives of government and other opinion leaders, whilst maintaining an open and visible presence in the media. The Company's fundamental belief in promoting the public good is demonstrated and supported by the family including in our Chairman's active engagement across industry bodies and our stakeholder community.

On all large contracts, the Group hosts local community events including 'Meet the Buyer' to engage with local stakeholders.

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

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

An annual employee 'Roadshow' delivered in locations around the country provides a briefing on the Company's performance and allows individuals to raise questions and concerns. The Group monitors its employee's commitment to its guiding framework by asking members of senior management to submit an annual declaration confirming whether they have complied with the Group's Code of Conduct. If any employee wishes to highlight any potential breaches to the Code of Conduct, they can contact the independent whistleblowing services provider and a formal investigation follows, with anonymous reporting to the Audit Committee.

Annual employee engagement surveys are performed to highlight areas of improvement in communication of the Group's purpose. The Board considers the results of all employee engagement surveys a good barometer of the workforce's confidence in the Group's strategic direction, optimism in the future and career opportunities. Together with the Executive Committee the Board has overseen a number of initiatives over the past few years to improve employee relations by launching more interactive roadshows at both Group and divisional level, improving IT connectivity, expanding the menu of flexible benefits on offer, encouraging more flexible working practices and wellbeing initiatives and updating the Group's intranet platform and channels of communication to share information, best practice, achievements and success.

2018 has seen the introduction of both Gender Pay Reporting and Payment Practices and Performance Reporting, both of which are published externally. The additional analysis required to conduct this reporting has highlighted some areas on which the Group needs to improve. The Group welcomes these changes as it is looking to constantly improve in its engagement with all stakeholders.

The Group communicates openly with the Chair of the pension trustee, who is independent of the company. The trustees comprise individuals nominated by both the pension scheme members and the Company. These relationships are key to ensuring that the decisions made by both the Company and the scheme reflect the interest of all stakeholders.

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

Corporate Governance Report – Committee information

Group Board
Details of individual Directors' attendance of Board meetings in 2018 are shown in the following table:

Name of Director	***Maximum no. of Principal Board Meetings Director could attend***	***No. of Principal Board Meetings Director attended***	***Percentage of Principal Board Meetings attended***
Chairman			
James Wates	9	9	100%
Executives			
David Allen Appointed Acting Chief Executive 10 November 2017 and Chief Executive 6 April 2018	9	9	100%
Philip Wainwright – Chief Financial Officer Appointed 3 December 2018	1	1	100%
Paul Chandler – Group MD Construction Group Appointed 18 June 2018	5	5	100%
Non-Executives - Family			
Andrew Wates	9	9	100%
Charles Wates	9	9	100%
Jonathan Wates	9	9	100%
Timothy Wates	9	9	100%
Non-Executives - Independent			
David Barclay	9	9	100%
Deena Mattar	9	9	100%
Jonathan Oatley	9	9	100%
Jeremy Newsum Appointed 1 October 2018	2	1	50%

The Board convened one telephone conference call in 2018 to consider and approve a specific investment proposal and four extraordinary meetings to consider and discuss shareholders' long term goals and the strategic planning that would be required to develop an enterprise strategy. All Directors were either present or had provided feedback to the Chairman for consideration prior to the call or meetings.

Activities of the Board in 2018
The Board operates a forward agenda of standing items appropriate to the Group's operating and reporting cycles. Items requiring Board approval or endorsement are defined clearly. Other items are for monitoring or reviewing progress against strategic priorities, risk management or the adequacy of internal controls.

Corporate Governance Report – Committee information continued

During 2018 the Board:

- Approved the Annual Accounts and Reports 2017;
- Set the Group's 2018 budget and five year business plan;
- Considered the allocation of capital to support the rolling five year business plan;
- Received detailed reports on the Group's operating and financial performance;
- Gave consideration to the Group's safety performance;
- Received updates on progress against strategic programmes and tested the overall strategy against the delivery of shareholders' long term objectives;
- Frequently considered the evolving economic, political and market conditions relative to Brexit;
- Considered competitor behaviour, including the impact of failing contractors and the resulting impact on the industry as a whole;
- Considered and agreed in principle a set of targets for the acceptable level of resilience and liquidity;
- Reviewed the Group's forecast funding requirements, debt capacity and potential financing options that would enable achievement of the desired resilience targets;
- Reviewed cash forecasts, cash management and status reports on the Group's investments;
- Regularly reviewed key risks, together with the adequacy of mitigation controls;
- Assessed all project delivery contracts and frameworks in excess of £35m in value and investment proposals in excess of approved budgets;
- Received regular reports from the Chairs of the Audit, Remuneration and Sustainability Committees on activities and recommendations of the Committees;
- Considered the continued personal development of the Executive Committee, including senior management succession planning;
- Implemented a review of the Group's remuneration of senior management incentive arrangements to ensure alignment with shareholder returns;
- Endorsed actions to promote the construction industry as part of a broader focus on diversity and Inclusion;
- Evaluated the short and long terms trends in sustainability that would help to inform the wider business strategy and the Group's long term planning process;
- Endorsed the appointment of The Conservation Volunteers as the Group's new charitable partner;
- Considered the data and narrative relevant to the Group's Gender Pay Reporting and Payment Practices and Performance Reporting in preparation for external publication, including proposed improvement plans to enhance performance; and
- Approved the annual statements on the Group's policies on anti-slavery and human trafficking, anti-bribery and corruption and the Group's tax strategy, which can all be found on the Group's website www.wates.co.uk

Audit Committee

The Committee's primary concerns are the integrity of the Group's financial statements; the effectiveness of internal controls; the performance of the internal audit function; the performance and independence of the external auditors; and the Group's compliance with legal and regulatory requirements.

The Committee has clearly defined terms of reference, which are reviewed annually and are available from the Company Secretary. These 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.

Corporate Governance Report – Committee information continued

Deena Mattar, a Fellow of the Institute of Chartered Accountants, was appointed Chair of the Committee on 1 October 2016. In 2018, the Audit Committee comprised one other Non-Executive Director; David Barclay who is considered independent, and Tim Wates, a Director from the Wates family. The Board is satisfied that the recent and relevant financial experience of both the Committee Chair and the Committee's members during 2018 followed the principles of good governance in relation to their skills, knowledge and experience.

External Auditors
PricewaterhouseCoopers LLP were re-appointed external auditors at the Group's AGM in May 2018. The Committee assesses the effectiveness of their performance every year after completion of the annual audit plan and in July 2018 the Committee evaluated their performance in relation to the 2017 audit. The evaluation takes the form of a questionnaire to a cross-section of staff involved in the audit process, including members of the financial, commercial, IT and internal audit functions and members of the Executive Committee. The caliber of the external auditors, their governance, independence and professionalism continues to receive good feedback. Both management and external auditors are committed to a positive working relationship that enhances the effective and efficient execution of the audit process.

As a private company, the Group is not subject to external restrictions in terms of non-audit work provided by the external auditors, but for good governance has chosen to implement its own policy in relation to the level of their remuneration and the extent of their non-audit services.

At its meeting in July 2018 the Committee was satisfied that the Group's external auditors' engagement policy had been complied with and concluded that the external auditors remained objective and independent and that the audit process was robust.

PricewaterhouseCoopers LLP were appointed external auditors in May 2011. The Audit Committee identifies re-tendering of the external audit service at least every ten years as good practice.

Corporate Finance Committee
The Committee has delegated responsibility for the oversight of discrete matters relative to the Group's balance sheet. In 2018, the Committee comprised David Barclay and Deena Mattar, Independent Non-Executive Directors, Timothy Wates and Andrew Wates, Non-Executive Directors from the Wates family and David Allen and Philip Wainwright, as Executive Directors. The Committee has no formal schedule of meetings and meets as required under the chairmanship of David Barclay.

Remuneration Committee
The Committee's primary objective is to set remuneration 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 within a framework that is aligned with shareholder interests.

The Committee firmly believes that the best people on the right remuneration, with an emphasis on performance-related pay, strengthens the Group's ability to face challenges emanating from economic and market change, and to deliver long-term sustainable value for all stakeholders.

In 2018, the Remuneration Committee comprised three Non-Executive Directors and is chaired by David Barclay. Members included Deena Mattar who was an Independent Non-Executive Director and Andrew Wates, a Director from the Wates family.

Corporate Governance Report – Committee information continued

Nominations Committee
The Board operates a Nominations Committee to ensure that the Board remains balanced and effective, that succession plans are in place, and that its structure, composition and skills remain aligned to the Group's strategic objectives. The Committee's primary objective, when necessary, is to identify and evaluate candidates for future appointments and, in doing so, it takes advice from independent external recruitment consultants. In 2018, the Committee comprised Non-Executive Directors under the chairmanship of James Wates, including David Barclay who is considered independent and Andrew Wates and Timothy Wates who are Directors from the Wates family. The Committee has no formal schedule of meetings and meets as required

In 2018 the Committee led the process that resulted in the appointment of David Allen as Chief Executive, Philip Wainwright as Chief Financial Officer and Paul Chandler's appointment to the Board.

Sustainability Committee
The Committee brings oversight and challenge to the Group's corporate responsibility programmes and explores the impact and opportunities that global trends might bring to the built environment. In 2018, the Committee was chaired by Jonathan Wates, a Non-Executive Director from the Wates family, and its members included Jonathan Oatley, an independent Non-Executive Director, the Chief Executive and Chief Financial Officer with invitations extended to the Group Safety, Health, Environment and Quality Director, the Group Sustainability Director and the Group Strategy Director. In 2018 the Committee evaluated outputs of a Horizon Scan study, identifying the short and long terms trends in sustainability that were likely to shape the future of the business.

Executive Committee
The Executive Committee is responsible for the day-to-day management of the Group's business affairs under leadership of the Chief Executive. The Committee's duties include formulating strategy proposals for Board approval and ensuring that the agreed strategy is implemented in a timely and effective manner.

The Executive Committee is chaired by the Chief Executive and consists of individuals responsible for the strategic business units and key functions. A biography for each Executive Committee member can be found at the Group's website www.wates.co.uk

Group Risk Committee
The Group operates a Risk Committee to ensure that inherent and emerging risks are identified and managed in a timely manner and 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.

In 2018, the Committee was chaired by the Chief Executive and comprised of members of the Executive Committee, regional business directors and functional leaders, including the Head of Internal Audit, the Group Financial Controller and the Group Commercial Legal Adviser. The Board remains satisfied that the composition of the Committee strengthens the Group's approach to risk management and mitigation and that the Committee remains focused on the key risks affecting financial and operational performance.

To support the Committees' work and to enhance the cohesion of the Group's risk management approach, including the cascade of Group-wide messages and lessons learnt, business unit commercial leads and function heads attend meetings on a rotational basis to discuss their respective risk management and mitigation plans.

Directors' Report

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

Dividends

The directors declared dividends in 2018 totalling £11,565,680 (2017: £8,245,072) of which £7,885,513 was paid on 6 April 2018 and £3,680,167 was paid on 7 November 2018. No further dividends have been declared in respect of the Accounts to 31 December 2018.

Health & Safety

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

Employees

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

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

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

Equal Opportunities

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

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

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

Directors' Report continued

Corporate Responsibility

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

Research and Development

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

Share Capital

Details of the Company'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. In the event that a Director becomes aware that they have an interest that may arise in a conflict they are required to notify the Board in writing. Internal controls are in place to ensure that any related party transactions involving directors are conducted on an arm's length basis. Directors have a continuing duty to update changes to these conflicts. 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 directors' and officers' liability insurance, in respect of certain losses or liabilities to which officers of the Company may be exposed in the discharge of their duties. A director benefited from a qualifying pension scheme indemnity provision during the financial year ending 31 December 2018 and benefits from this at the date of this report.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:
James G. M. Wates, CBE (Chairman)
David O. Allen (Chief Executive)
Philip M. Wainwright (Chief Financial Officer) (appointed 3 December 2018)
Paul Chandler (Group MD Construction Group) (appointed 18 June 2018)
David M. Barclay
Deena E. Mattar (resigned 4 March 2019)
Jeremy H.M. Newsum (appointed 1 October 2018)
Jonathan M. Oatley
Andrew E. P. Wates
Charles W. R. Wates
Jonathan G. M. Wates
Timothy A. D. Wates

Directors' Report continued

Donations
During the year the Group made charitable donations amounting to £1,518,000. No political donations were made in 2018.

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

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

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

- Each director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Annual General Meeting
The 2019 Annual General Meeting of the Company will be held on Thursday 2 May 2019.

Post Balance Sheet Events
On 11 March 2019 the Group's Revolving Credit Facility was extended to £120m from £60m. The expiry date was extended from 2022 to 2023.

There were no other post balance sheet events requiring disclosure.

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

P. M. Wainwright
Secretary

Statement of Directors' Responsibilities in respect of the financial statements

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

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

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

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

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

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

Independent Auditors' Report to the members of Wates Group Limited

Report on audit of the financial statements

Opinion

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

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

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

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

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

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page 23, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors,
London
13 March 2019

Consolidated Profit and Loss Account

For the year ended 31 December 2018

	Notes	2018 £000s	2017 £000s
Turnover:			
Group and share of joint ventures and associates		**1,601,035**	1,621,973
Less share of turnover of joint ventures and associates		**(100,426)**	(91,771)
Group turnover	2	**1,500,609**	1,530,202
Cost of sales		**(1,322,746)**	(1,369,342)
Gross profit		**177,863**	160,860
Administrative expenses		**(159,845)**	(142,937)
Net surplus on revaluation of investment properties		**3,409**	750
Group operating profit	3	**21,427**	18,673
Share of post-tax profit from joint ventures and associates		**10,863**	13,436
Total operating profit: Group and share of joint ventures and associates		**32,290**	32,109
Analysed between:			
Total operating profit before interest and tax		**39,011**	38,497
Net interest payable – joint ventures and associates		**(5,230)**	(3,574)
Taxation – joint ventures and associates		**(1,491)**	(2,814)
Net interest receivable	6	**2,137**	783
Profit before taxation		**34,427**	32,892
Analysed between:			
Profit before taxation and before taxation of joint ventures and associates		**35,918**	35,706
Taxation – joint ventures and associates		**(1,491)**	(2,814)
Taxation on profit	7	**(6,951)**	(5,313)
Profit for the financial year		**27,476**	27,579

The above results have been derived from continuing operations.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £000s	2017 £000s
Profit for the financial year		**27,476**	27,579
Currency translation difference on foreign currency net investment		**(470)**	721
Remeasurement of net defined benefit liability	21	**479**	34,493
		9	35,214
Tax relating to components of other comprehensive income	21	**(81)**	(5,864)
Share of other comprehensive income of joint venture		**559**	44
Other comprehensive income for the year		**487**	29,394
Total comprehensive income for the year		**27,963**	56,973

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

Company number: 01824828

Consolidated Balance Sheet

At 31 December 2018

	Notes	2018 £000s	2017 £000s
Fixed assets			
Intangible assets - goodwill	8	**52,013**	55,491
Tangible assets	9	**74,314**	67,415
Investments in joint ventures	10	**92,250**	67,989
Other investments	10	**2,673**	2,706
		221,250	193,601
Current assets			
Stocks	11	**40,206**	29,842
Debtors			
- due within one year	12	**279,817**	274,817
- due after one year	12	**30,837**	34,968
		310,654	309,785
Cash at bank and in hand		**114,171**	169,536
		465,031	509,163
Creditors: amounts falling due within one year	13	**(462,773)**	(498,816)
Net current assets		**2,258**	10,347
Total assets less current liabilities		**223,508**	203,948
Creditors: amounts falling due after more than one year	14	**(48,313)**	(39,227)
Provisions for liabilities	15	**(39,383)**	(45,306)
Net assets		**135,812**	119,415
Capital and reserves			
Called up share capital	18	**14,777**	14,777
Share premium account	18	**956**	956
Capital redemption reserve	18	**17,447**	17,447
Cash flow hedge reserve	18	**-**	(559)
Profit and loss account	18	**102,632**	86,794
Shareholders' funds		**135,812**	119,415

The notes on pages 32 to 59 form part of these accounts.

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

James G. M. Wates
Chairman

D. O. Allen
Chief Executive

Company number: 01824828

Company Balance Sheet

At 31 December 2018

	Notes	2018 £000s	2017 £000s
Fixed assets			
Investments	10	**124,946**	58,412
Current assets			
Debtors			
- due within one year	12	**53,012**	55,813
- due after one year	12	**514**	2,576
		53,526	58,389
Cash at bank and in hand		**4,846**	205
		58,372	58,594
Creditors: amounts falling due within one year	13	**(141,679)**	(73,973)
Net current liabilities		**(83,307)**	(15,379)
Net assets		**41,639**	43,033
Capital and reserves			
Called up share capital	18	**14,777**	14,777
Share premium account	18	**956**	956
Capital redemption reserve	18	**17,447**	17,447
Profit and loss account	18	**8,459**	9,853
Shareholders' funds		**41,639**	43,033

The notes on pages 32 to 59 form part of these accounts.

The profit for the financial year dealt with in the accounts of the parent company was £10,172,000 (2017: £10,869,000).

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

James G. M. Wates
Chairman

D. O. Allen
Chief Executive

Consolidated Statement of Changes in Equity

At 31 December 2018

	Called up share capital £000s	Share premium account £000s	Capital redemption reserve £000s	Cash flow hedge reserve £000s	Profit and loss account £000s	Total equity £000s
At 31 December 2016	**14,777**	**956**	**17,447**	**(603)**	**38,110**	**70,687**
Profit for the financial year	-	-	-	-	**27,579**	**27,579**
Currency translation difference on foreign currency net investment	-	-	-	-	721	721
Remeasurement of net defined benefit liability	-	-	-	-	34,493	34,493
Tax relating to items of other comprehensive income	-	-	-	-	(5,864)	(5,864)
Share of other comprehensive income of joint venture	-	-	-	44	-	44
Total comprehensive income	-	-	-	**44**	**56,929**	**56,973**
Dividends declared on equity shares	-	-	-	-	(8,245)	(8,245)
At 31 December 2017	**14,777**	**956**	**17,447**	**(559)**	**86,794**	**119,415**
Profit for the financial year	-	-	-	-	**27,476**	**27,476**
Currency translation difference on foreign currency net investment	-	-	-	-	(470)	(470)
Remeasurement of net defined benefit liability	-	-	-	-	479	479
Tax relating to items of other comprehensive income	-	-	-	-	(81)	(81)
Share of other comprehensive income of joint venture	-	-	-	559	-	559
Total comprehensive income	-	-	-	**559**	**27,404**	**27,963**
Dividends declared on equity shares	-	-	-	-	(11,566)	(11,566)
At 31 December 2018	**14,777**	**956**	**17,447**	-	**102,632**	**135,812**

Dividends of £8,245,072 were declared in 2017 and payments of £1,673,985, £3,050,000 and £3,521,087 were paid on 10 May 2017, 2 August 2017 and 8 November 2017 respectively.

Dividends of £11,565,680 were declared in 2018 and payments of £7,885,513 and £3,680,167 were paid on 6 April 2018 and 7 November 2018 respectively.

Company Statement of Changes in Equity

At 31 December 2018

	Called up share capital £000s	Share premium account £000s	Capital redemption reserve £000s	Profit and loss account £000s	Total equity £000s
At 31 December 2016	**14,777**	**956**	**17,447**	**7,229**	**40,409**
Total comprehensive income	-	-	-	**10,869**	**10,869**
Dividends declared on equity shares	-	-	-	(8,245)	(8,245)
At 31 December 2017	**14,777**	**956**	**17,447**	**9,853**	**43,033**
Total comprehensive income	-	-	-	**10,172**	**10,172**
Dividends declared on equity shares	-	-	-	(11,566)	(11,566)
At 31 December 2018	**14,777**	**956**	**17,447**	**8,459**	**41,639**

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Notes	**2018 £000s**	2017 £000s
Net cash (outflow)/inflow from operating activities	19	**(9,842)**	11,017
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**253**	65
Purchase of tangible fixed assets		**(18,248)**	(23,220)
Net loans (paid to)/repaid by joint ventures		**(25,283)**	4,142
Dividends received from joint ventures and associates		**3,486**	14,255
Net cash outflow from investing activities		**(39,792)**	(4,758)
Cash flows from financing activities			
Equity dividends paid		**(11,566)**	(15,447)
Repayment of bank loans		-	(20,429)
Bank loans borrowed		**5,835**	7,523
Net cash outflow from financing activities		**(5,731)**	(28,353)
Net decrease in cash and cash equivalents		**(55,365)**	(22,094)
Cash and cash equivalents at beginning of year		169,536	191,630
Cash and cash equivalents at end of year		**114,171**	169,536

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

Notes to the Accounts

1. Accounting policies

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

i) General information and basis of accounting

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

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

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

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

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

ii) Basis of consolidation

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

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

1. Accounting policies continued

iii) Going concern

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

iv) Turnover

Turnover represents the value of work done on contracting activities, which is recognised on a percentage of completion basis with reference to costs incurred to date as a proportion of total costs, rendering of services which is recognised as the service is performed, sales of residential properties and development properties that are legally completed within the year, 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. The Group's share of turnover of joint ventures and associates is disclosed separately in the consolidated profit and loss account.

v) Pre-contract costs

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

vi) Research and development

Research and development costs are written off as incurred.

vii) Intangible assets – goodwill

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

1. **Accounting policies** continued

viii) Tangible fixed assets and depreciation

Investment properties are measured at fair value annually with any change recognised in the profit and loss account. Depreciation is not provided in respect of freehold investment properties.

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

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

ix) Financial instruments

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

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

(a) Financial assets and liabilities
All financial assets and liabilities are initially measured at transaction price.

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

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

(b) Investments
Equity loans and unquoted investments are stated at cost less impairment.

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

1. **Accounting policies** continued

ix) **Financial instruments** continued

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

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

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

x) **Joint ventures and associates**

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

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

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

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

xi) **Stocks**

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

1. **Accounting policies** continued

xii) Impairment of assets

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

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

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

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

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

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

xiii) Contracts

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

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

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

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

1. **Accounting policies** continued

xiii) **Contracts** continued

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

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

xiv) **Residential developments**

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

xv) **Taxation**

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

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

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

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

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

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

1. Accounting policies continued

xvi) Leases

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

xvii) Retirement benefits

The Group operates a defined benefit pension scheme providing benefits based on pensionable pay, which is closed to new entrants.

For the defined benefit scheme, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit and loss and included within net interest. Actuarial gains and losses are recognised immediately in other comprehensive income.

The assets of the defined benefit scheme are held separately from those of the Group in trustee administered funds. Scheme assets are measured at fair value and liabilities are measured on an actuarial basis using a projected unit method. Actuarial valuations are obtained triennially from an independent qualified actuary and are updated at each year end.

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

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

xviii) Foreign currency

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

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

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

1. **Accounting policies** continued

xix) Significant areas of judgement and uncertainty

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

The most critical accounting policies and significant areas of judgement and estimation arise from the accounting for contracts, assessments of the carrying value of residential land and development, the valuation of investment property and the assumptions used in the accounting for the defined benefit pension scheme.

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

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

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

The annual valuation of investment properties is carried out by an independent chartered surveyor or by a director of a subsidiary who is a Fellow of the Royal Institution of Chartered Surveyors, to the required standard for such valuations. Assumptions on which the valuations have been based include, but are not limited to, matters such as tenure and tenancy details, ground conditions and the structural condition of the properties, prevailing market yields and comparable market transactions. The valuation is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rental income from that property.

Defined benefit pension schemes require significant judgements in relation to the assumptions for inflation, future pension increases, investment returns and member longevity that underpin the valuation. Each year in selecting the appropriate assumptions, the directors take advice from an independent qualified actuary and the relevant assumptions are set out in a note to the accounts.

2. Group turnover

Analysis by class of business	**2018 Turnover £000s**	2017 Turnover £000s
Construction	**846,481**	932,499
Residential Developments	**137,900**	118,911
Property Services	**511,575**	474,983
Other	**4,653**	3,809
Group total	**1,500,609**	1,530,202

Analysis of Group turnover	**2018 Turnover £000s**	2017 Turnover £000s
Construction contracts	**1,216,702**	1,320,497
Rendering of services	**215,795**	170,246
Sale of land and residential properties	**63,459**	35,650
Rental/licence fee income	**4,653**	3,809
Group total	**1,500,609**	1,530,202

Group turnover is materially within the United Kingdom.

3. Group operating profit

	2018 £000s	2017 £000s
This is stated after charging/(crediting):		
Amortisation of goodwill	**3,478**	3,746
Auditors' remuneration*		
- audit of these accounts	**28**	27
- audit of subsidiaries' accounts	**286**	278
- taxation compliance services	**8**	8
- non-audit services	**330**	373
Cost of stock recognised as expense	**56,906**	27,378
Depreciation of tangible fixed assets (including loss on disposal £19,000 (2017 £92,000))	**5,554**	4,983
Foreign exchange (gain)/loss	**(470)**	780
Hire of plant and machinery	**7,271**	6,242
Operating lease rentals	**6,949**	6,815
Research and development credits	**(1,169)**	(1,928)
Research and development	**7,108**	6,513
GMP equalisation	**1,300**	-

* Excludes fee payments made through joint ventures

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:

	2018 Number	2017 Number
Operations	**2,704**	2,821
Administration	**1,193**	1,151
	3,897	3,972

The aggregate payroll costs for the Group were as follows:

	2018 £000s	2017 £000s
Wages and salaries	**223,758**	215,379
Social security costs	**26,240**	25,185
Other pension costs	**17,845**	16,084
	267,843	256,648

The pension operating cost for the year was £1,371,000 (2017: £1,338,000) in respect of defined benefit arrangements and £16,474,000 (2017: £14,746,000) in respect of defined contribution arrangements.

5. Remuneration of directors

		2018 £000s	2017 £000s
Directors' emoluments	– executive and family directors	**2,104**	2,649
	– *independent non-executive directors*	**213**	130
Amounts receivable under long-term incentive scheme		**-**	1,932
Contributions to money purchase pension schemes		**49**	97
		2,366	4,808

Three (2017: three) directors have benefits accruing under a money purchase pension scheme.

		2018 £000s	2017 £000s
Highest paid director	- emoluments	**972**	1,145
	- amounts receivable under long-term incentive scheme	**-**	1,212

6. Net interest receivable

	2018 £000s	2017 £000s
Interest receivable:		
Bank	**243**	325
Other	**3,819**	3,450
Interest receivable	**4,062**	3,775
Interest payable:		
Bank	**(1,011)**	(983)
Other	**-**	(2)
Interest payable and similar charges	**(1,011)**	(985)
	3,051	2,790
Other finance costs:		
Net interest on defined benefit liability	**(914)**	(2,007)
Net interest receivable	**2,137**	783

Other interest receivable includes amounts from Joint ventures of £3,481k (2017: £3,119k) which is also included within interest payable by joint ventures disclosed on the face of the Consolidated profit and loss account.

7. Taxation on profit

a) Analysis of the charge in the year

	2018 £000s	2017 £000s
Current tax		
UK corporation tax on the profit for the year at 19% (2017: 19.25%)	**5,421**	4,354
Adjustments in respect of prior years	**681**	(226)
Total current tax	**6,102**	4,128
Deferred tax		
Origination and reversal of timing differences	**907**	1,250
Decrease in tax rate	**-**	-
Adjustments in respect of prior years	**(58)**	(65)
Total deferred tax charge	**849**	1,185
Total tax on profit	**6,951**	5,313

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

7. Taxation on profit continued

b) Factors affecting the total tax charge for the year

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

	2018 £000s	2017 £000s
Profit before taxation	**34,427**	32,892
Less share of profit after tax of joint ventures and associates taxed as separate entities	**(6,169)**	(9,922)
Group profit before tax	**28,258**	22,970
Group profit at the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	**5,369**	4,422
Effects of:		
Permanent disallowable costs	**1,543**	1,182
Decrease in tax rate / timing differences	**(584)**	-
Adjustments in respect of prior years	**623**	(291)
Group total tax charge for the year	**6,951**	5,313

8. Intangible assets – goodwill

Group	£000s
Cost at 1 January 2018 and 31 December 2018	72,098
Amortisation:	
At 1 January 2018	16,607
Provided during the year	3,478
At 31 December 2018	20,085
Net book value:	
At 31 December 2018	**52,013**
At 31 December 2017	55,491

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

Wates Living Space (Maintenance) Limited £16,829,000 – 12.4 years
Purchase Group Limited Group £6,621,000 – 15.9 years
Parts of the Shepherd Group £28,563,000 – 16.8 years

9. Tangible fixed assets

	Land and buildings				Assets in the course of	
Group	Investment properties - freehold £000s	Freehold £000s	Short leasehold £000s	Plant and equipment £000s	construction £000s	Group total £000s
Valuation or cost:						
At 1 January 2018	48,510	180	10,565	33,187	1,710	94,152
Additions	106	-	301	2,944	5,932	9,283
Revaluations	3,409	-	-	-	-	3,409
Transfers	-	-	52	921	(993)	(20)
Disposals	-	(180)	(641)	(1,998)	-	(2,819)
At 31 December 2018	52,025	-	10,277	35,054	6,649	104,005
Depreciation:						
At 1 January 2018	-	22	1,496	25,219	-	26,737
Provided during the year	-	1	1,445	4,089	-	5,535
Disposals	-	(23)	(641)	(1,917)	-	(2,581)
At 31 December 2018	-	-	2,300	27,391	-	29,691
Net book amounts:						
At 31 December 2018	**52,025**	**-**	**7,977**	**7,663**	**6,649**	**74,314**
At 31 December 2017	48,510	158	9,069	7,968	1,710	67,415

Investment properties, which are all freehold, were revalued as at 31 December 2018 to fair value at £52,025,000, based on a valuation undertaken by CBRE Limited, chartered surveyors, an independent valuer with recent experience of the location and class of the investment properties being valued. The method of determining fair value and assumptions on which valuations are based are set out in note 1(xix). The cost of investment properties at 31 December 2018 was £43,463,000 (2017: £41,496,000). Other tangible fixed assets are stated at cost less depreciation.

At the balance sheet date the Group had contracted with licence and lease holders regarding provision of workplace and support services for minimum payments due within one year of £1,540,000 (2017: £976,000), and due over one year up to 5 years of £1,508,000 (2017: £923,000) and due over 5 years of £83,000 (2017: £nil). Contracts include licence agreements which are generally issued on a 3 month minimum term basis, rolling monthly thereafter.

10. Joint ventures and other investments

Group	Interests in joint ventures £000s	Interests in associates £000s	Unquoted investments £000s	Equity loans £000s	Total other investments £000s
At 1 January 2018	67,989	294	1,874	538	2,706
Additions	41,457	-	-	-	-
Repayments	(19,626)	-	-	(67)	(67)
Transferred to debtors	(8,958)	-	-	-	-
Share of profit	10,829	34	-	-	34
Share of other comprehensive income	559	-	-	-	-
At 31 December 2018	**92,250**	**328**	**1,874**	**471**	**2,673**

Joint ventures

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

	Interest	Registered office
Annington Wates (Cove) Limited	50.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW
Barratt Wates (East Grinstead) Limited	50.0%	Barratt House, Cartwright Way, Forest Business Park, Bardon Hill, Coalville, Leicestershire LE67 1UF
Barratt Wates (East Grinstead) No. 2 Limited	50.0%	
Barratt Wates (Horley) Limited	21.5%	
Barratt Wates (Lindfield) Limited	50.0%	
Barratt Wates (Worthing) Limited	50.0%	
DWH/Wates (Thame) Limited	50.0%	
Berkshire Land Limited	33.3%	11 Tower View, Kings Hill, West Malling, ME19 4UY
Linden (Basingstoke) Limited	50.0%	Cowley Business Park, Cowley, Uxbridge, Middlesex UB8 2AL
Linden Wates (Barrow Gurney) Limited	50.0%	
Linden Wates (Bricket Wood) Limited	50.0%	
Linden Wates (Cranleigh) Limited	50.0%	
Linden Wates Developments (Chichester) Limited	50.0%	
Linden Wates Developments (Folders Meadow) Limited	50.0%	
Linden Wates (Dorking) Limited	50.0%	
Linden Wates (Kempshott) Limited	50.0%	
Linden Wates (Lovedean) Limited	50.0%	
Linden Wates (Ravenscourt Park) Limited	50.0%	
Linden Wates (Ridgewood) Limited	50.0%	
Linden Wates (The Frythe) Limited	50.0%	
Linden Wates (Westbury) Limited	50.0%	
Linden Wates (West Hampstead) Limited	50.0%	
Luton Learning and Community Partnership Limited	80.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW
Miller Wates (Bracklesham) Limited	50.0%	2 Centro Place, Pride Park, Derby, Derbyshire DE24 8RF
Miller Wates (Chalgrove) Limited	50.0%	
Miller Wates (Didcot) Limited	50.0%	
Miller Wates (Southwater) Limited	50.0%	
Miller Wates (Wallingford) Limited	50.0%	
Luton Challney (Refico) Limited	8.0%	2 Hunting Gate, Hitchin, Hertfordshire SG4 0TJ
QED Luton (Challney) Limited	8.0%	
QED Luton (Challney) Holdings Limited	8.0%	

Notes to the accounts continued

10. Joint ventures and other investments continued

Joint ventures continued

The Group holds the following interests in limited liability partnerships:

	Interest	Registered office
Havering and Wates Regeneration LLP	50.0%	Wates House, Station Approach, Leatherhead, Surrey KT22 7SW
Signature Wates Residential LLP	50.0%	
Laurus Living Space LLP	50.0%	Sale Point, 126-150 Washway Road, Sale, Manchester M33 6AG
Linden (Battersea Bridge Road) LLP	50.0%	Cowley Business Park, Cowley, Uxbridge, Middlesex UB8 2AL
Linden Wates (Horsham) LLP	50.0%	
Linden Wates (Ringwood) LLP	50.0%	
Linden Wates (Royston) LLP	50.0%	
Linden Wates (Salisbury) LLP	50.0%	
Linden Wates (Walberton) LLP	50.0%	

Associates

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

	Interest	Registered office
Countrywise Repairs Limited	49.0%	Monson House, Monson Way, Tunbridge Wells, Kent TN1 1LQ
QSH Propco Limited	15.0%	2 Merus Court, Meridian Business Park, Leicester LE19 1RJ
Quality Social Housing Management Limited	15.0%	

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

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

Unquoted investments

The Group's interests in unquoted investments are as follows:

	Interest	Registered office
Gambado Limited	100% non-voting Preference shares and 1.4% Ordinary shares	Connect House, Kingston Road, Leatherhead, Surrey KT22 7LT

The cost of shares in unquoted investments is £1,874,000 (2017: £1,874,000).

10. Joint ventures and other investments continued

Equity loans
These comprise amounts advanced to homebuyers to assist in their purchase of the Group's residential properties under equity share schemes. The loans, with a cost of £564,000 (2017: £650,000), are repayable together with a share in the capital appreciation when the underlying property is sold. Included in this total are loans with a cost of £144,000 (2017: £144,000), 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 £242,000 (2017: £259,000) are interest free and loans with a cost of £322,000 (2017: £391,000) were interest free until 2016 when a fee of 1.75 percent became receivable, rising annually by the Retail Price Index plus one percent. A provision of £94,000 (2017: £94,000) is held against these loans.

Company

	Shares in Group undertakings £000s	Interests in Joint ventures £000s	Unquoted Investments £000s	Total £000s
At 1 January 2018	56,538	-	1,874	58,412
Transfer from Wates Developments Limited	-	69,680	-	69,680
Disposals	-	(3,146)	-	(3,146)
At 31 December 2018	**56,538**	**66,534**	**1,874**	**124,946**

The cost of shares in Group undertakings is £75,262,000 (2017: £75,262,000).
The cost of shares in unquoted investments is £1,874,000 (2017: £1,874,000).

On 1 April 2018, Wates Developments Limited transferred its interest in the ordinary share capital of the following companies to Wates Group Limited at cost:

Barratt Wates (East Grinstead) Limited
Barratt Wates (East Grinstead) No. 2 Limited
Barratt Wates (Horley) Limited
Barratt Wates (Lindfield) Limited
Barratt Wates (Worthing) Limited
DWH/Wates (Thame) Limited
Linden (Basingstoke) Limited
Linden Wates (Barrow Gurney) Limited
Linden Wates (Bricket Wood) Limited
Linden Wates (Cranleigh) Limited
Linden Wates Developments (Chichester) Limited
Linden Wates Developments (Folders Meadow) Limited
Linden Wates (Dorking) Limited
Linden Wates (Kempshott) Limited
Linden Wates (Lovedean) Limited
Linden Wates (Ravenscourt Park) Limited
Linden Wates (Ridgewood) Limited
Linden Wates (The Frythe) Limited
Linden Wates (Westbury) Limited
Linden Wates (West Hampstead) Limited
Miller Wates (Bracklesham) Limited
Miller Wates (Chalgrove) Limited
Miller Wates (Didcot) Limited
Miller Wates (Southwater) Limited

10. Joint ventures and other investments continued

On 1 April 2018, Wates Developments Limited transferred its interest in the following limited liability partnerships to Wates Group Limited at cost:

Linden (Battersea Bridge Road) LLP
Linden Wates (Horsham) LLP
Linden Wates (Ringwood) LLP
Linden Wates (Royston) LLP
Linden Wates (Salisbury) LLP

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

Wates Limited (company number 03599183)
Wates Group Services Limited (company number 0340931)
Wates (Walberton) Limited (company number 11149972)
Brooks and Rivers Limited (company number 0260431)
Wates Homes (Oakley) Limited (company number 5511851)

A list of the Group's subsidiary undertakings is set out on pages 58 to 59.

11. Stocks

Group	**2018** **£000s**	2017 £000s
Raw materials and consumables	**288**	260
Residential land and work in progress under development	**39,918**	29,582
	40,206	29,842

12. Debtors

	Group		Company	
	2018	2017	**2018**	2017
	£000s	£000s	**£000s**	£000s
Amounts falling due within one year				
Trade debtors	**94,939**	87,817	**-**	15
Amounts recoverable on contracts	**158,097**	160,828	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**41,633**	53,643
Amounts owed by joint ventures and associates	**12,588**	4,834	**8,953**	-
Deferred taxation (note 16)	**2,573**	2,242	**193**	-
Corporation tax receivable	**-**	414	**-**	-
Other debtors	**4,146**	8,623	**2,000**	2,018
Prepayments and accrued income	**7,474**	10,059	**233**	137
	279,817	274,817	**53,012**	55,813
Amounts falling due after more than one year				
Trade debtors	**3,107**	5,273	**-**	-
Amounts recoverable on contracts	**15,198**	15,971	**-**	-
Amounts owed by joint ventures and associates	**2,397**	-	**-**	-
Deferred taxation (note 16)	**9,752**	11,013	**265**	-
Other debtors	**134**	2,356	**-**	2,221
Prepayments and accrued income	**249**	355	**249**	355
	30,837	34,968	**514**	2,576
	310,654	309,785	**53,526**	58,389

13. Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	**2018**	2017
	£000s	£000s	**£000s**	£000s
Bank loans (note 14)	**607**	473	**-**	-
Advance payments on account of contracts	**87,111**	114,593	**-**	-
Trade creditors	**89,078**	100,972	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**133,198**	73,917
Amounts owed to joint ventures	**7,657**	3,330	**7,657**	-
Corporation tax payable	**936**	-	**286**	-
Other taxes and social security	**24,017**	22,031	**-**	-
Other creditors	**3,823**	12,559	**-**	-
Accruals	**246,137**	240,754	**538**	56
Deferred income	**3,407**	4,104	**-**	-
	462,773	498,816	**141,679**	73,973

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

	Group		Company	
	2018	2017	**2018**	2017
	£000s	£000s	**£000s**	£000s
Bank loans	**25,513**	20,304	-	-
Trade creditors	**1,827**	978	-	-
Accruals	**15,684**	13,475	-	-
Deferred income	**5,289**	4,470	-	-
	48,313	39,227	-	-

Bank loans include a five year secured term bank loan of £26,120,000 (2017: £20,777,000) which is repayable in instalments of £694,000 (2017: £534,000) per annum with the balance repayable in 2021. It is secured on the freehold investment properties and other assets of a subsidiary, Needspace? Limited, which have a carrying value of £54,246,000 (2017: £50,340,000) and is guaranteed by the Company.

15. Provisions for liabilities

	2018	**2017**
Group	**£000s**	**£000s**
At 1 January	3,833	3,881
Utilised during the year	(1,626)	(1,077)
Charged to profit and loss account	6,572	1,029
At 31 December	**8,779**	**3,833**
Provision for net defined benefit scheme deficit (note 21)	30,604	41,473
Total	**39,383**	**45,306**

Provisions other than the provision for the net defined benefit scheme deficit are construction related and are the Group's estimates of the amounts which are expected to be paid when finalised generally more than one year after the balance sheet date.

16. Deferred taxation

Group	£000s
At 1 January 2018	13,255
Charged to profit and loss account	(849)
Charged to other comprehensive income	(81)
At 31 December 2018	**12,325**

Deferred taxation is provided as follows:

	2018 **£000s**	2017 £000s
Accumulated depreciation in excess of capital allowances	**836**	648
Deferred tax arising in relation to retirement benefit obligations	**5,203**	7,050
Other timing differences	**6,286**	5,557
	12,325	13,255

	2018 **£000s**	2017 £000s
Deferred taxation asset under one year	**2,573**	2,242
Deferred taxation asset over one year	**9,752**	11,013
	12,325	13,255

Company	£000s
At 1 January 2018	-
Credited to profit and loss account	458
At 31 December 2018	**458**

Deferred taxation is provided as follows:

	2018 **£000s**	2017 £000s
Other timing differences	**458**	-
	458	-

	2018 **£000s**	2017 £000s
Deferred taxation asset under one year	**193**	-
Deferred taxation asset over one year	**265**	-
	458	-

17. Financial instruments

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

Group	2018 £000s	2017 £000s
Financial assets		
Debt instruments measured at amortised cost		
• Loans receivable from joint ventures (notes 10 and 12)	**76,317**	55,945
Equity instruments measured at cost less impairment		
• Fixed asset investments in unlisted equity instruments (note 10)	**1,874**	1,874
• Equity loans (note 10)	**471**	538
Financial liabilities		
Measured at amortised cost		
• Loans payable (notes 13 and 14)	**26,120**	20,777
Interest income and expense		
Total interest income for financial assets at amortised cost	**3,481**	3,119
Total interest expense for financial liabilities at amortised cost	**1,011**	983

18. Called up share capital and reserves

	2018 Number	2018 £000s	2017 Number	2017 £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**	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**	14,778,023	14,777

Ordinary and second ordinary shares, which carry the rights to receive notice, attend and vote at general meetings of the Company, are entitled to dividends declared after the payment of index linked share dividends, preference and second preference share dividends.

18. Called up share capital and reserves continued

The priority of dividends other than ordinary dividends is as follows:

1. Firstly, index linked shareholders ('index shareholders') are entitled to annual non-cumulative preferential dividends being the greater of the preceding such dividend and that amount indexed using the Retail Price Index;
2. Secondly, preference shareholders are entitled to biannual fixed non-cumulative dividends each at the rate of 17 per cent per annum on the amount paid up and in issue regarding these shares;
3. Thirdly, second preference shareholders are entitled to fixed non-cumulative dividends at the rate of 7.5 per cent per annum on the amount paid up and in issue regarding these shares, if the post-tax profit of the Group exceeds £9,000,000 for the year in question.

On a return of capital on a winding-up of the Company, assets available for distribution shall be applied firstly to repaying the index shareholders, secondly to repaying the preference shareholders, thirdly to repaying the second preference shareholders, fourthly to repaying the second ordinary shareholders and fifthly to repaying the ordinary shareholders.

The A, B and C preference, ordinary and second ordinary shares are treated as separate classes of shares regarding further issues and transfers and, in the case of ordinary and second ordinary shares only, proceedings at general meetings.

The Group and Company's reserves are as follows:

The share premium reserve contains the premium arising on the issue of equity shares, net of issue expenses.

The capital redemption reserve contains the amounts transferred following repurchase and redemption of the Company's shares.

The cash flow hedge reserve is in respect of the Group share of a joint venture regarding the movement of the fair value of an interest rate swap which has been designated a cash flow hedge for hedge accounting purposes.

The profit and loss account reserve represents cumulative profits and losses, including unrealised profit on the remeasurement of investment properties, net of dividends paid and other adjustments.

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

	2018 £000s	2017 £000s
Group operating profit including joint ventures and associates	**32,290**	**32,109**
Adjustments for:		
Increase in fair value of investment property	**(3,409)**	(750)
Depreciation and amortisation	**9,032**	8,729
Joint ventures and associates	**(11,456)**	(13,436)
Increase in stocks	**(10,364)**	(10,620)
Decrease in debtors	**7,546**	9,695
(Decrease) in creditors	**(27,031)**	(10,037)
Increase / (decrease) in provisions	**4,946**	(48)
Cash from operations before adjustment for pensions funding	**1,554**	15,642
Adjustment for pensions funding	**(11,304)**	(3,615)
Cash (used in) / generated from operations	**(9,750)**	12,027
Interest received	**3,805**	3,633
Interest paid	**(550)**	(638)
Corporation tax paid	**(3,347)**	(4,005)
Net cash (outflow) / inflow from operating activities	**(9,842)**	11,017

20. Operating lease commitments

	2018 £000s	2017 £000s
Group total future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**6,595**	5,751
Between one and five years	**13,880**	14,532
After five years	**4,220**	3,841
	24,695	24,124

21. 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. A subsidiary of the Group participates in a defined benefit scheme accounted for on a defined contribution basis (see note 1(xvii)).

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 2017 and was updated to 31 December 2018 by a qualified independent actuary.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)	**2018**	2017
Discount rate	**2.90%**	2.60%
Rate of compensation increase	**4.20%**	4.20%
Rate of price inflation	**3.20%**	3.20%
Rate of pension increase	**2.10%**	2.10%

Weighted average life expectancy for mortality tables used to determine benefit obligations at year end	**2018 Years**	2017 Years
Male member age 65 (current life expectancy)	**22.5**	22.7
Female member age 65 (current life expectancy)	**24.5**	24.6
Male member age 45 (life expectancy at age 65)	**23.9**	24.1
Female member age 45 (life expectancy at age 65)	**26.0**	26.1

Components of pension cost/(credit)	**2018 £000s**	2017 £000s
Recognised in the profit and loss account:		
Current service cost	**133**	48
Net interest cost	**914**	2,007
Past service cost *	**1,300**	-
	2,347	2,055
Recognised in other comprehensive income	**(479)**	(34,493)
Total cost /(credit) relating to defined benefit scheme	**1,868**	(32,438)

Analysis of deferred tax recognised in other comprehensive income	**2018 £000s**	2017 £000s
Tax cost relating to remeasurement of net defined benefit liability	**81**	5,864
Decrease in tax rate on opening net defined benefit liability	**-**	-
Total tax cost relating to other comprehensive income	**81**	5,864

* On 26 October 2018, the High Court ruled on the Lloyds Bank GMP Inequalities case. In response to this, an allowance of £1.3m has been included at the 31 December 2018 year end to make provision for the estimated costs arising from the judgment. This amount has been included as a cost in arriving at the Group's profit for the year.

21. Pension schemes continued

The amount included in the balance sheet arising from the Group's obligations in respect of the Scheme is as follows:

	2018	2017
	£000s	£000s
Present value of defined benefit obligations	**282,308**	298,122
Fair value of Scheme assets	**251,704**	256,649
Net liability recognised in the balance sheet	**30,604**	41,473

	2018	2017
	£000s	£000s
Movements in the present value of defined benefit obligations:		
At 1 January	**298,122**	328,148
Service cost	**133**	48
Interest cost	**7,619**	8,559
Actuarial gain	**(14,641)**	(28,241)
Benefits paid	**(10,225)**	(10,392)
Past service cost	**1,300**	-
At 31 December	**282,308**	298,122
Movements in the fair value of Scheme assets:		
At 1 January	**256,649**	250,574
Interest income	**6,705**	6,552
Actual return less interest on Scheme assets	**(14,162)**	6,252
Employer contribution	**12,737**	3,663
Benefits paid	**(10,225)**	(10,392)
At 31 December	**251,704**	256,649

The analysis of Scheme assets at the balance sheet date was as follows:

	2018	2017
	%	%
Major categories of Scheme assets as a percentage of the fair value of total Scheme assets:		
Equity securities	**19.4%**	26.5%
Debt securities	**72.3%**	68.1%
Real estate	**2.7%**	2.5%
Cash and cash equivalents	**5.6%**	2.9%
	100.0%	100.0%

Contributions

The Group expects to contribute £8,400,000 to the Scheme in 2019 for deficit reduction contributions.

22. Contingencies

There are claims arising in the normal course of trading that are in the process of negotiation. In some cases these negotiations may be protracted over several years. Provision has been made for all 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 bank loan due by a subsidiary undertaking (notes 13 and 14).

23. 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 2018 was £19,973,000 (2017 for contracting work done for and land sold to joint ventures: £7,413,000), which includes £10,159,000 (2017: £3,866,000) that was eliminated on consolidation being the proportion of turnover relating to the proportion of those joint ventures owned by the Group.

Amounts were due to the Group from joint ventures and associates at 31 December 2018 of £81,822,000 (2017: £56,071,000). Additionally at 31 December 2018, the Group owed joint ventures £7,657,000 (2017: £3,330,000). Interest at market rates is receivable/(payable) in respect of loans, which are unsecured, due from/(to) joint ventures.

At 31 December 2018, £2,422,000 (2017: £2,221,000) was due from Myriad CEG Group Limited ('Myriad') and £2,000,000 (2017: £2,018,000) was due from Cornflower Investments Limited ('Cornflower'). The amount due from Myriad CEG Group Ltd has been fully provided in the year to 31 December 2018. The amount due from Cornflower is included in other debtors of the Company and the Group. Interest is receivable at a market rate in respect of these amounts. Myriad and Cornflower are related to the Company and the Group through common control.

During its normal course of business, a Group subsidiary, Wates Developments Limited, entered into a promotion agreement for a site, with Andrew T. A. Wates, who is a shareholder of the Company, and his wife, Sarah, in July 2016. The initial contract will last for 10 years and an initial amount of £85,000 was paid. Wates Developments Limited will be paid a promotion fee of 20% if it successfully achieves planning on the site within 10 years. The promotion is extendable for 10 years on payment of an additional fee.

Deena Mattar, a Non-Executive Director of the Company, is a Non-Executive for Grant Thornton, who carried out advisory work for the internal audit function of the Group for fees of £19,000 (2017: £5,000).

The total remuneration for key management personnel for the year was £5,643,000 (2017: £10,093,000).

24. Post Balance Sheet Events

On 11 March 2019 the Group's Revolving Credit Facility was extended to £120m from £60m. The expiry date was extended from 2022 to 2023.

Subsidiary Undertakings

At 31 December 2018

Except where otherwise stated:

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

Subsidiary undertaking
Wates Amenity Lands Limited
Wates Built Homes (Blakes) Limited
Wates Built Homes (London) Limited
Wates Built Homes Limited
Wates Built Homes (Retirement) Limited
Wates Built Homes (Southern) Limited
Wates Construction International LLC (incorporated in Abu Dhabi; ownership interest 49%; registered office – Sultan International Holdings, 20th Floor, Sheikh Sultan Bin Hamdan Building, Corniche PO Box 3486, Abu Dhabi, United Arab Emirates)
Wates Construction Limited*
Wates Construction Services Limited
Wates Developments (Bonehurst Horley) Limited
Wates Developments Limited*
Wates Financial Services Limited
Wates Group Properties Limited
Wates Group Services Limited*
Wates Healthcare Trustee Company Limited
Wates Homes (Bracknell) Limited
Wates Homes (Cambridge) Limited
Wates Homes (Chichester) Limited
Wates Homes (Farnham Common) Limited
Wates Homes Limited
Wates Homes (Oakley) Limited
Wates Homes (Odiham) Limited
Wates Homes (Wallingford) Limited
Wates Homes (Warsash) Limited
Wates (Hungerford) Limited
Wates Interiors Limited
Wates Lancewood Estates Limited*
Wates Limited*
Wates Living Space (Maintenance) Limited
Wates Maintenance Services Limited
Wates Pension Trustee Company Limited
Wates PFI Investments Limited
Wates PFI Investments (Projects) Limited
Wates PFI Investments (QED) Limited
Wates Regeneration (Coventry) Limited
Wates Regeneration (South Acton) Limited
Wates Regeneration (Tavy Bridge) Limited
Wates Second Land Limited

Subsidiary Undertakings continued

Subsidiary undertaking
Wates Smartspace Limited
Wates Staff Trustees Limited
Wates (Walberton) Limited
10 St Bride Street Limited*
Brooks and Rivers Limited
G Purchase Construction Limited
GW 217 Limited
Needspace? Limited*
Purchase Group Limited
Purchase Home Improvements Limited
Purchase Homes Limited
Purchase Support Limited
QED Education Environments Limited*
Relocation and Inventory Services Limited
SES (Engineering Services) Limited
Stageselect Limited*
Third Wates Investments Limited
WBH (Financial Services) Limited
Woodside Lands Estates Limited
Woodside Lands Limited
Woodside Lands Management Limited

*Owned directly by Wates Group Limited

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

	Interest		Address
Al Ain Schools Joint Venture	24.5%	(	Suite 702,
Al Bateen Secondary School Joint Venture	24.5%	(	Al Fara'a Corporate Office,
British School Joint Venture	24.5%	(	Al Nahyan Camp Area,
		(	PO Box 3486, Abu Dhabi,
		(	United Arab Emirates
American Community School Expansion Joint Venture	24.5%	(	Eastern International LLC, Bel
American Community School Landscaping Joint Venture	24.5%	(	Resheed Tower,
CFB Building Joint Venture	24.5%	(	14th Floor,
Qasr Al Hosn Fort Joint Venture	24.5%	(	Al Buhaira Corniche,
Qasr Al Hosn Fort and NCCC Main Contract Works Joint Venture	24.5%	(	PO Box 1596, Sharjah,
Specialised Rehabilitation Hospital Joint Venture	24.5%	(	United Arab Emirates
Linden Wates (St. Albans) Joint Venture	50.0%		Linden House,
			Linden Square, Harefield,
			Middlesex UB9 6TQ

Group Five Year Summary

	2014** £m	2015 £m	2016 £m	2017 £m	**2018 £m**
Profit and loss account					
Group turnover (plus share of joint ventures' and associates' turnover)	1,050	1,272	1,532	1,622	**1,601**
Group turnover	1,002	1,207	1,442	1,530	**1,501**
Operating profit (excluding share of joint ventures' and associates' interest and tax)	24.7	31.5	37.3	38.5	**39.0**
Profit before taxation (and excluding share of joint ventures' and associates' tax)	24.1	30.3	35.5	35.7	**35.9**
Balance sheet					
Net assets	86.5	93.3	70.7	119.4	**135.8**

**2014 restated in accordance with Financial Reporting Standard 102

This copy is for filing with the accounts of; -

Company	**Company Number**
Wates (Walberton) Ltd	11149972

See note regarding Audit exemption on Page 48 (WGL)