Company number: 01824828

WATES GROUP LIMITED

Annual Accounts and Reports

for the year ended

31 December 2016

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DIRECTORS AND ADVISORS

Directors	James G. M. Wates, CBE (Chairman) Andrew O. B. Davies (Chief Executive) David O Allen David M Barclay Deena E Mattar Andrew E. P. Wates Charles W. R. Wates Jonathan G. M. Wates Timothy A. D. Wates
Company Secretary	David O. Allen
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH
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Registered Office and Business Head Office	Wates House Station Approach Leatherhead Surrey United Kingdom KT22 7SW
Telephone	01372 861000
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Strategic Report

The directors present their Strategic Report, which is followed by the Directors' Report and the audited consolidated Accounts for the year ended 31 December 2016

Chairman's Welcome

2016 was another positive year for the Wates Group, not just in terms of its strong financial performance but also in terms of our continued investment in our people and in our relationships with important stakeholders, which reflect our commitment to a long-term view of success.

The Group continued to grow and successfully integrated SES (Engineering Services) Limited and the trade and assets of a number of construction projects from Shepherd Construction Limited.

We continued implementing our strategy of focusing on construction, property services and residential developments, with the goal of becoming the most trusted partner in the built environment.

The strong financial results described in this report are testament to the quality and commitment of our people, the strength of our relationships with clients and partners, and our robust financial management. The excellence of our management team was also reflected in Building Magazine's recognition of the Wates Group as Major Contractor of the Year and of Andrew Davies as CEO of the Year.

All this took place in an evolving political climate. The impact on the construction sector of the UK's decision to exit from the EU is uncertain.

That our sector needs to change – in particular by investing more in skills and modern methods of construction – was confirmed in the release of a government-commissioned report by Mark Farmer in October 2016. Notwithstanding the report's stark message, "Modernise or Die", it defined clear avenues for progress, which will guide the sector going forward The Group is focused on a renewed effort to ensure the availability of a stronger domestic pool of skilled labour across the built environment trades and professions.

The government responded to the uncertainty created by the EU referendum decision with confirmation of its commitment to invest in infrastructure and in increasing the availability of housing, suggesting that the markets in which the Wates Group competes will remain resilient.

The Group's commitment to excellence was reflected in our winning the Queen's Award for Enterprise in the Sustainable Development category for the second time in a row. This was a great accomplishment of which all employees should be proud. Hosting Her Royal Highness The Princess Royal in our recently-renovated Leatherhead offices for the presentation ceremony was a highlight of the year.

The Queen's Award recognised that our commitment to long-term sustainability, implemented through the Reshaping Tomorrow programme, is truly integrated into our business and is a vital ingredient of our success

Finally, on behalf of the shareholders, I would like to thank the Group's Board of Directors and all our employees for their hard work and continued commitment to our values of integrity, intelligence, performance, teamwork and respect.

Strategic Report continued

Chief Executive's Review

Delivering on our strategy

2016 was another strong year in the development of the Wates Group. The business grew by 20% from 2015, and now enters 2017 with 3,947 people and a forward order book of £3 6bn.

The Group has successfully integrated SES (Engineering Services) Limited and the trade and assets of a number of construction projects from Shepherd Construction Limited, which were acquired in 2015 and have helped establish Wates as a major player in the industry, validated by the award of 'Major Contractor of the Year' at the 2016 Building Magazine Awards. This award reflected the increasing strength of our Construction business, particularly in London, which has resulted in an average project value of over £22m in 2016, compared to around £15.8m in the previous year

Wates now has a more geographically balanced construction business, with a specialist mechanical and electrical engineering capability, and a non-domestic property services offering growing in both reputation and capability.

Our priorities for 2017 and beyond stay true to our long term strategic goals, putting the right systems, processes and people in place to secure our long-term growth strategy on a sustainable basis. This is particularly pertinent to our Construction business, where we are balancing our portfolio across both public and private sectors to give us stability over the coming years.

Strong performance

Group turnover, including the Group's share of joint ventures' and associates' turnover, increased by 20.4% to £1 53bn. Profit before tax was 17.1% up on 2015 at £35.5m. The Group's gross cash increased by 50.4% to £191.6m.

Despite challenging market conditions, the consistency of the Group's performance demonstrates its excellent capabilities, resilience and success in delivering for its clients.

Investing in new homes

Wates has a proud history as a home builder. In 2016 we cemented our position in the residential sector, not only through the building of homes, but also as one of the country's leading providers of housing maintenance We maintained 500,000 properties through Property Services; Residential Developments delivered 646 homes with 1,700 planned for 2017; a further 1,443 residential units were started by Construction and we established our credentials as a specialist provider of homes for senior living; 100 apartments were completed in 2016 with this number set to increase dramatically to 870 in 2017.

The journey to Zero Harm

Keeping people safe from harm and creating a healthy and safe environment wherever the Group operates remains Wates' number one priority Since the introduction of a Group-wide Zero Harm campaign in 2016, we have seen a marked reduction in incidents In 2016 the Group's RIDDOR AFR was down 47% from 2015 at 0.062. We achieved a 73% reduction in Dangerous Occurrences and a 28% reduction in LTIR.

Strategic Report continued

Building communities

The Group's corporate responsibility agenda, Reshaping Tomorrow, and its Delivering the Promise programme, underpinned by its Operating Framework, ensure that it delivers consistently for its clients the highest standards of quality and safety, while ensuring the actions we take today impact positively on tomorrow

The Group has a deep commitment to the communities in which it works. Its financial stability, family ownership and long-term commitment to the construction industry enable it to make a tangible and positive difference to the environment and to the communities in which it works, now and for future generations.

In 2016, we were awarded the Queen's Award for Enterprise: Sustainable Development for the second time, in recognition of our work supporting communities.

The Group has continued its partnership with The Prince's Trust to help disadvantaged young people develop the skills and identify opportunities for employment. Our people raised £75,000, contributing to a total of £160,000 donated over a three year partnership. Through its volunteering schemes and with the very welcome support of Wates Giving, our people gave 6,500 hours across 72 projects to support the communities in which we work and £1.1m was donated to charity.

With spend of £2.05m, we exceeded our target for the year for spending with Social Enterprises Nearly 75% of our sites used a Social Enterprise in 2016 and 646 of our supply chain attended the Supply Chain Sustainability School during the year.

The Group supports the BiTC Building Futures, Business Class and Born to Build programmes. In 2016 it delivered the Building Futures Programme to 115 young people, with 2016 seeing the 1,000th person completing the programme The Group also aims to engage with over 100,000 young people and promote the built environment through Business Class activities, which include World of Work Tours, Careers Events and Open Doors

2017 and beyond

With a forward order book of £3 6bn, a strong and stable financial position and a strategy for disciplined growth, the Group is positioned well for the future.

The strategy for 2017 and beyond sets out a clear vision to be the most trusted partner in the built environment, safely delivering high quality services and products and investments on time and on budget every time. The Group's mission is to become an ever more sustainably profitable business by continuing to build a balanced portfolio of work across our three sectors: construction, property services and residential developments.

Strategic Report continued

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 staff, subcontractors, customers or members of the public, or to damage property, the environment or our reputation.	The health and safety of people is the primary focus of the business. 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 Health and safety performance is reviewed regularly against agreed targets by both the Group Board and the Executive Committee to facilitate continuous improvement.
B. Market risk Demand for the services of the Group is cyclical and may be vulnerable to sudden economic downturns or reductions in government and private sector spending This may result in clients delaying, curtailing or cancelling proposed and existing projects.	The Group's strategic focus is on those market sectors in which a competitive advantage is maintained and that have the most potential to grow revenue. To limit the impact of exposure to any one sector, the Group has diversified its product and service offering across different market sectors
C. Competition The construction sector is highly competitive, which can place downward pressure on prices and 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 remains one of the determining factors in most 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 to determine whether it is in line with the strategic objectives of the Group before approval to tender is given
D. Project delivery Execution of projects involves professional judgement regarding the 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 uniform policies and procedures. These, combined with comprehensive management oversight, the risk management process, project reviews, internal audit, peer reviews and customer feedback help mitigate the risk to successful project delivery.

Strategic Report continued

Principal risks and uncertainties continued

Risk	Mitigation
E. Inflation Exposure to unforeseen increases in material and labour costs on existing contracts could have a negative impact on the Group's profit margins as demand increases	Commodity and labour costs are monitored on an on-going basis Back to back agreements are entered into to match client and subcontract terms and conditions. Strategic supply agreements are entered into for key commodities and strategic partner relationships formed with key suppliers.
F. Liquidity Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due	The approach of the Group is to manage liquidity such that it always has sufficient liquidity to meet its liabilities when due This applies under both normal and stressed conditions without incurring unacceptable losses or risking damage to our reputation. In addition, the Group seeks to ensure it has efficient cash management processes and carries sufficient cash and credit lines to meet all of its expected operational expenses.
G. Appointing and retaining talented people The success of the Group is dependent on being able to attract and retain staff that have the necessary experience and expertise Competition for high quality staff is intense.	As a family-owned business the Group knows that its people are at the heart of its on-going success. It seeks to mitigate this risk by offering market-competitive remuneration, training and career development opportunities, and by being an attractive and engaging employer. Remuneration and benefits are reviewed regularly to ensure sector competitiveness The Wates Leadership Development Framework establishes a leadership development path for employees as they progress to more advanced roles

Strategic Report continued

Analysis of Financial Key Performance Indicators

Group Performance

Group turnover, including the Group's share of joint ventures' and associates' turnover, increased by 20 4% to £1 53bn. Total operating profit before interest and tax increased by 18.5% to £37.3m, with a more consistent trading performance and another strong performance by our Residential Developments business. Overall operating margin decreased slightly from 2.5% to 2.4% in the year. Pre-tax profits at £35 5m were up 17.1% on the previous year

The Group maintained a strong cash position throughout the year. The Group finished the year with cash at bank of £191.6m (2015· £127.4m). The Group has in place a revolving credit facility of £30m, which has remained unutilised.

The forward-order book decreased by 10.2% to finish the year at £3.6bn (2015: £4.0bn)

Construction

Construction turnover, including its share of joint ventures, was £894.0m, 38.4% up on 2015 This was enhanced through a full year's worth of turnover from the acquired SES (Engineering Services) Limited. Average contract size as principal contractor was £22.0m, 39.2% up on 2015.

Residential Developments

Turnover for Residential Developments (including share of joint ventures and associates) decreased by 9.2% to £205.3m (2015: £226.2m).

The Developments business continued its established strategy of creating value through residential land management In 2016 planning permission was achieved for 248 residential properties (2015: 536) with decisions pending in relation to applications for a further 1,321 properties (2015· 652). In addition to six land transactions (2015 6), house building through joint venture activity delivered 362 completions (2015: 287). The business controls 3,089 acres of land (2015: 2,990 acres) on which to pursue planning permission for residential development and has house building joint ventures on 11 sites (2015: 12) with 1,134 properties (2015: 1,317) still to be completed.

The Residential business continues to build its development pipeline. Planning was secured on the first five sites (for 353 units) in Cardiff as part of the 'Cardiff Living' partnership with the City Council and the first sales at Dudley were completed in December Contracting activity continues nationwide underpinned by key projects in London, Hull and Flintshire.

Property Services

Property Services turnover, including its share of associates' turnover, was £429.8m, 8 0% up on 2015. This was in part due to the mobilisation of a contract with Birmingham City Council that was awarded during the year through which in excess of 30,000 dwellings are maintained, bringing the total number of dwellings maintained by the Property Services business to more than 500,000. Turnover was also enhanced through a full year's turnover from the acquired facility management business within SES (Engineering Services) Limited.

Needspace?

Needspace? provided flexible office space to small and medium sized entities from 5 centres across London and the South East throughout 2016. In January 2017, the business added a sixth centre based in Central London, taking the value of its property portfolio up to £37.7m (2015 £24.2m).

Strategic Report continued

Cash flow

The Group's cash position has proved resilient with strong operating cash flow throughout the year. At 31 December 2016, the gross cash balance was £191.6m (2015: £127.4m). Inflows from Group operating activities (£71.7m), dividends received from joint ventures and associates (£7.3m) and net bank loans (£5.8m) were offset by outflows for fixed assets (£9.3m), dividends (£10.3m) and loans to joint ventures (£1.3m).

Pensions

The defined benefit scheme deficit is calculated in accordance with FRS102 At the end of 2016 the net deficit had increased to £64.4m (2015: £36.1m) largely as a result of a reduction in the discount rate applied to the liabilities The market value of the scheme's assets was £250 6m (2015· £202.1m) and the net present value of the liabilities was £328.1m (2015: £246 1m). There was an actuarial loss in the year of £36 0m (2015: loss of £6.1m). Pension charges of £2 1m (2015: £4.5m) were made to the profit and loss account in accordance with FRS102.

Shareholders' funds

Shareholders' funds decreased by 24.2% to £70.7m:

	£m
Shareholders' funds at 31 December 2015	93.3
Profit for the financial year	27.2
Pension movements	(30.3)
Dividends	(17.5)
Currency translation difference	(1.4)
Share of other comprehensive expense of joint venture	(0.6)
Shareholders' funds at 31 December 2016	70.7

Tax

The Group's tax liabilities arise and are met fully within the UK The tax charge for the year was £8.3m (2015: £7 4m), which gave an effective rate of 23.3% (2015: 24.5%) This compares to the UK mainstream corporation tax rate of 20%. The tax charge exceeds the UK mainstream corporation tax rate due to disallowable costs such as the amortisation of goodwill.

Dividend

Dividends of £17.5m were declared on 14 March 2016 and payments of £8.2m and £2.1m were paid on 16 March 2016 and 6 May 2016 respectively The balance of £7.2m was paid on 3 January 2017

Wates Giving

The Group continued to contribute to Wates Giving, the charitable programme of the Wates Family Enterprise Trust. In 2016 this support amounted to £1 1m. The programme's focus remains investment in local projects that provide sustainable benefits to communities.

Approved by the Board of Directors on 13 March 2017 and signed on its behalf by.

James G. M. Wates
Chairman

A. O. B. Davies
Chief Executive Officer

Corporate Governance Report

UK Corporate Governance Code

As a private family-owned company the Group is not required to comply with the UK Corporate Governance Code 2016 However, it has included certain additional disclosures regarding corporate governance over and above those it is required to provide, where it is believed these disclosures would be helpful to readers of the Annual Accounts and Reports.

The Board believes that good business and sustained performance stems from good corporate governance, and remains firmly committed to achieving the highest standards in the interest of all stakeholders. Governance supports open and honest business, ensures that the Group has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. This approach enables the Group to protect the integrity of its business, meet its strategic objectives, create value for its shareholders and build a long-term, sustainable business.

The Board is clear that by doing the right things in the right way it can protect the Group's brand, reputation and relationships with shareholders, customers, employees, supply chain and the local communities in which it works.

The Role of the Board

The Board's primary responsibility is to promote the long-term success of the Group by creating and delivering sustainable shareholder value. The Board seeks to achieve this by setting out its strategy, monitoring performance against the Group's strategic objectives and reviewing the Executive Committee's implementation of the strategy.

A formal schedule of matters reserved for Board approval is maintained. This includes the determination of the Group's strategy and long-term direction, approval of budgets, capital expenditure, organisation changes, including new business ventures, the acquisition or disposal of assets, and changes in key policies. The Board also monitors the Group's systems of internal control, governance and risk management.

The Board delegates authority for all day-to-day management of the Group's affairs to the Executive Committee. In addition, certain governance responsibilities are delegated to Board committees, which support the Board in carrying out its duties. These committees are made up of Independent Non-Executive Directors, together with Non-Executive Directors from the Wates family, and provide the Board with independent oversight A report on the Audit, Remuneration and Nomination committees follows on pages 14 to 19. In 2016 the Board established a Corporate Finance Committee, which is made up of Independent Non-Executive Directors, a Non-Executive Director from the Wates family and Executive Directors. Amongst other things, this committee is providing oversight of the development of a strategy for managing the Group's defined benefit pension liabilities.

The Role of the Chairman

The Chairman plays a pivotal role by creating the conditions for overall Board and individual director effectiveness. The Chairman is responsible for appraising the Board of all matters affecting the Group and its performance. The Chairman is responsible for the effective operation and chairing of the Board, ensuring that the Board's time is used efficiently and that the agenda is forward looking and concentrates on strategy. The Chairman ensures that sufficient time is allocated to discuss complex or contentious issues, so that decisions are reached in a consensual and timely manner, arranging pre-board preparation as necessary, to avoid unrealistic deadlines for decision making. The Chairman also has responsibility to ensure effective communication with shareholders and that all Board members are aware of the views of shareholders.

Corporate Governance Report continued

Board of Directors
The Board comprises Chairman, Chief Executive, Chief Financial Officer, two Independent Non-Executive Directors and four family Directors

On 4 January 2016 Huw Davies stepped down from the Board and was replaced by David Allen as the new Chief Financial Officer of the Group. Jonathan Wates re-joined the Board on 20 June 2016 Graeme McFaull stepped down from the Board on 30 September 2016 as did David Smith on 17 October 2016.

A biography for each Board Director can be found on the Group's website www.wates.co.uk.

Directors update their skills, knowledge and familiarity with the Group by attending appropriate external seminars and training courses, meeting with senior management and visiting regional and divisional operations 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.

Independent Directors
The Board is satisfied that the number and calibre of its Independent Non-Executive Directors, together with their diverse backgrounds and experiences, ensures that the principles of the UK Corporate Governance Code are met. The Board believes that the Independent Non-Executive Directors are wholly independent in that they have no material business or relationships with the Group that might influence their independence or judgement.

Board Meetings
The Board has a programme of nine principal meetings every year, plus two additional days for the annual strategy conference with the Executive Committee. The Board receives regular and timely information on the financial performance of the Business, together with reports on operational matters, market conditions, sustainability and corporate responsibility. The Directors have equal voting rights when making decisions, except the Chairman, who has a casting vote. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the Group's expense.

From time to time, matters arise that require urgent approval prior to the next scheduled Board meeting. In such instances approval of all Directors may be sought via a telephone conference call Directors unable to attend are invited to provide feedback to the Chairman prior to the call.

Minutes of all meetings are circulated promptly to members of the Board.

Corporate Governance Report continued

Details of individual Directors' attendance of Board meetings in 2016 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			
Andrew Davies – Chief Executive	9	9	100%
David Allen – Chief Financial Officer	9	9	100%
David Smith – Chief Operating Officer	7	7	100%
Non-Executives - Family			
Andrew Wates	9	9	100%
Charles Wates	9	9	100%
Jonathan Wates	5	5	100%
Timothy Wates	9	9	100%
Non-Executives - Independent			
David Barclay	9	9	100%
Deena Mattar	9	9	100%
Graeme McFaull	7	7	100%
The Board convened two telephone conference calls in 2016 to consider and approve resolutions specific to project approval, investment proposals and shareholder distributions. All Directors were either present or had provided feedback to the Chairman for consideration prior to the calls.			

Board Diversity
The Group is an equal opportunities employer and promotes an environment free from discrimination The Group's policy on diversity extends to the Board. New Board appointments are based on a balance of skills and experience and will always be objective, free from bias and based solely upon relevant experience, knowledge and individual merit. A copy of the Group's Equality, Diversity and Inclusion Policy can be found at the Group's website www.wates.co.uk.

Activities of the Board in 2016
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 continued

During 2016 the Board focused on key priorities relevant to the following categories.

Financial and Operational Performance
The Board approved the Annual Accounts and Reports 2015 and set the Group's 2016 budget and business plan. Every month the Board received detailed reports on the Group's operating and financial performance and gave consideration to the Group's safety performance, economic and market conditions, competitor behaviour, cash balances and the work in hand position. The Board received regular presentations from each of the business units and functional heads, including updates on the relevant operational, commercial and financial performance and risk management issues, together with status reports on the Group's investments.

Strategy
The Board's annual strategy conference in October 2016 provided an opportunity to obtain a clear understanding of the businesses' markets and sectors, to benchmark performance and to review the Group's long-term goals and progress against its key performance targets The Board also considered the allocation of capital to support the business plan. The Board endorsed the Group's 2017-2019 strategy, received updates on progress against strategic programmes and continued to test the overall strategy against the delivery of shareholder objectives

In 2016 the Board received updates on a programme of performance excellence projects, which sought to optimise the Group's operating structure, improve the efficiency of its constituent parts and identify synergies between business units, in preparation for a sustained period of disciplined growth.

Employees
The Board received regular reports from the Remuneration Committee on the progress of the remuneration review that had been commissioned in 2015 to support the Group's strategic objectives and long term growth plans The Board considered the continued personal development of the Executive Committee, senior management succession planning and the activities necessary for the development of a diverse and long-term talent pool. Results from the employee engagement survey were reviewed, together with updates on the initiatives implemented to address regional improvements arising from the survey.

Risk Management
Key risks were reviewed regularly, together with the adequacy of mitigation controls. The Board re-affirmed its commitment to the Zero Harm campaign 'we're safer together', accompanied senior managers on site visits, received regular reports on the Group's Health and Safety performance and on the development of the leadership behavioural training programme, which is a vital part of the effort to promote a positive health and safety culture.

Governance
In line with the Group's delegated authorities, the Board received business cases for all project delivery contracts in excess of £35m in value and investment proposals in excess of approved budgets. The Board considered its response to new legislation, including the approval of a statement on the Group's approach to taxation and policies on anti-slavery and human trafficking and anti-bribery and corruption, all of which can be found on the Group's website www.wates.co uk.

Social Environment
The Board received reports on the Group's corporate social responsibility activities and re-affirmed its commitment to the Groups' key social responsibility principles and objectives, including defined delivery targets over a five year period

Corporate Governance Report continued

External Economic Environment
The Board regularly considered the impact of prevailing economic conditions on the Group's short and long-term strategic performance and management's response to challenging market conditions and competitor behaviour. The Board considered the likely impact of the EU Referendum result on the construction industry and the expected influence this would have on the Group's future performance within its chosen sectors.

Corporate Identity
The Board monitored progress of the Group's property strategy to ensure that the right premises were retained to support business unit requirements and the Group's national footprint. As part of this strategy the Board approved a refurbishment project to modernise and reinvigorate the Group's headquarters for the benefit of all staff and visitors. The Board also considered the Group's IT infrastructure and the technologies that would be required to support the Group's strategic growth and to ensure that it kept pace with IT developments within the industry.

Board Effectiveness
The Board last undertook a formal effectiveness review facilitated by an independent external advisor in 2015 and has scheduled the next independent review for 2018, in accordance with the three year cycle suggested by the UK Corporate Governance Code. Improvement actions emanating from the last assessment to further strengthen and enhance the Board's performance have been implemented. The Board plans to undertake an informal assessment of its effectiveness during 2017 to assess its success in executing the action plans, agreed as a result of the last effectiveness review particularly around the individual development of Board members and the organisation and the timing of discussions relating to matters reserved to the Board.

Audit Committee

Purpose
The Board delegates a number of specific duties to the Audit Committee, in order to assist in the discharge of its duties and to bring independent oversight to the Group's activities. 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

Audit Committee Members
The Audit Committee was chaired by Graeme McFaull, a chartered management accountant, until he stepped down from the Board on 30 September 2016. Deena Mattar, a fellow of the Institute of Chartered Accountants, was then appointed Chairman in his place. The Audit Committee comprises two other Non-Executive Directors, 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 Chairman and the Committee's members follow the principles of the UK Corporate Governance Code in relation to skills, knowledge and experience.

Corporate Governance Report continued

Audit Committee Meetings
The Committee has four principal meetings every year and operates a forward agenda of standing items relevant to reporting requirements The Committee Chairman reports to the Board after every meeting on the Committee's activities and conclusions, highlighting specific matters to be brought to the Board's attention

The external audit partner for PricewaterhouseCoopers LLP is invited to attend all meetings and the Committee Chairman also extends an invitation to the Chairman of the Board, Chief Executive, Chief Financial Officer, the Head of Internal Audit and the Group Commercial Director.

At every meeting the Committee considers whether the withdrawal of management from the meeting is required, in order that the Committee may speak freely with either internal audit or the external auditors. Twice a year the external auditors withdraw from the meeting, in order that the Committee may freely discuss their performance with management.

Minutes of the Audit Committee are circulated promptly to all members of the Committee, Board, external auditors and those in attendance

Details of individual Directors' attendance of Audit Committee meetings in 2016 are shown in the following table·

Name of Director	***Maximum no. of Principal Committee Meetings Director could attend***	***No. of Principal Committee Meetings Director attended***	***Percentage of Principal Meetings attended***
<u>Committee Chairman</u>			
Graeme McFaull	3	3	100%
<u>Non-Executive - Family</u>			
Timothy Wates	4	4	100%
<u>Non-Executives - Independent</u>			
David Barclay	4	4	100%
Deena Mattar (Chairman from 1 October 2016)	4	4	100%

External Auditors
PricewaterhouseCoopers LLP were re-appointed external auditors at the Group's AGM in April 2016. The Committee assesses the effectiveness of their performance every year after completion of the annual audit plan and in July 2016 the Committee evaluated their performance in relation to the 2015 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 calibre of the external auditors, their governance, independence and professionalism received good feedback. Both management and external auditors continue to foster a positive working relationship that enhances the effective and efficient execution of the audit process.

Corporate Governance Report continued

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 2016 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.

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

Activities of the Audit Committee in 2016
The Audit Committee constantly monitors, interrogates and challenges management on its risk mitigation, financial performance and the effectiveness of its internal controls. The Committee interrogates the work of the internal and external auditors to ensure that their activities remain focused in the right areas and that management responds to the auditors' key findings in a timely manner. In 2016 the Committee's activities included

- Reviewing the financial statements in the 2015 Annual Accounts and Reports. As part of this review the Committee received a report from the external auditors on their audit of the Annual Accounts and Reports;
- Reviewing the effectiveness of the Group's internal control systems and disclosures made in the Annual Accounts and Reports;
- Receiving a report on the 2015 self-certification process and senior management declarations for purposes of identifying potential control weaknesses,
- Considering the external auditors' management letter and receiving a report on management's actions in response,
- Evaluating the performance of the external auditors;
- Assessing the external auditors' independence and objectivity and the scope of non-audit work;
- Reviewing the 2016 interim accounts;
- Reviewing and agreeing the scope of the external audit work for the 2016 accounts and agreeing the 2016 external audit fee;
- Considering the Group's risk management framework and the output from the Group-wide process used to identify, evaluate and mitigate risks, including reviewing the Group's Corporate and Operational Risk and Business Unit Risk Registers;
- Reviewing risks relating to the loss of reputation and the relevant mitigation controls;
- Receiving quarterly reports from the Group Commercial Director on contract reviews, project specific performance, financial movements and improvements in operational processes;
- Reviewing the Group's litigation register and long term exposure to parent company guarantees;
- Receiving a quarterly report from the Head of Internal Audit summarising the work undertaken by the internal audit function and management's responses to proposals made in the audit reports issued during the year;
- Receiving internal audit reports completed in the year and a quarterly progress report against the 2016 internal audit plan,
- Considering conclusions from follow-up audits and investigations, which concentrate on previously reported areas of non-compliance or poor performance and engagement with senior management;

- Considering future changes to UK accounting practices and their likely impact on the Group's business plan;
- Endorsing the Group's Internal Audit Charter;
- Reviewing the Group's whistleblowing policy and receiving reports on activity through the Safecall helpline, together with follow up actions and the adequacy of the arrangement;
- Approving the 2017 internal audit plan,
- Agreeing a forward agenda for 2017 that included presentations from business and functional leads, and
- Reviewing the Committee's terms of reference and assessment of their compliance.

Detailed business unit and functional updates feature on the Audit Committee's forward agenda and are taken in rotation Matters such as business continuity planning, data security and policy reviews are scheduled every eighteen months

Assurance
The Audit Committee is satisfied that no significant failings or weaknesses were identified for the period under review. Where areas for improvement were identified during the year, relevant actions were identified and progress in implementing them was monitored The Committee considers that appropriate accounting policies have been adopted and that appropriate estimates and judgements have been made Furthermore, the Committee considers that this annual review provides the information necessary for shareholders and other stakeholders to assess the Group's performance, strategy and business model.

Remuneration Committee

Purpose
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.

Remuneration Committee Members
The Remuneration Committee comprises three Non-Executive Directors and is chaired by David Barclay. Members include Deena Mattar who is an Independent Non-Executive Director and Andrew Wates, a Director from the Wates family Graeme McFaull was a member of the Remuneration Committee until he stepped down from the Board on 30 September 2016.

Remuneration Committee Meetings
The Committee has three principal meetings every year and operates a forward agenda of standing items relevant to the Company's pay and bonus cycles and reporting requirements. The Committee Chairman reports to the Board after every meeting on the Committee's conclusions and recommendations

The Committee has clearly defined terms of reference, which are reviewed annually and are available from the Company Secretary The Committee is responsible for making recommendations to the Board concerning the Group's senior 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 commentary on matters considered by the Committee, providing updates on legislative requirements, best practice, market practice and remuneration benchmarking, drawing on evidence from across the sectors in which the Group operates and from other sectors. The Committee regularly reviews its external consultant requirements and appointed Kepler Associates with effect from January 2016.

Corporate Governance Report continued

The Committee regularly seeks advice and support from the Chief Executive and Head of Human Resources, who attend meetings at the invitation of the Committee's Chairman, but who are not present for any discussion relating directly to their own remuneration.

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

Details of individual Directors' attendance of Remuneration Committee meetings in 2016 are shown in the following table:

Name of Director	*Maximum no. of Principal Committee Meetings Director could attend*	*No. of Principal Committee Meetings Director attended*	*Percentage of Principal Meetings attended*
<u>Committee Chairman</u>			
David Barclay	3	3	100%
<u>Non-Executive - Family</u>			
Andrew Wates	3	3	100%
<u>Non-Executives - Independent</u>			
Deena Mattar	3	3	100%
Graeme McFaull	2	2	100%

One additional Committee meeting was convened in 2016 to consider target setting for the Group's 2016 incentive programme. All Committee members were in attendance at this meeting.

Activities of the Remuneration Committee in 2016
In line with its primary remit, the Committee's activities during the year included:

- Approval of the directors' remuneration report for inclusion in the 2015 annual report,
- Review and recommendation of criteria for pay, bonus and LTIP payments,
- Approval of employee participation of the Group's LTIP plan;
- Consideration of market trends and benchmarking data for the purposes of recommending salary levels;
- Review of guidelines and best practice on executive remuneration;
- Assessment that the Group's remuneration policy did not create any undue pressures or risks, and
- Approval of retention and incentive payments for Executives and senior management.

During 2016 the Committee considered draft legislation relating to gender pay reporting and the preparation that would be required for the Group to meet statutory obligations that would come into force in 2018.

Corporate Governance Report continued

Directors' Remuneration Report and Remuneration Policy
This report is designed to demonstrate the link between the Group's strategic objectives, performance and the remuneration of its Directors and will be put before shareholders for approval at the AGM on 4 May 2017.

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 The Committee comprises 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.

The Committee's current brief is to appoint a new Non-Executive Director to replace Graeme McFaull who stood down from the Board on 30 September 2016

Executive Committee

Purpose
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.

Executive Committee Members
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.

Executive Committee Meetings
The Committee has a schedule of ten formal meetings and further interim meetings as required. The key areas of focus for every meeting are the Group's health and safety and financial performance, people matters, operational performance, risk management, process and control improvements, and progress against the Group's strategic objectives The Committee's responsibility and authority are set by the Board and delegated by the Chief Executive to individual members of the Committee They in turn are accountable to him for the performance of their business units or functions and submit medium to long-term strategic plans, annual budgets and quarterly forecasts for review and approval

The Committee has clearly defined terms of reference, which are reviewed formally every two years and are available from the Group Company Secretary Minutes of the Executive Committee are circulated promptly to all members of the Committee and to the Board.

Activities of the Executive Committee in 2016
Details of the achievements of the Executive Committee in 2016 are highlighted in the Strategic Report.

Corporate Governance Report continued

Group Risk Committee

Purpose
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.

Group Risk Committee Members
The Committee is chaired by the Chief Executive and comprises members of the Executive Committee, regional business directors and functional leaders, including the Group Safety, Health, Environment and Quality Director, the Head of Internal Audit, the Group Financial Controller and 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 Committee meetings on a rotational basis to discuss their respective risk management and mitigation plans

Group Risk Committee Meetings
The Committee meets formally four times a year and operates a rolling forward agenda of items linked to the Group's reporting cycles After each meeting, the Chief Executive provides feedback to the Executive Committee on the Committee's activities and conclusions and reports any material issues to the Board. Minutes of the Group Risk Committee are circulated promptly to all members of the Committee, Executive Committee and to the Board.

Activities of the Group Risk Committee in 2016
The Committee's focus in 2016 was on monitoring the effectiveness of the Group's approach to risk identification, classification and mitigation. The Head of Internal Audit, in conjunction with members of the Executive Committee and business unit and functional leads, continued to enhance the structure and content of the Group's risk management framework and risk registers, enabling the Group to maintain a consistent approach to risk management. During 2016, the Committee:

- Interrogated risks identified within both the Group and business unit risk registers;
- Satisfied itself that mitigating actions were in place for specific risks within each register;
- Received quarterly commercial status reports, focusing on risks specific to individual projects,
- Considered the Group's risk profile, appetite for risk and the protection of its reputation;
- Considered emerging economic risks and their impact on project delivery;
- Reviewed litigated matters, including material insurance claims;
- Tracked management's response to control weaknesses identified through the annual internal assurance certification process;
- Considered the Group's ability to prevent fraud and satisfied itself that appropriate controls were in place and were effective;
- Considered the risks and responses to legislative changes,
- Ensured that appropriate insurance policies were in place to protect the Group's long-term aims;
- Monitored progress against the internal audit plan,
- Evaluated the internal audit process and objectives, and endorsed the internal audit charter;
- Evaluated the Group's whistleblowing arrangements and received reports on calls to the confidential helpline and on the close out of follow up actions; and
- Reviewed the Committee's composition, governance and terms of reference.

Corporate Governance Report continued

The Group's operational risks and their mitigation are outlined in the Strategic Report.

Communication with Shareholders
The Board continues to engage with the Wates Family Enterprise Strategy and seeks to align the Group's strategic objectives with the family's long-term aspirations for sustainability, growth, diversification and alternative investment opportunities in the built environment.

James Wates as Chairman of the Board is the primary communication route between the Board and shareholders Together with Tim Wates, as convener of the family, he works to ensure harmony and unity amongst the wider shareholder group

The Board confirm that the Annual Accounts and Reports for the year ended 31 December 2016 when taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, strategy and business model.

Financial Reporting
The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. The financial position of the Group, including its cash flow, liquidity position and its management of risks and uncertainties are also described in the Strategic Report.

Internal Controls
The Board takes ultimate responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness The Group's principal risks and uncertainties and how they are mitigated are summarised on pages 6 and 7.

The Board assessed the effectiveness of the risk management process and internal controls during 2016 and to the date of this report. The assessment was based on reports made to the Board, Audit and Group Risk Committees including:

- A Group-wide certification, through a Letters of Assurance process, that effective internal controls had been maintained, or, where any significant non-compliance or breakdown had occurred, that corrective actions had been or were being taken;
- The results of internal audit's reviews and quarterly internal audit reports;
- A paper prepared by management on its analysis of the Group's internal control systems; and
- Reports from the external auditors on internal control issues identified arising during the course of the audit.

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

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

- An established management structure operating throughout the Group with clearly defined levels of responsibility and delegation of authorities,
- Operating guidelines with authorisation limits set at appropriate levels in both business units and functions;
- A comprehensive budgeting and forecasting system, which is reviewed and updated regularly;
- A formal quarterly review of each business unit's performance, risk management, internal controls and forecast performance, which is carried out by the directors of each business unit with the Chief Executive and Chief Financial Officer;

Corporate Governance Report continued

- Monthly management reporting, including regular comparison of actual and forecast results against the relevant budgets and targets;
- Established standards governing the Group's client and contract selection processes, tendering and settlement processes and contract risk management process;
- Monthly contract reviews to assess the commercial position of each project;
- Established standards governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and, depending on value or perceived exposure, Board approval;
- Regular monitoring, review and reporting of health, safety and environmental matters; and
- Internal audit reviews of risks and controls

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

Directors' Report

The directors present their Annual Accounts and Reports for the year ending 31 December 2016. This report must be read in conjunction with the Strategic Report on page 3.

Dividends

The directors declared dividends in 2016 totalling £17,466,516 (2015: £9,842,734) of which £8,215,501 was paid on 16 March 2016, £2,048,985 was paid on 6 May 2016 and £7,202,030 was paid on 3 January 2017. No further dividends have been declared in respect of the Accounts to 31 December 2016.

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. Good communication 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. The Group also holds conferences twice a year with its senior leadership team to discuss priorities, share knowledge and disseminate good practice. Regular formal and informal meetings are held at business unit and regional levels and further communication is effected through the use of in-house magazines, electronic bulletins, notice boards, social media, the Group's website and a weekly blog, which features guest contributors from all parts of the Group.

The Group's Employee Engagement Survey provides an opportunity to understand employees' views on a range of matters such as confidence in the Group's future and their personal development, career aspirations and working environment. The 2016 survey provided an opportunity for two way discussions with employees on the issues arising and the implementation of improvement actions specific to the regions in which the Group works.

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.

Directors' Report continued

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

Corporate Responsibility – Reshaping Tomorrow
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 project delivery, the development and integration of new materials, 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. Certain directors benefited from qualifying pension scheme indemnity provisions during the financial year ending 31 December 2016 and benefit from these at the date of this report.

Directors
The directors during the year were:

James G. M. Wates, CBE (Chairman)
Andrew O. B. Davies (Chief Executive)
D Huw Davies (Chief Financial Officer) (resigned 4 January 2016)
David O. Allen (Chief Financial Officer) (appointed 4 January 2016)
David M Barclay
Deena E. Mattar
Graeme McFaull (resigned 30 September 2016)
David G. Smith (resigned 17 October 2016)
Andrew E. P. Wates
Charles W. R. Wates

Directors' Report continued

Jonathan G M Wates (re-appointed 20 June 2016)
Timothy A. D. Wates

Donations
During the year the Group made charitable donations amounting to £1,110,000 (2015: £1,012,000).

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 2017 Annual General Meeting of the Company will be held on Thursday 4 May 2017

Post Balance Sheet Events
There were no post balance sheet events requiring disclosure.

Approved by the Board of Directors on 13 March 2017 and signed on its behalf by:

D. O. Allen
Secretary

Directors' Responsibilities Statement

The directors are responsible for preparing the Annual Accounts and Reports in accordance with applicable law and regulations.

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

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

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

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

The directors are responsible for the maintenance and integrity of the Group and 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 the financial statements

Our 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 2016 and of the Group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Accounts and Reports (the "Annual Report") comprise:

- the Consolidated Profit and Loss Account and Consolidated Statement of Comprehensive (Expense)/Income for the year ended 31 December 2016;
- the Consolidated Balance Sheet as at the year then ended;
- the Company Balance Sheet as at the year then ended,
- the Consolidated Statement of Changes in Equity for the year ended,
- the Company Statement of Changes in Equity for the year ended;
- the Consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the Group, the Company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report We have nothing to report in this respect

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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
- the Company financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report

to the members of Wates Group Limited continued

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements

Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 March 2017

Consolidated Profit and Loss Account

For the year ended 31 December 2016

	Notes	2016 £000s	2015 £000s
Turnover:			
Group and share of joint ventures and associates		**1,531,910**	1,272,497
Less share of turnover of joint ventures and associates		**(90,301)**	(65,627)
Group turnover	2	**1,441,609**	1,206,870
Cost of sales		**(1,296,844)**	(1,087,147)
Gross profit		**144,765**	119,723
Administrative expenses		**(125,447)**	(104,801)
Net surplus on revaluation of investment properties		**5**	2,299
Profit on sale of investment in joint venture		**-**	1,253
Group operating profit	3	**19,323**	18,474
Share of post-tax profit from joint ventures and associates		**11,589**	6,781
Total operating profit: Group and share of joint ventures and associates		**30,912**	25,255
Analysed between:			
Total operating profit before interest and tax		**37,301**	31,481
Net interest payable – joint ventures and associates		**(3,782)**	(4,012)
Taxation – joint ventures and associates		**(2,607)**	(2,214)
Net interest receivable	6	**1,952**	2,832
Profit before taxation		**32,864**	28,087
Analysed between:			
Profit before taxation and before taxation of joint ventures and associates		**35,471**	30,301
Taxation – joint ventures and associates		**(2,607)**	(2,214)
Taxation on profit	7	**(5,664)**	(5,222)
Profit for the financial year		**27,200**	22,865

The above results have been derived from continuing operations.

Consolidated Statement of Comprehensive (Expense)/Income

For the year ended 31 December 2016

	Note	2016 £000s	2015 £000s
Profit for the financial year		**27,200**	22,865
Currency translation difference on foreign currency net investment		**(1,401)**	(439)
Remeasurement of net defined benefit liability	21	**(36,010)**	(6,058)
		(37,411)	(6,497)
Tax relating to components of other comprehensive expense	21	**5,682**	304
Share of other comprehensive expense of joint venture		**(603)**	-
Other comprehensive expense for the year		**(32,332)**	(6,193)
Total comprehensive (expense)/income for the year		**(5,132)**	16,672

The profit and total comprehensive (expense) / 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 2016

	Notes	2016 £000s	2015 £000s
Fixed assets			
Intangible assets - goodwill	8	**59,237**	62,953
Tangible assets	9	**39,509**	34,968
Investments in joint ventures	10	**75,688**	70,389
Other investments	10	**2,953**	3,371
		177,387	171,681
Current assets			
Stocks	11	**19,222**	8,184
Debtors			
- due within one year	12	**281,724**	285,732
- due after one year	12	**40,585**	26,499
		322,309	312,231
Cash at bank and in hand		**191,630**	127,445
		533,161	447,860
Creditors: amounts falling due within one year	13	**(520,637)**	(450,865)
Net current assets/(liabilities)		**12,524**	(3,005)
Total assets less current liabilities		**189,911**	168,676
Creditors: amounts falling due after more than one year	14	**(37,769)**	(27,301)
Provisions for liabilities	15	**(81,455)**	(48,089)
Net assets		**70,687**	93,286
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	**(603)**	-
Profit and loss account	18	**38,110**	60,106
Shareholders' funds		**70,687**	93,286

The notes on pages 34 to 58 form part of these accounts.

Approved by the Board of Directors on 13 March 2017 and signed on its behalf by.

James G. M. Wates
Chairman

D. O. Allen
Chief Financial Officer

Company number: 01824828

Company Balance Sheet

At 31 December 2016

	Notes	**2016 £000s**	2015 £000s
Fixed assets			
Investments	10	**58,412**	58,412
Current assets			
Debtors	12	**40,544**	21,204
Cash at bank and in hand		**236**	2,229
		40,780	23,433
Creditors: amounts falling due within one year	13	**(58,783)**	(44,059)
Net current liabilities		**(18,003)**	(20,626)
Net assets		**40,409**	37,786
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	**7,229**	4,606
Shareholders' funds		**40,409**	37,786

The notes on pages 34 to 58 form part of these accounts.

The profit for the financial year dealt with in the accounts of the parent company was £20,090,000 (2015. £11,298,000).

Approved by the Board of Directors on 13 March 2017 and signed on its behalf by:

James G. M. Wates
Chairman

D. O. Allen
Chief Financial Officer

Consolidated Statement of Changes in Equity

At 31 December 2016

	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 2014	**14,777**	**956**	**17,447**	**-**	**53,277**	**86,457**
Profit for the financial year	**-**	**-**	**-**	**-**	**22,865**	**22,865**
Currency translation difference on foreign currency net investment	-	-	-	-	(439)	(439)
Remeasurement of net defined benefit liability	-	-	-	-	(6,058)	(6,058)
Tax relating to items of other comprehensive expense	-	-	-	-	304	304
Total comprehensive income	**-**	**-**	**-**	**-**	**16,672**	**16,672**
Dividends paid on equity shares	-	-	-	-	(9,843)	(9,843)
At 31 December 2015	**14,777**	**956**	**17,447**	**-**	**60,106**	**93,286**
Profit for the financial year	**-**	**-**	**-**	**-**	**27,200**	**27,200**
Currency translation difference on foreign currency net investment	-	-	-	-	(1,401)	(1,401)
Remeasurement of net defined benefit liability	-	-	-	-	(36,010)	(36,010)
Tax relating to items of other comprehensive expense	-	-	-	-	5,682	5,682
Share of other comprehensive expense of joint venture	-	-	-	(603)	-	(603)
Total comprehensive expense	**-**	**-**	**-**	**(603)**	**(4,529)**	**(5,132)**
Dividends declared on equity shares	-	-	-	-	(17,467)	(17,467)
At 31 December 2016	**14,777**	**956**	**17,447**	**(603)**	**38,110**	**70,687**

Dividends of £17,466,516 were declared on 14 March 2016 and payments of £8,215,501 and £2,048,985 were paid on 16 March 2016 and 6 May 2016 respectively. The balance of £7,202,030 was paid on 3 January 2017.

Company Statement of Changes in Equity

At 31 December 2016

	Called up share capital £000s	Share premium account £000s	Capital redemption reserve £000s	Profit and loss account £000s	Total equity £000s
At 31 December 2014	**14,777**	**956**	**17,447**	**3,151**	**36,331**
Total comprehensive income	-	-	-	**11,298**	**11,298**
Dividends paid on equity shares	-	-	-	(9,843)	(9,843)
At 31 December 2015	**14,777**	**956**	**17,447**	**4,606**	**37,786**
Total comprehensive income	-	-	-	**20,090**	**20,090**
Dividends declared on equity shares	-	-	-	(17,467)	(17,467)
At 31 December 2016	**14,777**	**956**	**17,447**	**7,229**	**40,409**

The total comprehensive income of the Company for each of the two years ended 31 December 2016 is its profit for these financial years.

Dividends of £17,466,516 were declared on 14 March 2016 and payments of £8,215,501 and £2,048,985 were paid on 16 March 2016 and 6 May 2016 respectively. The balance of £7,202,030 was paid on 3 January 2017.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Notes	**2016 £000s**	2015 £000s
Net cash inflow from operating activities	19	**71,698**	58,527
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		**325**	25
Proceeds from sale of investments		-	1,263
Purchase of tangible fixed assets		**(9,320)**	(3,784)
Net loans to joint ventures		**(1,305)**	(20,133)
Dividends received from joint ventures and associates		**7,253**	306
Acquisition of subsidiary		-	(5,687)
Net cash outflow from investing activities		**(3,047)**	(28,010)
Cash flows from financing activities			
Equity dividends paid		**(10,265)**	(9,843)
Repayment of bank loans		**(7,269)**	(325)
Bank loans borrowed		**13,068**	19,726
Net cash (outflow)/inflow from financing activities		**(4,466)**	9,558
Net increase in cash and cash equivalents		**64,185**	40,075
Cash and cash equivalents at beginning of year		**127,445**	87,370
Cash and cash equivalents at end of year		**191,630**	127,445

Cash and cash equivalents are cash at bank and in hand

Notes to the Accounts

31 December 2016

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.

Notes to the accounts continued

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, 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

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

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

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, which ranges from 10 to 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.

Notes to the accounts continued

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 buildings	50 years
Leasehold land and buildings	period of lease
Plant and equipment	2 to10 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.

Notes to the accounts continued

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.

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

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

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.

Notes to the accounts continued

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 taken at a stage near enough to completion for that profit to be reasonably certain. Provision is made for all losses incurred to the accounting date together with any further losses that are foreseen in bringing contracts to completion

As certain agreements can run over a considerable number of years and cover a number of individual separable projects, the application of a percentage complete profit taking rule is not deemed appropriate. Profit is therefore taken on these agreements where the final accounts have been agreed with the client in the year.

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.

Notes to the accounts continued

1. Accounting policies continued

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

xvi) Leases

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

Notes to the accounts continued

1. Accounting policies continued

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

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.

Notes to the accounts continued

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.

Notes to the accounts continued

2. Turnover

Analysis by class of business	**2016 Turnover £000s**	2015 Turnover (restated) £000s
Construction	**891,457**	638,753
Residential Developments	**119,622**	169,789
Property Services	**427,697**	395,938
Other	**2,833**	2,390
Group total	**1,441,609**	1,206,870

Analysis of Group turnover	**2016 Turnover £000s**	2015 Turnover £000s
Construction contracts	**1,422,627**	1,158,165
Sale of land and residential properties	**16,149**	46,308
Rental/licence fee income	**2,833**	2,397
Group total	**1,441,609**	1,206,870

The Group restructured its activities with effect from 1 January 2016. The analysis of turnover by class of business for 2015 has been restated to show the analysis by the new classes with £148,046,000 being reclassified from Construction to Residential Developments and £395,938,000 being reclassified from Construction to Property Services. Group turnover is materially within the United Kingdom.

3. Group operating profit

	2016 £000s	2015 £000s
This is stated after charging/(crediting):		
Amortisation of goodwill	**3,716**	2,453
Auditors' remuneration*		
- audit of these accounts	**26**	25
- audit of subsidiaries' accounts	**274**	266
- taxation compliance services	**6**	8
- non-audit services	**40**	79
Cost of stock recognised as expense	**8,955**	36,445
Depreciation of tangible fixed assets		
(including loss on disposal £3,000, 2015 £74,000)	**4,459**	3,071
Foreign exchange (gain)	**(1,460)**	(307)
Hire of plant and machinery	**9,137**	6,321
Operating lease rentals	**6,581**	3,988
Research and development	**6,763**	4,592

* Excludes fee payments made through joint ventures

Notes to the accounts continued

4. Staff numbers and costs

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

	2016 Number	2015 Number
Operations	**2,851**	1,937
Administration	**1,076**	839
	3,927	2,776

The aggregate payroll costs for the Group were as follows:

	2016 £000s	2015 £000s
Wages and salaries	**208,443**	152,652
Social security costs	**24,182**	17,606
Other pension costs	**15,098**	11,657
	247,723	181,915

The pension operating cost for the year was £482,000 (2015: £3,093,000) in respect of defined benefit arrangements and £14,616,000 (2015: £8,564,000) in respect of defined contribution arrangements.

5. Remuneration of directors

		2016 £000s	2015 £000s
Directors' emoluments	– executive and family directors	**4,064**	2,945
	– independent non-executive directors	**151**	164
Amounts receivable under long-term incentive scheme		**1,290**	1,605
Contributions to money purchase pension schemes		**96**	76
		5,601	4,790

Three (2015 five) directors have retirement benefits accruing under the Group's defined benefits pension scheme and five (2015· four) directors have benefits accruing under a money purchase pension scheme.

		2016 £000s	2015 £000s
Highest paid director	- emoluments	**1,259**	1,164
	- amounts receivable under long-term incentive scheme	**739**	755

Notes to the accounts continued

6. Net interest receivable

	2016 £000s	2015 £000s
Interest receivable:		
Bank	**498**	353
Other	**3,866**	4,253
Interest receivable	**4,364**	4,606
Interest payable:		
Bank	**(755)**	(384)
Other	**(21)**	(6)
Interest payable and similar charges	**(776)**	(390)
	3,588	4,216
Other finance costs:		
Net interest on defined benefit liability	**(1,636)**	(1,384)
Net interest receivable	**1,952**	2,832

7. Taxation on profit

a) Analysis of the charge in the year

	2016 £000s	2015 £000s
Current tax		
UK corporation tax on the profit for the year at 20 0% (2015. 20.25%)	**5,955**	4,277
Adjustments in respect of prior years	**75**	111
Total current tax	**6,030**	4,388
Deferred tax		
Origination and reversal of timing differences	**(144)**	715
Decrease in tax rate	**28**	257
Adjustments in respect of prior years	**(250)**	(138)
Total deferred tax (credit)/charge	**(366)**	834
Total tax on profit	**5,664**	5,222

During the year beginning 1 January 2017, 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.

Notes to the accounts continued

7. Taxation on profit continued

b) Factors affecting the total tax charge for the year

The total tax charge for the year is higher than the standard rate of corporation tax in the UK of 20.0% (2015: 20.25%). The differences are explained below:

	2016 £000s	2015 £000s
Profit before taxation	**32,864**	28,087
Less share of profit after tax of joint ventures and associates taxed as separate entities	**(9,411)**	(6,881)
Group profit before tax	**23,453**	21,206
Group profit at the standard rate of corporation tax in the UK of 20 0% (2015: 20.25%)	**4,691**	4,294
Effects of:		
Income not taxable in determining taxable profit	**-**	(254)
Permanent disallowable costs	**1,120**	952
Decrease in tax rate on prior year timing differences	**28**	257
Adjustments in respect of prior years	**(175)**	(27)
Group total tax charge for the year	**5,664**	5,222

8. Intangible assets – goodwill

Group	£000s
Cost at 1 January 2016 and 31 December 2016	72,098
Amortisation:	
At 1 January 2016	9,145
Provided during the year	3,716
At 31 December 2016	12,861
Net book value:	
At 31 December 2016	**59,237**
At 31 December 2015	62,953

The net book value of goodwill at 31 December 2016 includes amounts and remaining amortisation periods regarding the following acquisitions:

Needspace? Limited £253,000 – 1 year
Wates Living Space (Maintenance) Limited £19,539,000 – 14.4 years
Purchase Group Limited Group £7,456,000 – 17.9 years
SES (Engineering Services) Limited £31,989,000 – 18.8 years

Notes to the accounts continued

9. Tangible fixed assets

Group	Land and buildings: Investment properties - freehold £000s	Land and buildings: Freehold £000s	Land and buildings: Short leasehold £000s	Plant and equipment £000s	Assets in the course of construction £000s	Group total £000s
Valuation or cost.						
At 1 January 2016	24,165	180	6,052	32,262	371	63,030
Additions	-	-	27	2,024	7,269	9,320
Revaluations	5	-	-	-	-	5
Transfers	-	-	6,246	622	(6,868)	-
Disposals	-	-	(4,568)	(2,854)	-	(7,422)
At 31 December 2016	24,170	180	7,757	32,054	772	64,933
Depreciation:						
At 1 January 2016	-	18	5,258	22,786	-	28,062
Provided during the year	-	2	632	3,822	-	4,456
Disposals	-	-	(4,564)	(2,530)	-	(7,094)
At 31 December 2016	-	20	1,326	24,078	-	25,424
Net book amounts:						
At 31 December 2016	**24,170**	**160**	**6,431**	**7,976**	**772**	**39,509**
At 31 December 2015	24,165	162	794	9,476	371	34,968

Investment properties, which are all freehold, were revalued as at 31 December 2016 to fair value at £24,170,000, based on a valuation undertaken by Richard M. Trimming BSc FRICS, a director of a subsidiary of the Group, who is a valuer with recent experience of the location and class of the investment properties being valued. The cost of investment properties at 31 December 2016 was £18,356,000. 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 £340,000 (2015: £382,000) and due over one year up to 5 years of £57,000 (2015: £57,000). Contracts are mainly licence agreements which are generally issued on a 3 month minimum term basis, rolling monthly thereafter

Notes to the accounts continued

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 2016	70,389	911	1,874	586	3,371
Additions	14,316	-	-	-	-
Repayments	(20,237)		-	(134)	(134)
Provisions released	-	-	-	250	250
Reduction of investment	-	(300)	-	-	(300)
Share of profit/(loss)	11,823	(234)	-	-	(234)
Share of other comprehensive expense	(603)	-	-	-	-
At 31 December 2016	**75,688**	**377**	**1,874**	**702**	**2,953**

Interests in associates include the 15% interest in Quality Social Housing Management Limited, which includes £nil (2015: £1,035,000) in respect of goodwill. After reduction of goodwill following reduction of investment of £300,000 and charging £442,000 to profit and loss account in respect of goodwill in the year, the net book value of goodwill included in interests in associates at 31 December 2016 is £nil (2015. £742,000)

Joint ventures

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

	Interest	Registered office
Annington Wates (Cove) Limited	50 0%	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%	The Manor House, North Ash Road, New Ash Green, Longfield, Kent DA3 8HQ
Linden Wates (Cranleigh) Limited	50.0%	Cowley Business Park, Cowley, Uxbridge, Middlesex UB8 2AL
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 (Ravenscourt Park) Limited	50 0%	
Linden Wates (Ridgewood) Limited	50.0%	
Linden Wates (The Frythe) 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 (Didcot) Limited	50.0%	
Miller Wates (Southwater) Limited	50.0%	
Miller Wates (Wallingford) Limited	50.0%	
QED Luton (Challney) Limited	8.0%	2 Hunting Gate, Hitchin, Hertfordshire SG4 0TJ
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
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%	

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 (2014: £1,874,000).

Equity loans

These comprise amounts advanced to homebuyers to assist in their purchase of the Group's residential properties under equity share schemes. The loans, with a cost of £814,000 (2015: £948,000), 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 £199,000 (2015. £199,000), which are repayable if the properties are not sold by 2021. The loans are mainly secured by a charge over the property. Loans with a cost of £314,000 (2015: £314,000) are interest free and loans with a cost of £500,000 (2015· £634,000) were interest free until 2016 when a fee of 1.75 percent is receivable, rising annually by the Retail Price Index plus one percent

10. Joint ventures and other investments continued

Company	Shares in Group undertakings £000s	Unquoted investments £000s	Total £000s
At 1 January 2016 and 31 December 2016	**56,538**	**1,874**	**58,412**

The cost of shares in Group undertakings is £75,262,000 (2015· £75,262,000).
The cost of shares in unquoted investments is £1,874,000 (2015: £1,874,000).

For the year ending 31 December 2016 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)

A list of the Group's subsidiary undertakings is set out on pages 57 and 58.

11. Stocks

Group	**2016 £000s**	2015 £000s
Raw materials and consumables	**345**	237
Residential land and work in progress under development	**18,877**	7,947
	19,222	8,184

12. Debtors

	Group **2016 £000s**	Group 2015 £000s	Company **2016 £000s**	Company 2015 £000s
Amounts falling due within one year				
Trade debtors	**97,975**	87,065	-	145
Amounts recoverable on contracts	**166,467**	161,983	-	-
Amounts owed by subsidiary undertakings	-	-	**38,266**	19,097
Amounts owed by joint ventures and associates	**6,238**	23,173	-	-
Deferred taxation (note 16)	**2,148**	2,100	-	-
Other debtors	**3,307**	6,399	-	1,950
Prepayments and accrued income	**5,589**	5,012	**12**	12
	281,724	285,732	**38,278**	21,204
Amounts falling due after more than one year				
Trade debtors	-	3,219	-	-
Amounts recoverable on contracts	**20,026**	11,360	-	-
Deferred taxation (note 16)	**18,156**	11,702	-	-
Other debtors	**2,403**	218	**2,266**	-
	40,585	26,499	**2,266**	-
	322,309	312,231	**40,544**	21,204

Notes to the accounts continued

13. Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	**2016**	2015
	£000s	£000s	**£000s**	£000s
Bank loans (note 14)	**20,092**	20,050	**19,803**	19,749
Advance payments on account of contracts	**128,680**	79,337	**-**	-
Trade creditors	**114,436**	93,638	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**31,705**	24,235
Amounts owed to joint ventures	**11,554**	2,768	**-**	-
Corporation tax payable	**1,391**	1,218	**-**	-
Other taxes and social security	**18,422**	21,702	**-**	-
Dividends payable	**7,202**	-	**7,202**	-
Other creditors	**3,322**	2,261	**-**	-
Accruals and deferred income	**215,538**	229,891	**73**	75
	520,637	450,865	**58,783**	44,059

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

	Group		Company	
	2016	2015	**2016**	2015
	£000s	£000s	**£000s**	£000s
Bank loans	**12,785**	6,905	**-**	-
Trade creditors	**444**	1,402	**-**	-
Amounts owed to joint ventures	**-**	1,684	**-**	-
Accruals and deferred income	**24,540**	17,310	**-**	-
	37,769	27,301	**-**	-

Bank loans include a five year secured term bank loan of £13,074,000 (2015: £7,206,000) which is repayable in instalments of £325,000 per annum with the balance repayable in 2021 (2015 balance repayable in 2018). It is secured on the freehold investment properties and other assets of a subsidiary, Needspace? Limited, which have a carrying value of £25,115,000 (2015: £24,704,000) and is guaranteed by the Company.

Other bank loans of £19,803,000 (2015: £19,749,000) are unsecured and are due within one year.

15. Provisions for liabilities

Group	£000s
At 1 January 2016	4,123
Utilised during the year	(1,615)
Charged to profit and loss account	1,373
At 31 December 2016	**3,881**
Provision for net defined benefit scheme deficit (note 21)	77,574
Total	**81,455**

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

Notes to the accounts continued

16. Deferred taxation

Group	£000s
At 1 January 2016	13,802
Adjustment re acquisition of subsidiary undertaking in 2015	454
Credited to profit and loss account	366
Credited to other comprehensive expense	5,682
At 31 December 2016	**20,304**

Deferred taxation is provided as follows:

	2016 £000s	2015 £000s
Accumulated depreciation in excess of capital allowances	**698**	580
Deferred tax arising in relation to retirement benefit obligations	**13,188**	7,914
Other timing differences	**6,418**	5,308
	20,304	13,802

	2016 £000s	2015 £000s
Deferred taxation asset under one year	**2,148**	2,100
Deferred taxation asset over one year	**18,156**	11,702
	20,304	13,802

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	**2016 £000s**	2015 £000s
Financial assets		
Debt instruments measured at amortised cost		
• Loans receivable from joint ventures (notes 10 and 12)	**64,901**	80,780
Equity instruments measured at cost less impairment		
• Fixed asset investments in unlisted equity instruments (note 10)	**1,874**	1,874
• Equity loans (note 10)	**702**	586
Financial liabilities		
Measured at amortised cost		
• Loans payable (notes 13 and 14)	**32,877**	26,955
Interest income and expense		
Total interest income for financial assets at amortised cost	**3,470**	3,606
Total interest expense for financial liabilities at amortised cost	**755**	384

Notes to the accounts continued

18. Called up share capital and reserves

	2016 Number	2016 £000s	2015 Number	2015 £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.

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.

Notes to the accounts continued

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

	2016 £000s	2015 £000s
Group operating profit including joint ventures and associates	**30,912**	25,255
Adjustments for.		
Increase in fair value of investment property	**(5)**	(2,299)
Profit on sale of investment in joint venture	-	(1,253)
Depreciation and amortisation	**8,175**	5,524
Joint ventures and associates	**(11,589)**	(6,781)
(Increase)/decrease in stocks	**(11,038)**	8,267
Increase in debtors	**(4,482)**	(11,435)
Increase in creditors	**64,845**	44,441
Decrease in provisions	**(242)**	(39)
Adjustment for pensions funding	**(4,038)**	(2,791)
Cash from operations	**72,538**	58,889
Interest received	**4,016**	4,402
Interest paid	**(656)**	(291)
Corporation tax paid	**(4,200)**	(4,473)
Net cash inflow from operating activities	**71,698**	58,527

20. Operating lease commitments

	2016 £000s	2015 £000s
Group total future minimum lease payments under non-cancellable operating leases are as follows:		
Within one year	**4,445**	3,124
Between one and five years	**8,732**	7,330
After five years	**4,604**	5,617
	17,781	16,071

Notes to the accounts continued

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. 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 2014 and was updated to 31 December 2016 by a qualified independent actuary

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)	**2016**	2015
Discount rate	**2.65%**	3.90%
Rate of compensation increase	**4.25%**	4.10%
Rate of price inflation	**3.25%**	3.10%
Rate of pension increase	**2.25%**	2 15%

Weighted average life expectancy for mortality tables used to determine benefit obligations at year end	**2016 Years**	2015 Years
Male member age 65 (current life expectancy)	**23.0**	22.9
Female member age 65 (current life expectancy)	**24.6**	24.5
Male member age 45 (life expectancy at age 65)	**24.7**	24 6
Female member age 45 (life expectancy at age 65)	**26.5**	26.4

Components of pension cost	**2016 £000s**	2015 £000s
Recognised in the profit and loss account.		
Current service cost	**482**	3,093
Net interest cost	**1,636**	1,384
	2,118	4,477
Recognised in other comprehensive income	**36,010**	6,058
Total cost relating to defined benefit scheme	**38,128**	10,535

Analysis of deferred tax recognised in other comprehensive income	**2016 £000s**	2015 £000s
Tax (credit) relating to remeasurement of net defined benefit liability	**(6,122)**	(1,090)
Decrease in tax rate on opening net defined benefit liability	**440**	786
Total tax (credit) relating to other comprehensive income	**(5,682)**	(304)

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

	2016 £000s	2015 £000s
Present value of defined benefit obligations	**328,148**	246,113
Fair value of Scheme assets	**250,574**	202,147
Net liability recognised in the balance sheet	**77,574**	43,966

Notes to the accounts continued

21. Pension schemes continued

	2016 £000s	2015 £000s
Movements in the present value of defined benefit obligations:		
At 1 January	**246,113**	242,291
Service cost	**482**	3,093
Interest cost	**9,433**	8,768
Actuarial loss/(gain)	**81,586**	(408)
Scheme participants' contributions	**9**	45
Benefits paid	**(9,475)**	(7,676)
At 31 December	**328,148**	246,113
Movements in the fair value of Scheme assets:		
At 1 January	**202,147**	202,976
Interest income	**7,797**	7,384
Actuarial gain/(loss)	**45,576**	(6,466)
Employer contribution	**4,520**	5,884
Scheme participants' contributions	**9**	45
Benefits paid	**(9,475)**	(7,676)
At 31 December	**250,574**	202,147

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

	2016 %	2015 %
Major categories of Scheme assets as a percentage of the fair value of total Scheme assets:		
Equity securities	**18.4%**	27.9%
Debt securities	**77.4%**	70.5%
Real estate	**1.3%**	-
Cash and cash equivalents	**2.9%**	1.6%
	100.0%	100.0%

Contributions

The Group expects to contribute approximately £3,666,000 to the Scheme in 2017, which includes routine and deficit reduction contributions. The Group has agreed to pay deficit reduction contributions of £3,500,000 per annum to the Scheme until 31 March 2025.

Notes to the accounts continued

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

A subsidiary of the Group and its fellow joint venturer have jointly and severally guaranteed the bank borrowings of a joint venture. The fellow joint venturer's share of the borrowings at 31 December 2016 was £2,059,000 (2015: £10,231,000)

The Company has guaranteed the overdrafts of subsidiary undertakings and 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 2016 was £10,673,000 (2015 £579,000), which includes £5,507,000 (2015· £481,000) 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 2016 of £64,940,000 (2015. £80,900,000). Additionally at 31 December 2016, the Group owed joint ventures £11,554,000 (2015: £4,452,000) Interest at market rates is receivable in respect of loans, which are unsecured, due from joint ventures.

At 31 December 2016, £2,266,000 (2015· £1,950,000) was due from Myriad CEG Group Limited (Myriad) and is included in other debtors of the Company and the Group. Interest is receivable at a market rate in respect of this amount. Myriad is 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 have carried out advisory work for the internal audit function of the Group for a fee of £26,620 (2015: £nil)

The total remuneration for key management personnel for the year totalled £8,799,000 (2015· £8,354,000)

Notes to the accounts continued

Subsidiary Undertakings

At 31 December 2016

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 - PO Box 3486, Al Khaleej Al Arabi Street, 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 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
Wates Smartspace Limited
Wates Staff Trustees Limited
10 St Bride Street Limited*
Brooks and Rivers Limited

Notes to the accounts continued

Subsidiary Undertakings continued

Subsidiary undertaking
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, 7th Floor, Al Fara'a Corporate Head Office, Behind Municipality Court, Off Delma Street, Defence Area, Abu Dhabi, United Arab Emirates
Al Bateen Secondary School Joint Venture	24 5%	
British School Joint Venture	24 5%	
American Community School Expansion Joint Venture	24.5%	Eastern International LLC, Bel Resheed Tower, 14th Floor, Al Buhaira Corniche, PO Box 1596, Sharjah, United Arab Emirates
American Community School Landscaping Joint Venture	24.5%	
CFB Building Joint Venture	24 5%	
Qasr Al Hosn Fort Joint Venture	24 5%	
Qasr Al Hosn Fort and NCCC Main Contract Works Joint Venture	24.5%	
Specialised Rehabilitation Hospital Joint Venture	24.5%	
Linden Wates (St. Albans) Joint Venture	50.0%	Linden House, Linden Square, Harefield, Middlesex UB9 6TQ

Group Five Year Summary

	2012* £m	2013* £m	2014** £m	2015** £m	**2016** £m**
Profit and loss account					
Group turnover (plus share of joint ventures' and associates' turnover)	1,194	931	1,050	1,272	**1,532**
Group turnover	1,097	852	1,002	1,207	**1,442**
Operating profit (excluding share of joint ventures' and associates' interest and tax)	25.9	23.1	24.7	31.5	**37.3**
Profit before taxation (and excluding share of joint ventures' and associates' tax)	25.7	22.3	24 1	30.3	**35.5**
Balance sheet					
Net assets	70.2	79.1	86.5	93 3	**70.7**

*As previously reported for the years 2012 to 2013

**As reported in accordance with Financial Reporting Standard 102 including the restatement of 2014