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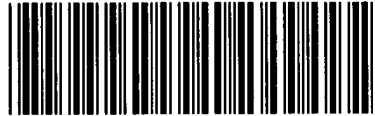
WATES CONSTRUCTION LIMITED

Annual accounts and reports

for the year ended

31 December 2021

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H.P. Bunch
P. Chandler
D.K.E. Morgan
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P.C. Rowan
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P. M. Wainwright

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Strategic report

The directors present the Strategic report which is followed by the Corporate governance report, the Directors' report and the audited consolidated accounts for the Group for the year ended 31 December 2021.

Principal activities

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

Business overview

The Group comprises of four business areas: Construction, Integrated Construction Services, Residential and Property Services.

Construction and Integrated Construction Services

Wates Construction Group comprises two operating businesses, Wates Construction and Wates Integrated Construction Services. The Group operates across the UK, working with a wide range of partners in both the public and private sectors.

Currently Wates Construction is a partner on over 60% of the UK's leading central and local government frameworks. Work delivered through these frameworks, including the Crown Commercial Services; the Department for Education (DfE); Homes England; the Ministry of Justice (MoJ) and the Ministry of Defence (MoD), makes up 60% of Wates Construction's turnover.

Wates Integrated Construction Services has been established to help drive Wates' productivity revolution, adopt modern methods of construction and explore innovative technologies, so the business can deliver better and more sustainable projects for customers. Over time, Wates Construction Group will assess opportunities to integrate more new specialist businesses into Wates Integrated Construction Services to increase the proportion of our projects that are delivered in-house.

The Construction Group restructured in 2021, arranging into the four regional geographies. It also entered a number of new sectors (such as healthcare) and launched its new Technical Excellence Centre (TEC). TEC is a virtual platform, connecting capabilities and expertise across the business. TEC aims to accelerate and enhance carbon and waste reduction by acting as a catalyst for the adoption of new technologies (such as augmented reality) which, amongst other things, will help the business create smarter buildings for its customers.

Residential

Residential is one of the leading developers and contractors in London, the South of England and Wales, delivering mixed tenure housing schemes in partnership with the public sector. The business works with its public sector partners to address the UK's urgent need for new housing and is driven by a belief that everyone deserves a great place to live.

During 2021 Residential completed 387 homes for around 1,200 people. Of these new homes, 40% were classed as affordable. The business also won new contracts with an aggregate value of £236m during the year. Notable projects included the completion of the last of the 200 homes at Daedalus Village in Lee-on-the-Solent and the ongoing work as part of Residential's 10-year Cardiff Living partnership with Cardiff Council. The business was selected as the development partner for a landmark £700m regeneration programme with Harrow Council.

Property Services

Across its three specialist business units (Living Space, Facilities Management and Smartspace), Property Services delivers planned and responsive housing repairs alongside zero-carbon and life safety retrofitting services for public sector landlords and housing associations, as well as the fit-out, refurbishment and management of commercial properties.

Property Services focus in 2021 was on its strategic priorities of becoming a leader in the decarbonisation of

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domestic properties, securing more public contracts for Wates FM and Wates Smartspace, building on Wates' reputation as a leader in fire safety, working with local authorities and housing associations on improving high-rise building sprinkler systems and growing social value in the communities in which the business operates. Given these priorities, an operational highlight for the year was the winning of £20m of decarbonisation work, building on Wates Living Space's partnership with energy services company Energy Specifics.

Sustainability

Becoming a more sustainable business is at the heart of everything Wates Group does. The Wates Group's Guiding Framework commits the business to acting responsibly for the benefit of its people, its partners and the planet. Wates seeks to ensure that it has nothing but a positive impact on health, happiness and the environment. The business aims to work safely, delivering services and products of the highest quality for its customers in a way that aligns with the Wates Group's sustainability aspirations. With the COP26 climate change conference highlighting the ever more urgent need for everyone to take responsibility for climate change, Wates Group is proud that its activities and overall strategic focus continue to be aligned with the UN's Sustainable Development Goals.

The Wates Group is committed to ensuring the physical and mental health, safety and wellbeing of its employees, partners, customers and other stakeholders. Its industry-leading injury and accident rates remain low across all key metrics.

The Wates Group recognises that climate change is a key driver of change for society and for business. Environmental sustainability is one of the five performance priorities identified in the Wates Group's Performance Wheel. The Wates Group launched its environmental strategy in January 2020, one of the first organisations within the built-environment sector to commit to generating zero carbon and zero waste from its operations, and to having a positive impact on nature from all operations by 2025. The Wates Group is an official supporter of the Task Force on Climate-Related Financial Disclosures, which provides internationally recognised recommendations for the reporting of climate-related financial information. In 2021, the Wates Group committed to setting a formal Net Zero target under the Science-Based Targets initiative and signed up to the Race to Zero campaign committing to halve its Scope 1, 2, and 3 emissions by 2030 against a 2019 baseline. The Wates Group's aim is to be Net Zero by 2045.

Wates Sustainable Technology Services has supported Wates and its customers to identify, trial and implement innovative, sustainable solutions for six years. It was launched in response to the growing demand for products that can improve the energy performance of buildings and help them meet environmental targets.

The entire Wates Group is committed to maintaining and improving quality standards in everything it does. Quality is one of the five performance priorities identified in the business' Performance Wheel. The Quality team has a vital role, in addition to its responsibility for the Wates Group's Operating Framework, for establishing the overall Wates Group Quality Strategy, for driving best practice and for overseeing quality assurance, external certification audits and compliance checks.






Principal risks and uncertainties

References within this section of the report are to Wates Group Limited (the "Wates Group"), being the wider Group of which Wates Construction Limited and its subsidiaries are a member of, the financial statements for which may be obtained from the address stated in note 25.

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Circles shown in the table below indicate the five key priorities outlined in the performance wheel, details of which are included in pages 5 to 11 as follows:

| | | | | | |
|---------|---|-------------|---|-----------------------|---|
| Safe |  | Sustainable |  | Diverse and inclusive |  |
| Quality |  | Profitable |  | | |

Arrows indicate changes to risk profile in the reporting period.

| Risk and mitigation | 2021 activities |
|---|--|
| <p>A. Health, safety and wellbeing    </p> <p>The Wates Group's activities have the potential to cause serious injury to its stakeholders, to damage property or the environment, to have a negative impact on the wellbeing of its people or to harm the Wates Group's reputation. The Wates Group is reliant on a largely subcontracted workforce, which creates additional challenges when it comes to monitoring activities.</p> <p>The health, safety and wellbeing of all stakeholders is the Wates Group's number one priority. To control risk and prevent harm, the Wates Group is focused on demonstrating the highest standards of health and safety management. This is achieved through strong leadership and culture, and robust health and safety procedures. The Wates Group pays close attention to the wellbeing of its people including measuring a wellbeing index as part of the Wates Group's biannual employee survey. The Wates Group monitors all health and wellbeing concerns and maintains contingency plans for its operations so it can respond proportionately to emerging risks whilst always protecting and promoting the health of all stakeholders.</p> <p>The Wates Group monitors the impacts of climate change which may pose a risk to the health, safety and wellbeing of its stakeholders, for example extreme weather events such as strong winds, heavy rainfall and heat. These risks are managed through robust operational risk management and clear, timely planned responses.</p> <p>Health, safety and wellbeing remain key strategic priorities for the Wates Group.</p> | <p></p> <p>The Wates Group's Health and Safety record has been consistently good. It has maintained a strong track record in line with its commitment to robust health and safety management. COVID-19 has continued to have a significant health impact and the Wates Group has continued to adopt Site Operating Procedures (SOPs) in line with government guidance.</p> <p>The Wates Group continued to focus on mental health risks, wellbeing and fatigue as priorities, particularly when employees who were able to do so were required to work from home for a large proportion of 2021. The Wates Group developed a series of workshops on building personal resilience. The company-wide programme was delivered to 600 employees in 2021. Employee Assistance and Mental Health First Aid Programmes continue to reinforce the Wates Group's commitment to workforce wellbeing.</p> <p>Other actions have continued to address areas of risk including: additional working at height risk assessments, height protection plan reviews, manager briefings and other toolbox talks.</p> <p>The Wates Group responded to risks posed by extreme weather events by issuing guidance, including advice on mitigation measures through the management structure using emails, the Wates Group's intranet and toolbox talks. As an early adopter of the Task Force on Climate-related Financial Disclosures (TCFD), the Wates Group considered the risks associated with climate change. See page 52 of the Wates Group financial statements for further details of the Wates Group's TCFD reporting.</p> |

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B. Economic and market risk



Demand for the Wates Group's services may be vulnerable to a range of factors, including a sudden economic downturn, a lack of confidence in the housing market and the broader economy, reductions in Government and private sector spending, increased unemployment, regulatory developments (such as changes to building and fire regulations, or government intervention on specific issues relating to planning or building safety), product and materials availability, subcontract labour supply, and cost inflation.

During 2021, COVID-19 and Brexit have continued to affect the market in which the Wates Group operates. Haulage issues, delays in worldwide distribution processes, port and container ship delays, increased demand for products and materials, changes to border controls and skilled labour shortages have all intensified competition for resources, resulting in cost and wage inflation and increased volatility in the availability of materials and labour.

The Wates Group recognises geopolitical risk generally and as a consequence of Brexit, as noted above, and more recently as a result of the conflict between Ukraine and Russia. Detailed procurement plans are developed to mitigate the risks arising from Brexit, and the Wates Group is closely monitoring the situation in Eastern Europe to mitigate any risk wherever possible.

The Wates Group's strategic focus is on those sectors in which a competitive advantage can be maintained and that have the most potential for profitable growth. To limit the impact of exposure to any one sector, the Wates Group has diversified its product and service offering across different sectors. Members of its leadership team participate in political, economic, and regulatory forums to maintain effective working relationships with the Government and regulatory authorities.

The Wates Group pays close attention to the markets in which it operates and the macro-economic factors and Government policies impacting its strategy and operations. Ongoing changes to Government policy are regularly reviewed. The Wates Group works for a wide range of public sector customers, which increases the resilience of the Wates Group's pipeline of future work and provides good opportunities for growth.

The Wates Group acknowledges the risk that both Government policy and the strategies of its customers will be affected by the UK's Net Zero target and it continues to monitor the market impact of these changes. The Wates Group recognises that its sustainability credentials are increasingly significant to work winning. It has developed



Economic and market conditions continue to be challenging during 2021.

The Wates Group assessed the impact of inflation, identifying two risks as being particularly relevant to its operations:

- i) Reducing profitability of long-term contracts and house building schemes as a result of material and labour price inflation, particularly where inflation occurs between tendering and ordering; and
- ii) Reducing employee retention if baseline salaries do not remain competitive.

The impacts of geopolitical risks were assessed. The Wates Group closely monitored how the Brexit transition impacted the supply of materials from across the world, developing specific procurement plans where necessary to mitigate risk. Following the escalation of tensions in Ukraine, the Wates Group carried out a further review of its supply chain and sources of funding for private sector clients. The Wates Group has identified no significant exposure to Ukraine or Russia through its operations but will continue to monitor escalating energy prices and the potential further impact on supply chain costs generally.

Market intelligence is captured from across the Wates Group's supply chain and is shared across the Wates Group, enabling mitigation measures to be put in place, including:



- i) The use of a robust preferred supply chain;
- ii) Early procurement strategies, including bulk ordering across numerous projects and the storage of materials on-site; and
- iii) Ongoing collaborative communication with customers and supply chain partners to ensure inflationary pressures are addressed.

The Wates Group maintained a strong forward order book and continues to monitor the potential impacts that these risks pose, including on contract terms and house prices.

A working group was set up to assess the changes in regulation as a result of the Building





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| <p>plans to reduce both its waste and carbon emissions and works with its supply chain to monitor the changes that are being made to accelerate decarbonization. For example, the transition to low-carbon materials could alter customers' requirements, demand new types of expertise and increase the cost of capital expenditure.</p> <p>The Wates Group also places a particular focus on the changes to EPC regulations, which are likely to impact on the properties the Wates Group owns. Further detail of the Wates Group's assessment of the risk of climate change and decarbonisation can be found in the Environment Risk below.</p> <p>The Wates Group has noted the Secretary of State for Levelling Up's January 2022 letter to consult with the residential property development industry on the means to fund the remediation of unsafe cladding on buildings between 11-18m high. There is significant uncertainty surrounding the outcome of this consultation, which may include changes to government policy and the impacts on the participants within the housing market (such as the insurance industry). The conclusion of the consultation and any resulting measures will not be known until after the date these financial statements have been signed. Until the consultation concludes the Wates Group will not know if or how it might be affected. In the meantime, the Wates Group is watching carefully for further developments of this consultation.</p> <p>Reference to the Brexit transition as a separate principal risk has been removed and, instead, the ongoing impacts of Brexit, most notably increased demand for materials and labour resulting in cost and wage inflation, are included within this economic and market risk analysis.</p> | <p>Safety Bill, in particular with regard to fire safety. This Wates Group cascades key messages to the leadership team on a regular basis and is preparing guidance and process to ensure compliance with the regulations when they come into force.</p> <p>The Wates Group continued to monitor the impacts of its operations on the environment. The Wates Group reported on progress against its 2025 carbon, waste and nature targets to the Executive Committee and Group Board.</p> <p>Solutions are being developed to ensure the Wates Group complies in full with the changes to EPC regulations and the team began to consider a range of propositions to enable customers to ensure that their assets comply.</p> <p>Further information on the Wates Group's environmental plans and commitments is set out on page 47 of the Wates Group financial statements.</p> |
| <p>C. Competition </p> <p>If the Wates Group fails to compete effectively in its chosen sectors, it runs the risk of losing market share or trading unprofitably. Although customers do consider service quality, capability, reputation and experience when assessing bids, price often remains one of the determining factors in contract awards. Climate change is having an impact on client decisions, with an increased demand for Net Zero developments, low carbon buildings and energy efficient retrofits.</p> <p>The Wates Group mitigates competitive risk by targeting projects where it has a competitive advantage and can manage costs and risks effectively. The risk profile of every bid is assessed at the estimation stage to determine whether it is in line with the strategic objectives of the Wates Group. The Wates Group is highly selective at bid</p> | <p></p> <p>Competitive intensity has increased due to the economic and political environment noted above. The Wates Group remains highly selective about the work it bids for and takes on. The Wates Group reviewed and updated its bid and contract governance processes to ensure the Executive Committee and Group Board focuses on the risk profile of the Wates Group's most important bids, contracts and investments. It maintains robust contract delivery and supply chain management process as part of its commitment to deliver assets and services of the highest quality to its customers.</p> |



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| <p>stage and will only take on work that it can deliver effectively and profitably. The Wates Group works with a number of customers on the delivery of low carbon buildings and is focused on further expanding its delivery capability and its development and use of relevant technologies. It is important that the Wates Group retains its high- performing and forward-thinking team. See further details in the Appointing and retaining talent risk.</p> | |
| <p>D. Project delivery </p> <p>The Wates Group uses its professional judgement in estimating, planning, designing and constructing its projects, often in complex environments. Each project could encounter difficulties that lead to cost and time overruns, litigation or disputes.</p> <p>The Wates Group's activities are guided by an Operating Framework that mandates rigorous policies and procedures throughout the project lifecycle. This framework, combined with comprehensive management oversight, the risk management process, project reviews, independent internal and external audits, peer reviews and customer feedback, help mitigate the risks to successful project delivery. There is close scrutiny of the financial judgements made on projects and the Wates Group operates prudent revenue and profit recognition policies. The Wates Group monitors significant external issues that could impact project delivery and maintains appropriate contingency plans.</p> | <p></p> <p>Drawing on the experiences of the pandemic, project delivery processes have continued to evolve, whilst maintaining a critical focus on safety and productivity. In some areas, the Wates Group found new opportunities to improve productivity and margins through the use of offsite construction and improved design. Customers continued to act pragmatically when collaborating with the Wates Group to manage the commercial impact of necessary project extensions (primarily resulting from COVID-19 delays). The Wates Group's performance has continued to be supported by its focus on supply chain management, contractual terms, risk allocation and ensuring quality in all aspects of delivery.</p> <p>The Wates Group considered the impact of climate-related extreme weather events, such as localised flooding of project sites or wider transport infrastructure issues and considers this to be an underlying risk that could lead to programme delays. Contingency plans remain robust to mitigate against any adverse impacts of such events.</p> |
| <p>E. Liquidity (Financial risk) </p> <p>Liquidity risk is the risk that the Wates Group will not be able to meet its financial obligations as they fall due. This could in turn affect its ability to invest, win work or pay staff and creditors.</p> <p>The Wates Group manages liquidity such that it maintains sufficient assets to meet its liabilities when they fall due. The Wates Group monitors and stress tests its liquidity position continuously. Funding arrangements are reviewed regularly and approved by the Group Board.</p> <p>The Wates Group had £203.9m of unrestricted cash on the balance sheet as at 31 December 2021, with access to a</p> | <p></p> <p>Since March 2020, when the pandemic began, the Wates Group has broadly maintained its investment profile and has continued to focus on cash management and liquidity. Additional and more frequent cash monitoring and forecasting processes put in place during 2020 have been maintained throughout 2021.</p> <p>The Wates Group took advantage of a £50m Coronavirus Large Business Interruption Loan Scheme facility in 2020, of which £5m has been repaid in 2021. The Wates Group has a strong balance sheet and established lender relationships. Consequently, other financing</p> |





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| <p>further £120m via an undrawn Revolving Credit Facility, which expires in March 2023.</p> <p>The Wates Group does not consider that its pension fund liabilities (financial risk) warrants separate principal risk reporting in this period. The funding position of the defined benefit scheme has improved during the year, due in part to a further £8.4m deficit reduction contribution. The pension fund investment strategies remain balanced and diversified, ensuring a reasonable balance between risk and return and maintain a sensibly hedged position in respect of inflation and gilt rate movements.</p> | <p>options are available to it, should the need arise.</p> <p>The Wates Group is committed to paying its suppliers and subcontractors on time and its customers have, in turn, continued to pay the business promptly, as evidenced by the strong cash position as at 31 December 2021.</p> <p>See 'Cash management' on page 74 of the Wates Group financial statements for further details.</p> |
| <p>F. Appointing and retaining talent </p> <p>The success of the Wates Group is dependent on being able to attract and retain people that have the necessary capability, behaviours, experience and expertise to drive and deliver business growth, meet the Wates Group's objectives, and deliver high-quality, high-value assets and services to its customers. Competition for skilled and talented employees is significant in our markets as a result of growing demand. ONS statistics continue to show a record-high number of vacancies. There is also a smaller pool of candidates to draw from post-Brexit.</p> <p>The Wates Group is committed to creating an inclusive and diverse environment in which all employees feel they belong. The Wates Group is committed to having a positive impact on the wellbeing of its people. The Wates Group proactively seeks to attract talent from a diverse range of personal and professional backgrounds, to provide the support, training and opportunity to enable all colleagues to reach their potential and to develop the leaders necessary for a sustainable future. The Wates Group also pays close attention to remuneration packages to ensure they remain competitive.</p> | <p></p> <p>The increasing demand for talent has resulted in wage inflation, as noted in the economic and market risk section above.</p> <p>The Wates Group's employment offering targets market-competitive remuneration (which is reviewed regularly), provides excellent training and career development opportunities, as well as the opportunity to work flexibly.</p> <p>Attracting and retaining the best and most diverse talent is one of the Wates Group's strategic priorities.</p> <p>The Wates Group's Employee Value Proposition is being used to inform a clear brand and attraction strategy. This will focus on attracting candidates from a wider and more diverse mix of personal and professional backgrounds, including from outside the industry.</p> <p>The Wates Group's approach to flexible working was accelerated as a result of the pandemic and a set of Flexible Working Principles were launched in June 2021. These apply to every role in the business and have inclusion at their heart. The principles guide our teams to rethink where, when and how work can be done.</p> <p>There has been encouraging take up of the Wates Group's Family Leave policies, which were launched in 2020.</p> <p>The biannual employee survey and a series of stakeholder feedback sessions suggest that employees want to work for forward-thinking organisations with strong environmental</p> |

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| | <p>sustainability credentials. Being able to demonstrate material progress against the Wates Group's sustainability targets is an important part of its people strategy.</p> <p>The Group retained its Investors in People Gold accreditation in 2021.</p> <p>See People report on page 12 of the Wates Group financial statements for further details.</p> |
| <p>G. Systems, data, cyber security and GDPR </p> <p>A loss of the Wates Group's key systems through a lack of resilience or an information security breach or cyber attack could impact the successful delivery of its projects, disrupt its business operations, or lead to a loss of confidential or personal information, damaging its reputation and brand, and impacting the business financially.</p> <p>Robust controls and procedures are in place to monitor the performance of the Wates Group's systems and security and to identify and mitigate external threats. The Wates Group is continually developing and upgrading its IT infrastructure, software and cyber threat and assessment capabilities. The Wates Group continues to develop and enhance data protection procedures in line with the relevant regulations. Controls and procedures are subject to regular independent internal and external audit.</p> | <p></p> <p>In the current economic environment, cyber threat levels continue to increase, with more Zero Day incidents and Ransomware attacks being reported by organisations globally. The Wates Group's systems, processes and controls have been robust to withstand these threats, while the Security Operations Centre (SOC) continues to provide robust and real-time monitoring and support. The Wates Group has strengthened its IT infrastructure and made significant investments in its systems. It achieved Cyber Essentials Plus certification in the period.</p> <p>Infrastructure and support processes have adapted well to a flexible working environment and there have been no significant changes to the control environment.</p> <p>As the Wates Group considers the effect of a transition to Net Zero, it acknowledges the requirement to capture carbon and operational energy efficiency data for customers. The Wates Group is assessing options for investment in further reporting tools.</p> |
| <p>H. The environment </p> <p>All sectors in which the Wates Group operates must work to reduce their negative impacts on nature and the environment. This creates huge opportunities and challenges for the business, which is why the Wates Group committed in 2020 to a series of bold, ambitious and deliberately stretching 2025 targets to achieve zero waste from Wates operations, zero carbon from Wates operations and commercial vehicles, and achieving a positive impact on nature by 2025.</p> <p>There is a risk that the Wates Group's activities may have a harmful impact on the environment and that the business</p> | <p></p> <p>The Wates Group's environmental plans were launched in 2020 with the aim of achieving stretching targets by the end of 2025. Although the pandemic slowed progress against these targets, in 2021 the Wates Group made a series of important steps forward. A new Environmental Sustainability Director was recruited to lead the business' transition to a low carbon future. The Wates Group worked with third-party consultants to develop a science-based target, beginning by establishing</p> |

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| <p>might be too slow to mitigate and adapt to the accelerating pace of climate change. This could harm competitiveness and the Wates Group's ability to attract and retain a high-quality and diverse workforce.</p> <p>Within the sectors in which the Wates Group operates, there is a growing demand for new low carbon and Net Zero buildings, and for the retrofitting of existing domestic and non-domestic buildings. Increasingly stringent regulations, policies and new building codes are being introduced, which are likely to lead to greater operating costs, require new processes, systems, technologies and investment in training and development. The Wates Group's supply chain will need to decarbonise (see further details in the Economic and market risk) and the Wates Group's ability to deliver low carbon assets and services will depend on their success in doing so.</p> <p>An inability to respond to these risks could result in a loss of market share, reducing revenues, profits and cashflow.</p> <p>Conversely, there is a valuable opportunity to become a market leader by responding swiftly to changes in customer expectations and the wider legal and regulatory context.</p> <p>All of the Wates Group's Business Units are developing new Net Zero products and services appropriate to the markets in which they operate.</p> | <p>a baseline for its 2019 carbon data. The Wates Group also assessed its climate related risks and opportunities in line with the recommendations of the TCFD (see TCFD disclosure on page 52 of the Wates Group financial statements for further detail).</p> <p>The Streamlined Energy and Carbon Report (SECR) on page 55 of the Wates Group financial statements provides an overview of the Wates Group's environmental performance.</p> |
|---|--|

Analysis of financial key performance indicators

Financial performance

The Group's financial performance was strong in 2021. Despite the COVID-related restrictions that were in operation for a substantial proportion of the year, Group turnover increased by £0.14bn and underlying operating profit grew by £7.8m. The Group maintained a strong cash position throughout the year, being able to pay dividends of £68.0m to its parent company in November.

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

| | 2021 | 2020 | Movement |
|--|----------------|---------|----------|
| Group turnover | £1.52bn | £1.38bn | +9.8% |
| Group turnover including the Group's share of joint ventures' and associates' turnover | | | |
| Group statutory turnover | £1.50bn | £1.38bn | +8.7% |
| Group statutory turnover excluding the Group's share of joint ventures' and associates' turnover | | | |
| Underlying operating profit * | £12.0m | £4.2m | +£7.8m |
| Operating profit before interest and tax | | | |
| Underlying operating margin * | 0.8% | 0.3% | +0.5% |
| Underlying profit before tax * | £14.2m | £7.4m | +£6.8m |
| Profit before tax and before tax of joint ventures and associates | | | |
| Group statutory profit/(loss) before tax | £14.2m | £(2.9)m | +£17.1m |
| Group statutory profit before tax including share of tax of joint ventures and associates | | | |

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|---|----------------|---------|---------|
| Forward order book | £7.1bn | £6.6bn | +7.4% |
| Net assets | £61.1m | £116.7m | -£55.6m |
| Year end cash and cash equivalents including restricted cash | £127.3m | £199.8m | -£72.5m |
| Year end net cash | £102.5m | £195.5m | -£93.0m |
| Cash balance excluding cash held in joint ventures and restricted cash, net of debt | | | |

* In order to provide users with a clear and consistent presentation of the underlying performance of the Group, the 2020 comparative figures exclude separately identified items that were considered to be exceptional because of their size or non-recurring nature. Further details of the exceptional items in 2020 can be found in note 4 to the accounts.

Key performance indicators for the Group are:

Construction Group

| | 2021 | 2020 |
|--|----------------|-------------|
| Construction Group turnover | £771.9m | £808.3m |
| Construction Group turnover including the Construction Group's share of joint ventures' and associates' turnover | | |
| Construction Group statutory turnover | £771.9m | £808.3m |
| Group statutory turnover excluding the Group's share of joint ventures' and associates' turnover | | |
| Forward order book | £3.9bn | £3.4bn |

Financially, the Construction business had a good year returning to pre pandemic levels of profit and margin. This was in the context of a trading environment that continued to be challenging. The first half of the year saw pandemic uncertainty lead to further delays in clients taking jobs to site. Whilst these delays reduced turnover, strong cost control and consistent underlying profits still allowed the business to achieve its profit and cash targets. These contract conversion delays reduced in the second half of the year and the Construction Business finished 2021 with a record value of contract conversions in the year (well in excess of £1bn). As well as converting existing work, the Construction business had a strong work winning year, finishing with its highest ever order book of £3.9bn.

Residential

| | | |
|--|----------------|---------|
| Residential turnover | £268.0m | £153.4m |
| Residential Group turnover including the Group's share of joint ventures' and associates' residential turnover | | |
| Residential statutory turnover | £249.3m | £149.9m |
| Residential statutory turnover excluding the Group's share of joint ventures' and associates' turnover | | |
| Units for which planning permission was achieved | 1,295 | 254 |
| Units for which planning permission is pending | 3,832 | 1,700 |
| Units completed through joint ventures and public sector collaborations | 124 | 173 |
| Active sites | 74 | 20 |
| Units still to be completed on active sites | 1,199 | 509 |
| Units worked on as contractor for public sector customers | 400 | 776 |
| Forward order book | £1.8bn | £1.7bn |

Residential works in partnership with public sector partners to deliver housing-led developments on publicly-owned brownfield sites. During 2021, the business worked on strategically important sites in Harrow, Havering, Cardiff and Lee-on-the-Solent. The Residential business also operates as a construction contractor for public sector customers across London, the South and Wales.

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Property Services

| | | |
|--|----------------|---------|
| Property Services turnover | £477.5m | £420.2m |
| Property Services turnover including the Group's share of joint ventures' and associates' property services turnover | | |
| Property Services statutory turnover | £474.5m | £417.9m |
| Property Services statutory turnover excluding the Group's share of joint ventures' and associates' turnover | | |
| Forward order book | £1.4bn | £1.6bn |

Living Space continued to experience the greatest impact from the pandemic in the first half of 2021. Customers in social housing delayed work and productivity was impacted by workforce absence due to COVID-19. In the second half of the year, repair volumes returned to usual levels, and bidding activity and the value of the order book both increased. Smartspace returned to pre-pandemic trading levels, with increasing volumes of work for customers in both the public and private sectors where the fit out market is increasingly buoyant, with a strong order book and pipeline. The Facilities Management (FM) business continues to grow. It retained all its customers in 2021 and, with employees increasingly returning to their places of work, demand for high-quality FM services is growing.

Cash flow

Inflows from Group operating activities of £0.6m (2020: £69.4m) were offset by net outflows from investments in joint ventures of £3.1m (2020: £0.3m), purchases of fixed assets of £2.2m (2020: £0.6m) and dividends paid of £68.0m (2020: £nil). See Note 21 for more information on cash generated by operations.

Dividends

Dividends of £68.0m were declared in 2021 and paid on 23 November 2021. No dividends were declared in 2020.

Wates Family Enterprise Trust

The Group continued to award funds to the Wates Family Enterprise Trust (WFET) to support its charitable giving. In 2021, this amounted to £0.8m (2020: £0.8m). The themes on which WFET's focuses are: life opportunities for young people; housing; and sustainability.

Section 172 Companies Act 2006

This report sets out how the Directors of Wates Construction Limited comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Board's decision making throughout 2021. The report for Wates Group Limited (the "Wates Group") has been included in these financial statements as the Directors of the company consider that the key decisions made are consistent with those included within the Wates Group report.

Engaging with stakeholders to deliver long term success is a key area of focus for the Board and all decisions take into account the impact on a wide range of stakeholders. Views of stakeholders are gathered in Board papers and inform the decisions made in Board meetings. Stakeholders are impacted by, or benefit from, decisions made by the Board in different ways. However, it is the Board's priority to ensure that the directors have acted both individually and collectively in a way that they consider, in good faith, would be most likely to promote the success of the Wates Group for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs a-f of Section 172 of the Companies Act 2006.

Long-term strategy and vision

The Board operates a forward agenda of standing items appropriate to the Wates Group's operating and reporting cycles. Items requiring Board approval or endorsement are defined clearly. These include strategy and key contracts, as well as items required by law and regulation. The Board monitors or reviews progress against strategic priorities, risk management, health and safety and the adequacy of internal controls.

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After the significant impact of Covid in 2020, the focus of the Board in 2021 has been on ensuring that the Wates Group's performance recovered quickly to pre-pandemic levels and that the Wates Group is positioned to take advantage of the many opportunities for future growth. The Board approves an updated strategic plan every year and monitors its implementation throughout the year using detailed reports on operating and financial performance. In approving the plan, the Board considers factors such as competitor behaviour, the performance of the residential and construction industries, as well as the evolving economic, political and market conditions.

The current strategy is focused on investing an additional £110m of the Wates Group's capital in its identified growth areas. These include: residential development (in partnership with Public Sector bodies); private sector developments (primarily through Joint Ventures with housebuilders); and environmental sustainability. This increased investment will help achieve the Wates Group's long-term strategic objectives, whilst balancing the risks caused by changing economic and market conditions. To ensure that adequate returns are earned on this new investment and that the business is able to maintain its levels of performance in all its areas of operation, the Wates Group has summarised its five key priorities as: safety, sustainability, diversity and inclusion, quality and profitability.

In determining the strategic plan, as well as the day-to-day management of the business, the Board considers the views of the key stakeholders referred to in the table below.

EMPLOYEES

| How the Wates Group engages | Outcomes | Further details |
|---|--|--|
| <ul style="list-style-type: none"> Wates Group biannual roadshows led by the Chief Executive (the roadshows were conducted virtually in 2021) Second annual Inclusion Month in October 2021 Biannual employee survey Site and office visits by shareholders, directors and members of the Executive Committee Video content from the family and executive directors Wates Group-wide newsletters and emails Internal and external social media channels Intranet blogs Wates Group leadership calls from which messaging is cascaded to the workforce Webinars Emails from the Chief Executive and other members of the Executive Committee Competitive compensation arrangements | <ul style="list-style-type: none"> Formal launch of the Wates Group's five performance priorities Further communication providing information about the actions the Wates Group is taking to become more inclusive, diverse and anti-racist Formal launch of the Wates Group's Flexible Working Principles Excellent take up of the Wates Group's industry-leading Family Leave policies Launch of a specific Anti Bullying and Harassment policy, embedding a zero-tolerance approach to inappropriate behaviour Introduction of a Reverse Mentoring programme, pairing white leaders with colleagues from under-represented ethnicities Pilot project introduced which will facilitate the 'debiasing' of the Wates Group's recruitment processes Pay rises were implemented in April 2021 and have been approved for April 2022 High staff retention rates | <ul style="list-style-type: none"> 'People' on pages 12 to 13 of the Wates Group financial statements |

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CUSTOMERS

How the Wates Group engages

- Regular customer engagement surveys by external companies
- Meetings (either face-to-face or virtually)
- Interaction through Wates' Innovations Network (WIN) portal
- Contract negotiation, ongoing management, site visits etc.
- Indirect engagement through the Wates Group website, social media interaction, project reports and marketing materials
- Communication about changes to legislation (e.g. Domestic Reverse Charge VAT)
- Quarterly newsletter

Outcomes

- Net Promoter Score (NPS) survey outcomes reviewed by the Board on a monthly basis to monitor progress in customer engagement
- Feedback received from customers (e.g. Leeds University achieving a perfect 10 for its NPS and Smartspace as a business improving its NPS from 30 to 60)
- Through Wates Sustainable Technology Services (WSTS) and the WIN portal, the Wates Group is supporting its customers to achieve their sustainability targets
- Regular, effective and collaborative communication with customers about the Wates Group's efforts to mitigate the effects of product, materials and labour supply issues, inflation and the pandemic on their projects and contracts
- Exceptional customer retention across all of the Wates Group's businesses
- Delivering safely, to a high quality, on time and in line with contractual requirements

Further details

- 'Leeds University' case study on page 27 of the Wates Group financial statements
- 'Cash management' on page 74 of the Wates Group financial statements

SUPPLY CHAIN

How the Wates Group engages

- Dedicated team responsible for supply chain relationships
- 'Meet the Buyer' events
- Email bulletins to suppliers (including details of changes in regulations)
- Health and safety training
- Supply chain workshops
- Regular meetings (either face-to-face or virtually)
- Contract negotiation, ongoing management and site visits
- Indirect engagement through the Wates Group website, social media interaction and project reports

Outcomes

- Providing effective support to supply chain partners in respect of changes in regulation (e.g. the introduction of Domestic Reverse Charge VAT)
- The Wates Group's consistent and supportive approach with its supply chain over many years has helped it respond effectively to the challenges of the current market (such as changes in product, materials and labour costs)
- The Wates Group's commitment to the Prompt Payment Code has ensured that at least 95% of invoices are paid within 60 days

Further details

- 'Principle 6 Stakeholders' on page 85 of the Wates Group financial statements

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FINANCIAL INSTITUTIONS

How the Wates Group engages

- The CFO and treasury function meet regularly with banks and providers of bonds
- Presentation of annual budgets and strategic plans
- Quarterly performance reporting

Outcomes

- The first repayment of the Coronavirus Large Business Interruption Loan Scheme (CLBILS) was made in the year
- Positive ongoing discussions with lenders about the renewal of the Wates Group's Revolving Credit Facility
- Ongoing covenant compliance and strong average daily net cash of £130.5m (2020: £88.0m)

Further details

- 'Cash management' on page 74 of the Wates Group financial statements

COMMUNITIES AND ENVIRONMENT

How the Wates Group engages

- Local community events (e.g. 'Meet the Buyer')
- Focused expenditure with Social Enterprises (SEs)
- Direct engagement through membership of the Considerate Constructors Scheme (CCS)
- Support of charitable programmes
- Member of UK Green Building Council (UKGBC)

Outcomes

- Through WSTS, the Wates Group is supporting more of its customers to achieve their sustainability targets through innovation
- Through its award-winning Wates Innovation Network (WIN) portal, WSTS is growing its portfolio of partners providing new solutions to cut carbon and make the built environment industry more sustainable
- In 2021, the Wates Group created £116m of social value and engaged with 12,080 young people
- In 2021, the Wates Group spent £6.8m on SEs, taking the cumulative spend since 2007 to £36.4m. Since 2007, more than £167m of social value has been created
- The Wates Group continues to provide funds to the Wates Family Enterprise Trust. £0.8m was contributed in 2021 (2020: £0.8m), taking the total amount given since 2008 to £15.1m
- In 2021, 55.8% of Wates' priority suppliers were registered with the Supply Chain Sustainability School (SCSS), an 8% increase on 2020

Further details

- 'Sustainability Report' on pages 40 to 57 of the Wates Group financial statements
- 'Wates Family Enterprise Trust' on pages 58 to 59 of the Wates Group financial statements

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SHAREHOLDERS

How the Wates Group engages

- The Wates Group interfaces with shareholders through away days, corporate events, the Chief Executive's twice-yearly presentation to the Family Council, regular interaction with the Wates family office and through the Wates Group Board (five members of the fourth generation of the Wates family are members of the Wates Group Board)
- Annual General Meeting (AGM)
- The preparation of the annual report helps shareholders understand the Wates Group's performance during the year

Outcomes

- The directors maintain a regular dialogue with Board members and other shareholders
- The Wates Group has approved a long-term increase in investment across its core investing businesses, supporting its objective to become a more profitable and sustainable company

Further details

- 'Corporate Governance Report' on pages 83 to 88 of the Wates Group financial statements

Standards of business conduct

The Board is keenly aware of the need to maintain high standards of business conduct. Sir James Wates (Chairman), on behalf of the Secretary of State for Business, Energy and Industrial Strategy, chaired an industry group on corporate governance for large privately-owned companies in 2018. The Wates Group has a strong ethical culture, underpinned by its purpose, behaviours and Code of Conduct. The Code of Conduct sets out the standards that all employees of Wates must follow.

The Board were involved in ongoing discussions with the Pensions Trustees on the investment strategy and future deficit repair contributions leading to the 2020 valuation being agreed with the Trustees on 30 March 2021.

The directors take very seriously their responsibility to ensure the Wates Group is a good corporate citizen. Business creates wealth that, through taxes, delivers the investment which, if properly managed by politicians, leads to a fairer and more prosperous society. In 2021, the Wates Group (including its share of joint ventures) contributed taxes, all within the UK, whether borne by the Wates Group or collected on behalf of HMRC of £232.7m (2020: £106.9m). The Wates Group is proud of the part it plays in the industry's contribution to society through its economic activity.

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| | Notes | 2021 £000s | 2020 £000s |
|--|-------|----------------|----------------|
| Taxes paid in the year (note 1) | | | |
| Taxes borne by the Wates Group | | | |
| Corporate income tax payments/(receipts) | | 4,750 | (334) |
| Employment-related taxes | 2 | 26,196 | 27,185 |
| Other taxes | 3 | 4,763 | 5,211 |
| | | 35,709 | 32,062 |
| Taxes collected for HM government (in addition to taxes borne above) | | | |
| Employment-related taxes | 4 | 62,828 | 59,771 |
| VAT | 5 | 134,133 | 15,064 |
| | | 196,961 | 74,835 |
| Total tax contribution (taxes generated by the Group from Wates Group activity) | | 232,670 | 106,897 |
| Government grant income received | 6 | - | (7,727) |
| Total tax contribution (taxes generated by the Group from Wates Group activity) net of Government grants received | | 232,670 | 99,170 |

Notes

- 1) All taxes are paid in the UK; none in other jurisdictions
- 2) Employer national insurance contributions, income tax paid on benefits in kind and apprenticeship and CITB levies
- 3) Business rates, insurance premium tax, stamp duty land tax, irrecoverable VAT, fuel duty and vehicle and other taxes
- 4) Income Tax and employee national insurance contributions deducted from salaries and wages
- 5) Net VAT collected and paid. Payments in 2020 were lower due to the Wates Group utilising the Government's VAT Deferral New Payment scheme and higher in 2021 as the deferred repayments were all repaid
- 6) Government grant income received through the Coronavirus Job Retention Scheme in respect of furloughed employees

The Board has approved the Wates Group's policies on anti-slavery and human trafficking and anti-bribery and corruption (which can all be found on the Wates Group's website www.wates.co.uk). The Board has also considered the data and narrative relevant to the Wates Group's gender pay reporting in preparation for external publication. In doing so, it considered proposals to improve the Wates Group's performance in this area.

Board Governance

The Board has chosen to apply the Wates Corporate Governance Principles for Large Private Companies for the year ended 31 December 2021. These principles provide a code of corporate governance for large private companies to raise awareness of good practice and over time to help to improve standards of corporate governance. They also support directors to meet the requirements of Section 172 Companies Act 2006 by providing guidance on the following areas:

- Purpose and leadership;
- Board Composition;
- Director responsibilities;
- Opportunity and risk;
- Remuneration; and
- Stakeholders.

The Corporate Governance Report, which evidences how the Wates Group applies the principles, is included in the Wates Group Limited financial statements and is also available on the Wates Group's website at www.wates.co.uk.

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Approved by the Board of Directors on 9 March 2022 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P. Wainwright', with a long horizontal stroke extending to the left.

P.M. Wainwright

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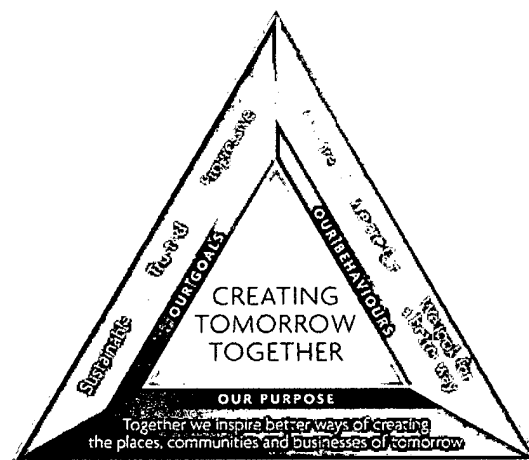
Corporate governance report

For the year ended 31 December 2021, under The Companies (Miscellaneous Reporting) Regulations 2019, the company has applied the **Wates Corporate Governance Principles for Large Private Companies** (published by the Financial Reporting Council ('FRC') in December 2019 and available on the FRC website). The following paragraphs summarise how the Directors of Wates Construction Limited applied the principles over the past year. The report for Wates Group Limited has been included in these financial statements as the Directors of the company consider that the application of the Principles are consistent with those included within the Wates Group report.

The Group's website contains further supporting information on the Wates Principles (www.wates.co.uk/who-we-are/corporate-governance/).

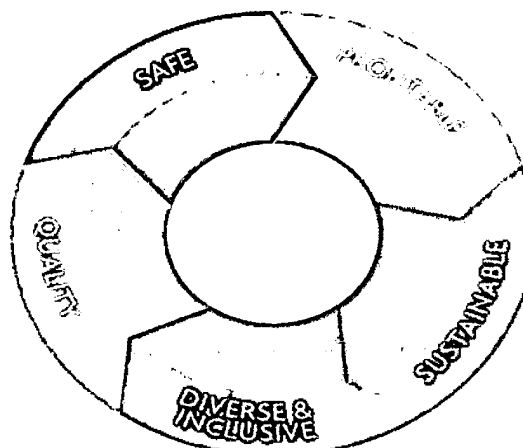
Principle 1 – Purpose and leadership

The Wates Group uses a Guiding Framework to define its purpose, goals and behaviours. Wates' purpose is,



together, to inspire better ways of creating the places, communities and businesses of tomorrow. By ensuring that this purpose is at the heart of everything the Wates Group does, Wates will build a reputation as a truly progressive, trusted and sustainable business. Wates believes that how it does business is as important as what it does. The behaviours that are expected of all Wates Group employees are summarised in the Guiding Framework and require everyone to demonstrate in their everyday decisions, language and actions that they care, are fair and always look for a better way to perform.

During 2021, the Board focused on the five priorities that comprise the Wates Group's 'Performance Wheel'. The five priorities define the areas in which the Wates Group must perform well in order to achieve the goals that are set out in the Guiding Framework. The five priorities are: safety, sustainability, diversity and inclusion, quality and profitability. (See Strategy report on page 10 of the Wates Group financial statements for further details).



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In 2019 a new diversity and inclusion plan was introduced which defined the targets for the Wates Group and explained the type of organisation that it wanted to become. In 2020, the Wates Group announced a new suite of industry-leading Family Leave policies. More than 200 employees have made use of these benefits since they were introduced. In October 2021, the Wates Group celebrated its second 'Inclusion Month', which encouraged an organisation-wide conversation on inclusion and helped raise awareness of the everyday actions that help and hinder inclusion. More than 1,100 employees took part in these events throughout the month.

Also in 2021, the Wates Group formalized a set of Flexible Working Principles, which focus on rethinking where, when and how work can be done in a way that maintains or improves delivery for our customers, while also improving the lives and careers of employees. For information on how the Board engages with employees and considers their views see page 13 of the Section 172 Companies Act 2006 report.

As defined in the Wates Group's diversity and inclusion plan, Wates is committed to having a workforce that more accurately reflects society and, despite disruption caused by the pandemic, it is making progress against the challenging targets it set to achieve by 2025:

- 40% Female (2021: 29%, 2020: 28%)
- 20% BAME (2021: 13%, 2020: 11%)
- 3% Disability (2021: 3%, 2020: 2%)
- 5% LGBTQ+ (2021: 2%, 2020: 2%)

The Wates Group has also launched an Anti-Bullying and Harassment policy, introduced a Reverse Mentoring programme pairing white senior leaders with colleagues from under-represented ethnicities, and introduced a pilot project to debias the recruitment process. These changes are designed to help attract and develop talented candidates from a much wider and more diverse range of personal and professional backgrounds. This is expected to lead to performance improvements and to help close the Wates Group's gender pay gap.

As part of the Wates Group's drive to become more sustainable, the Wates Group has set stretching environmental sustainability targets. These are discussed in detail within the Sustainability Report on page 40 of the Wates Group financial statements. The Wates Group has also evidenced its commitment to becoming more sustainable by being an early adopter of the reporting requirements of the Task-Force for Climate-related Financial Disclosures (TCFD) – see page 52 of the Wates Group financial statements. The Wates Group engaged external consultants to help define how it will meet its sustainability targets.

Delivering social value is intrinsic to the Wates Group's purpose and to its goal of being a progressive and responsible employer. By considering social value in its business decisions, including the way it employs staff, engages with communities and buys products and services, it can cultivate a more sustainable and inclusive society, demonstrating that good business done well can be a powerful force for good. For further information on the Wates Group's progress in this area, see the Social value report on page 43 of the Wates Group financial statements.

Principle 2 – Board composition

The Board comprises a Chairman, whose responsibilities encompass leading and managing the Board, ensuring its effectiveness and the quality of its governance, and making sure that the family's values are reflected in the purpose, goals and behaviours of the Wates Group. Together with the Chief Executive he ensures that the balance of responsibilities, accountabilities and decision-making across the Wates Group are maintained effectively. They are augmented by a Chief Financial Officer, the Executive Managing Director of the Wates Construction Group, three independent non-executives and four family members (excluding the Chairman). Independent non-executive directors bring experience in property development, engineering, finance and audit, in addition to perspectives and challenge from outside the sectors in which the Wates Group operates. The size (eleven members in total) and composition of the Board is appropriate for a Group with turnover of £1.5bn, operating in five complementary market sectors and is comparable to the Boards of similar listed businesses.

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In 2021, the Board considered the requirement to have detailed succession plans in place both for the Board and other members of senior management.

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

The most recent independent formal effectiveness review of the Board took place in 2019. The review assessed that the Board was competent and well run and could become even more effective by clearly aligning its agenda to strategic development and by engaging the whole Board more routinely in the active management of investor relations. The Board has been mindful of these findings during the year as it continued to respond to the pandemic.

A biography for each Board director can be found on the Wates Group's website www.wates.co.uk/who-we-are/ and on pages 60 to 63 of the Wates Group financial statements.

Principle 3 – Director responsibilities

The Board has a programme of six principal meetings every year, plus an additional day for strategic planning. As part of every Wates Group Board meeting, the governance of the Wates Group is included as a standing agenda item. The Board's key areas of focus in 2021 are noted in the Section 172 Companies Act 2006 report on pages 13 to 17.

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

The Board approves an updated strategic plan for at least the next 3 years on an annual basis. For details of the output of the strategic plan see the Section 172 Companies Act statement on page 13.

The Board completed the 2020 valuation negotiations with Pension Trustees and continues to be consulted in respect of the pension fund investment strategy. It has also signed off the Modern Slavery Statement, the Tax Strategy Annual Statement and the ongoing discussions with the Wates Group's lenders about the renewal of the Wates Group's Revolving Credit Facility (which expires in March 2023).

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

Principle 4 – Opportunity and risk

The Board seeks out opportunity whilst mitigating risk. The Wates Group's key operational risks and mitigations are outlined in the Strategic report (and are noted as 'Principal risks') on pages 4 to 11. The Board also considers all major projects (defined by their value and risk profile) and approves them before any bids are finalised.

The identification and management of risk is the responsibility of the Executive Committee. Day-to-day risks are managed by the Business Unit Boards and then consolidated and reported through the Executive Committee to the Group Board.

The Executive Committee (as delegated by the Board) considers risks as part of the day-to-day management of the business. In 2021, there has been particular focus on the potential risk to the Wates Group's current and future performance caused by cost inflation and constraints on the availability of labour, products and materials. The Board reviewed the management team's response to inflation, across all its businesses, and the potential impact

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on future performance. The Board was satisfied that the management team have the appropriate strategies in place to mitigate any material risk to the Wates Group's performance in future years, although this will continue to be monitored closely throughout 2022. Other new specific areas of focus have included the scope and potential risks of the Residential Property Developer Tax and the impact of the upcoming Building Safety Bill and related matters.

The introduction of the Wates Corporate Governance Principles for Large Private Companies highlighted a need for the Executive Committee to focus on opportunities as well as risks and this has now been incorporated into the monthly Committee meetings. Some of the opportunities that have been considered include leveraging the Wates Group's position as a trusted partner on a number of public and private sector frameworks, additional investment opportunities (as discussed within the Section 172 Companies Act Statement on page 13) and maximising the integration of the Wates Group's project and contract delivery capabilities. The Committee is also considering the potential impact of the Wates Group's diversity and inclusion, social value and carbon reduction plans.

Principle 5 – Remuneration

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

The start of 2021 was characterised by an unusually high level of economic uncertainty. In response, the Board implemented new incentive arrangements for all employees specifically for 2021. These arrangements provided employees with protection against a potential drop in profitability and with lower-than-normal targets in exchange for a reduction in payments for 'on target' performance. The Board approved pay-rises in April 2021, having not done so during 2020. No bonuses were paid in April 2021 in respect of 2020 performance. The Wates Group's performance in 2021 returned to pre-pandemic levels and this has allowed the Board to approve a return to pre-pandemic incentive arrangements for 2022. The Board has also approved pay-rises from April 2022.

In 2021, the focus has been on a change to the Wates Group's future incentive arrangements for all employees. The new arrangement, a profit-share scheme, will be implemented with a phased approach over the next two years and will ensure that all employees are aligned with the shareholders' objectives of delivering a sustainable, more profitable business whilst being more diverse and inclusive.

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

Principle 6 – Stakeholders

The Board is clear that good governance and effective communication are essential if the business is to fulfill its purpose and protect its brand, reputation and relationships with stakeholders, which include shareholders, customers, employees, suppliers, financial institutions, and the wider communities in which it works.

The health and safety of the Wates Group's employees and other stakeholders remains its number one priority and the directors review the performance in this area at each scheduled meeting. The Board's commitment to creating a sustainable zero-harm working environment has resulted in an industry-leading performance for five consecutive years. For further information see the Sustainability Report on page 40 of the Wates Group financial statements.

The Wates Group continues to publish all of the relevant data as part of its duty to report on payment practices and performance. The speed with which contractors pay their suppliers is an important topic within the

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construction sector. One of the key metrics is the number of invoices paid within 60 days. The Prompt Payment Code requires members to pay at least 95% of invoices within 60 days. The Wates Group predominately trades through two statutory entities that operate as main contractors and which report their payment performance externally. For the six-month period ending 31 December 2021, Wates Construction Limited has paid 96% of its invoices within 60 days (H2 2020: 97%) and Wates Property Services Limited has paid 98% of its invoices within 60 days (H2 2020: 98%).

Additional activities oriented towards ensuring strong relationships with stakeholders are detailed in the Section 172 Report on pages 13 to 17.

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Directors' report

The directors present the Directors' report for the year ended 31 December 2021. This report is to be read in conjunction with the Strategic report on pages 3 to 17.

Directors

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

D.O. Allen
S.J. Beechey
H.P. Bunch
P. Chandler
D.K.E. Morgan
S. J. Potter
P.C. Rowan
P.M. Wainwright

Director's indemnity

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

Dividends

The directors declared dividends in 2021 totaling £68,000,000 (2020: £nil). These were paid in November 2021. No further dividends have been declared in the year ended 31 December 2021.

Streamlined energy and carbon report

The company has not presented a report on the grounds that the company's energy and carbon information has been included in the Streamlined energy and carbon report presented in the company's parent company consolidated financial statements. For more information, see the Wates Group Limited Financial Statements which may be obtained from the address stated in note 25.

Health and safety

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

Employees

The Wates Group recognises the importance of engaging employees to help them make their fullest contribution to the business. The Wates Group views this as fundamental to achieving its strategy and long-term objectives. The Wates Group uses a variety of media to inform employees about development and prospects and seeks out and listens to employees' views and opinions at all times.

The Wates Group's roadshow events, which are open to all employees, is the mechanism through which the Chief Executive informs and updates staff on its performance, plans and future outlook and provides employees with an opportunity to ask questions, or to seek clarification, on the Wates Group's purpose, goals and direction. There were two roadshows during 2021, both of which were broadcast online (as a result of COVID-related restrictions).

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Directors' report

A biannual employee survey is undertaken to allow colleagues to provide honest feedback about their experience working at Wates. Twice a year, the Wates Group's senior leadership team convenes to share knowledge, disseminate good practice and to discuss strategic priorities. Informal meetings are held at business unit and regional levels and further communication is effected through the use of a group-wide intranet and enterprise social network, electronic bulletins, notice boards, social media, the Wates Group's website and blogs from contributors from all parts of the Wates Group.

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

Equal opportunities

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

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

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

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

Corporate responsibility

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

Research and development

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

Donations

During the year the Group made charitable donations amounting to £0.8m (2020: £0.9m). No political donations have been made.

Wates Construction Limited Annual accounts and reports 2021

Directors' report

Disclosure of information to auditors

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

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- Each director has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Going concern

The directors have reviewed the forecast future performance of the Wates Group and the company and have prepared a cash flow forecast for 12 months from the date of approval of these financial statements. The directors consider that the Wates Group has sufficient cash reserves to continue trading, whilst meeting the financial covenants set within its banking facilities.

Accordingly, the directors continue to adopt the going concern basis in preparing the company's accounts. Further details regarding the adoption of the going concern basis can be found in note 1 to the accounts.

Post balance sheet events

There were no post balance sheet events requiring disclosure.

Approved by the Board of Directors on 9 March 2022 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual accounts and reports 2021

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

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

Wates Construction Limited Annual accounts and reports 2021

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Wates Construction Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2021 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cash Flow Statement and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with those requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine

Wates Construction Limited Annual accounts and reports 2021

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

whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

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

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Wates Construction Limited Annual accounts and reports 2021

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

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

Our audit procedures were designed at Group and significant component levels to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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


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

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

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

Use of our report

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

DocuSigned by:

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Charles Ellis (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
9 March 2022

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

Wates Construction Limited Annual accounts and reports 2021

Consolidated profit and loss account

For the year ended 31 December 2021

| | Notes | Statutory 2021 £000s | Underlying 2020 £000s | Exceptional (note 3) 2020 £000s | Statutory 2020 £000s |
|--|-------|----------------------------|-----------------------------|--|----------------------------|
| Turnover: | | | | | |
| Group and share of joint ventures and associates | | 1,517,501 | 1,381,873 | - | 1,381,873 |
| Less share of turnover of joint ventures and associates | | (21,804) | (5,746) | - | (5,746) |
| Group statutory turnover | 2 | 1,495,697 | 1,376,127 | - | 1,376,127 |
| Cost of sales | | (1,344,759) | (1,248,972) | (13,683) | (1,262,655) |
| Gross profit/(loss) | | 150,938 | 127,155 | (13,683) | 113,472 |
| Administrative expenses | | (139,057) | (123,085) | (3,470) | (126,555) |
| Other operating income | | - | - | 6,877 | 6,877 |
| Group operating profit/(loss) | 4 | 11,881 | 4,070 | (10,276) | (6,206) |
| Share of post-tax loss from joint ventures and associates | 11 | (241) | (239) | - | (239) |
| Total operating profit/(loss): Group and share of joint ventures and associates | | 11,640 | 3,831 | (10,276) | (6,445) |
| Analysed between: | | | | | |
| Total operating profit/(loss) before interest and tax | | 11,956 | 4,173 | (10,276) | (6,103) |
| Net interest payable – joint ventures and associates | | (309) | (352) | - | (352) |
| Taxation – joint ventures and associates | | (7) | 10 | - | 10 |
| Interest payable and similar charges | 7 | (55) | (85) | - | (85) |
| Interest receivable | 7 | 2,592 | 3,614 | - | 3,614 |
| Profit/(loss) before taxation | | 14,177 | 7,360 | (10,276) | (2,916) |
| Analysed between: | | | | | |
| Profit/(loss) before taxation and before taxation of joint ventures and associates | | 14,184 | 7,350 | (10,276) | (2,926) |
| Taxation – joint ventures and associates | | (7) | 10 | - | 10 |
| Taxation on profit/(loss) | 8 | (1,723) | (1,443) | 1,952 | 509 |
| Profit/(loss) for the financial year | | 12,454 | 5,917 | (8,324) | (2,407) |

The above results have all been derived from continuing operations.

Consolidated statement of comprehensive income/(expense)

For the year ended 31 December 2021

| | 2021 £000s | 2020 £000s |
|--|---------------|----------------|
| Profit/(loss) for the financial year | 12,454 | (2,407) |
| Currency translation difference on foreign currency net investment | (24) | 116 |
| Other comprehensive (expense)/income for the year | (24) | 116 |
| Total comprehensive income/(expense) for the year | 12,430 | (2,291) |

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

Wates Construction Limited Annual accounts and reports 2021

Company number: 1977948

Consolidated balance sheet

As at 31 December 2021

| | Notes | 2021 £000s | 2020 £000s |
|--|-------|------------------|------------------|
| Fixed assets | | | |
| Intangible assets - Goodwill | 9 | 41,582 | 45,059 |
| Tangible assets | 10 | 4,101 | 3,742 |
| Investments in joint ventures and associates | 11 | 7,533 | 4,740 |
| Other investments | 11 | 288 | 362 |
| | | 53,504 | 53,903 |
| Current assets | | | |
| Stocks | 12 | 26,522 | 21,338 |
| Debtors | | | |
| - due within one year | 13 | 408,429 | 322,581 |
| - due after more than one year | 13 | 19,697 | 25,660 |
| | | 428,126 | 348,241 |
| Cash at bank and in hand | 14 | 127,253 | 199,789 |
| | | 581,901 | 569,368 |
| Creditors: amounts falling due within one year | 15 | (537,562) | (470,004) |
| Net current assets | | 44,339 | 99,364 |
| Total assets less current liabilities | | 97,843 | 153,267 |
| Creditors: amounts falling due after more than one year | 16 | (16,012) | (17,941) |
| Provisions for liabilities | 17 | (20,712) | (18,637) |
| Net assets | | 61,119 | 116,689 |
| Capital and reserves | | | |
| Called up share capital | 20 | 28,000 | 28,000 |
| Profit and loss account | 20 | 33,119 | 88,689 |
| Shareholders' funds | | 61,119 | 116,689 |

The notes on pages 37 to 57 form part of these accounts

Approved by the Board of Directors on 9 March 2022 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual accounts and reports 2021

Company number: 1977948

Company balance sheet

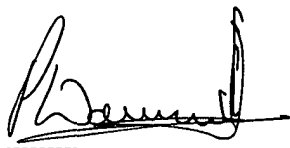
As at 31 December 2021

| | Notes | 2021 £000s | 2020 £000s |
|--|-------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | 10 | 2,125 | 1,018 |
| Investments | 11 | 86,013 | 82,976 |
| | | 88,138 | 83,994 |
| Current assets | | | |
| Stocks | 12 | 26,392 | 21,246 |
| Debtors | | | |
| - due within one year | 13 | 329,949 | 264,907 |
| - due after more than one year | 13 | 15,719 | 19,145 |
| | | 345,668 | 284,052 |
| Cash at bank and in hand | 14 | 101,672 | 172,685 |
| | | 473,732 | 477,983 |
| Creditors: amounts falling due within one year | 15 | (462,780) | (403,387) |
| Net current assets | | 10,952 | 74,596 |
| Total assets less current liabilities | | 99,090 | 158,590 |
| Creditors: amounts falling due after more than one year | 16 | (12,824) | (13,316) |
| Provisions for liabilities | 17 | (19,432) | (18,637) |
| Net assets | | 66,834 | 126,637 |
| Capital and reserves | | | |
| Called up share capital | 20 | 28,000 | 28,000 |
| Profit and loss account | 20 | 38,834 | 98,637 |
| Shareholders' funds | | 66,834 | 126,637 |

The notes on pages 37 to 57 form part of these accounts

The profit for the year dealt with in the accounts of the parent company was £8,197,000 (2020: £205,000).

Approved by the Board of Directors on 9 March 2022 and signed on its behalf by:



P. M. Wainwright
Director

Wates Construction Limited Annual accounts and reports 2021

Consolidated statement of changes in equity

At 31 December 2021

| | Called up share capital £000s | Profit and loss account £000s | Total equity £000s |
|--|--|--|--------------------------|
| At 31 December 2019 | 28,000 | 90,980 | 118,980 |
| Loss for the financial year | - | (2,407) | (2,407) |
| Currency translation difference on foreign currency net investment | - | 116 | 116 |
| Share of the other comprehensive income of joint venture | - | - | - |
| Total comprehensive expense | - | (2,291) | (2,291) |
| At 31 December 2020 | 28,000 | 88,689 | 116,689 |
| Profit for the financial year | - | 12,454 | 12,454 |
| Currency translation difference on foreign currency net investment | - | (24) | (24) |
| Total comprehensive income | - | 12,430 | 12,430 |
| Dividends declared on equity shares | | (68,000) | (68,000) |
| At 31 December 2021 | 28,000 | 33,119 | 61,119 |

Company statement of changes in equity

At 31 December 2021

| | Called up Share Capital £000s | Profit and loss Account £000s | Total equity £000s |
|-------------------------------------|--|--|--------------------------|
| At 31 December 2019 | 28,000 | 98,432 | 126,432 |
| Total comprehensive income | - | 205 | 205 |
| At 31 December 2020 | 28,000 | 98,637 | 126,637 |
| Total comprehensive income | - | 8,197 | 8,197 |
| Dividends declared on equity shares | | (68,000) | (68,000) |
| At 31 December 2021 | 28,000 | 38,834 | 66,834 |

The total comprehensive income of the company for each of the two years ended 31 December 2021 is its profit for these financial years.

Wates Construction Limited Annual accounts and reports 2021

Consolidated cash flow statement

For year ended 31 December 2021

| | Notes | 2021 £000s | 2020 £000s |
|---|-------|-----------------|----------------|
| Net cash inflow from operating activities | 21 | 596 | 69,387 |
| Cash flows from investing activities | | | |
| Disposal of tangible fixed assets | | - | 3 |
| Proceeds from sale of properties with equity loans | | 103 | 22 |
| Purchase of tangible fixed assets | | (2,201) | (618) |
| Loans paid to joint ventures | | (3,096) | (324) |
| Dividends received from joint ventures and associates | | 62 | - |
| Net cash outflow from investing activities | | (5,132) | (917) |
| Cash flows from financing activities | | | |
| Equity dividends paid | | (68,000) | - |
| Net cash outflow from financing activities | | (68,000) | - |
| Net (decrease)/increase in cash and cash equivalents | | (72,536) | 68,470 |
| Cash and cash equivalents at beginning of year | | 199,789 | 131,319 |
| Cash and cash equivalents | | 127,253 | 199,789 |

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

1. Accounting policies

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

i) General information and basis of accounting

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

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

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

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

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

ii) Basis of consolidation

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

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

iii) Going concern

The activities of the Wates Group, along with the factors that may affect its future performance and position are set out in the Directors' report.

As at 31 December 2021, the company had cash and access to debt under the Wates Group Coronavirus Large Business Interruption Loan Scheme (CLBILS) of £45.0m and to £120.0m of undrawn bank facilities (through the Group's £120.0m Revolving Credit Facility (RCF) which expires in mid-March 2023). The Directors regularly review the working capital requirements of the company and the Wates Group as part of reviewing scenarios that test a range of sensitivities to future performance.

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

1. Accounting policies continued

iii) Going concern continued

The Directors have reviewed the forecast performance of the Wates Group based on their current expectations about the future. This expectation draws on management's understanding of each sector that the Wates Group operates in and anticipates a continuation of the current level of activity across the Group. Turnover levels are forecast to continue to increase throughout 2022 and to exceed pre-Covid levels. Within these forecasts, a significant proportion of the Group's revenue is already secured.

Due to the potential volatility at the subsidiary level, Wates Group Limited intends to provide sufficient operational and financial support to the subsidiaries, to the extent that it is required to enable them to meet their liabilities as and when they fall due for a period of at least 12 months from the date of approval of the financial statements for the subsidiaries for the year ended 31 December 2021. The Wates Group has prepared a cash flow forecast for 12 months from the date of approval of these financial statements and the Wates Group considers it has sufficient cash reserves to continue trading, whilst meeting the financial covenants set within its RCF and CLBILS facilities. The Wates Group is not forecasting a need to draw down on its £120m Revolving Credit Facility in the next 12 months.

The Wates Group recognises the economic and trading uncertainties resulting from the pandemic and has deemed it appropriate to consider a range of potential scenarios of escalating impact and duration. Some reasonable downside scenarios include: a significant contract loss, a reduction in contracting turnover similar to that experienced in 2020, an increase in costs without any client recovery, and reductions in prices for both housing and land sales. The Wates Group does not consider a prolonged shut down of construction or contracting activities as a likely scenario as these activities have continued throughout each of the national lockdowns. The Group's cash has remained resilient throughout 2021 and it has not utilised any of its RCF throughout this period. Whilst the cash flow impacts of these scenarios are materially different to the current forecast, the Wates Group forecasts, and reasonable worst-case scenarios indicate that it would be able to continue trading for at least 12 months from the date of approval of the financial statements.

After making enquiries and considering the factors and sensitivities outlined above for a range of scenarios, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

iv) Turnover

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

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

v) Pre-contract costs

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

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

1. Accounting policies continued

vi) Exceptional items

Section 5 of FRS 102 requires material items to be separately disclosed in a way that enables the users of the accounts to understand the entity's financial performance. These items are commonly referred to as 'exceptional' items. In order to provide users with a clear and consistent presentation of the underlying financial performance of the Group, it has separately identified items that are considered to be exceptional because of their size or non-recurring nature.

vii) Government grants

Government grants are recognised once there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grant will be received. During the 2020 year the Group received a Coronavirus Job Retention Scheme grant which was accounted for under the performance model. Amounts received are disclosed within Other operating income in the Consolidated profit and loss account.

viii) Research and development

Research and development costs are written off as incurred.

ix) Intangible assets – goodwill

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

x) Tangible fixed assets and depreciation

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

| | |
|---------------------------|-----------------|
| Leasehold improvements | period of lease |
| Plant and equipment | 2 to 10 years |
| Business systems software | 2 to 10 years |

Business systems software is capitalised as plant and equipment when the software is an integral part of management's intended use for the related hardware.

xi) 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.

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

1. Accounting policies continued

xi) Financial instruments continued

(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.

xii) Joint ventures and associates

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

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

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

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

xiii) Stocks

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

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

1. Accounting policies continued

xiv) 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 of 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.

xv) Contracts

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

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

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

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

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

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

1. Accounting policies continued

xv) Contracts continued

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

xvi) 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.

xvii) Taxation

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

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

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

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

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

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

xviii) Leases

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

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

1. Accounting policies continued

xix) Retirement benefits

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

With effect from 1 January 2001, the scheme has been closed to new members. Pension costs paid by the company are disclosed in note 5.

In the ordinary course of business, the Group sometimes transfers employees (TUPE) and takes on obligations relating to local government pension schemes. The largest scheme in which a subsidiary of the group participates, in respect of certain employees, is the West Midlands Pension Fund, a defined benefit scheme administered by the City of Wolverhampton Council for employees of approximately 600 active employers. This scheme is part of the Local Government Pension Scheme. Sufficient information is not available for the Group to use defined benefit accounting and so the Group accounts for this scheme as a defined contribution plan. Information about the scheme is disclosed in the accounts of the City of Wolverhampton Council on www.wolverhampton.gov.uk and in the accounts of the scheme available on www.wmpfonline.com.

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

xx) Foreign currency

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

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

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

xxi) Dividends

Dividends to the company's shareholders are recognised when dividends are approved for payment.

xxii) Significant areas of judgement and uncertainty

The preparation of accounts requires the Group to make estimates and assumptions that affect items reported. Such estimates and assumptions are based on management's best knowledge of current facts, circumstances and future events. Actual results may differ, possibly significantly, from those estimates. The areas requiring a high degree of judgement or where assumptions and estimates are significant to the accounts are discussed below.

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

1. Accounting policies continued

xxii) Significant areas of judgement and uncertainty continued

Estimates

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 assets (see note 12) and the recognition of provisions and contingencies (see notes 17 and 23).

a) Accounting for contracts

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

Management bases its estimation of costs and income and its assessment of the expected outcome of each contractual obligation on the latest available information, which includes detailed contract valuations and forecasts of the costs to complete. The estimates of the contract position 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.

b) Carrying value of residential land and development assets

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.

c) Provisions and contingencies

In the event of the Group making a loss on a contract, provision is made for all losses that are foreseen in bringing contract to completion. This will often include an estimate of the outcome of claims with our customers and/or our supply chain which are inherently uncertain.

Provisions are estimates and the actual cost and timing of future cash flows are dependent on future events. The Group exercises judgement in recognising provisions and the exposure to contingencies. Judgement is necessary to assess the likelihood that a liability will arise and to quantify the possible amount of any out flow of resources. Where the valuation of a provision for rectification work assumes costs of rectifications as well as recoveries from clients or insurers, estimates are based on historical costs incurred for the expected work required as well as recoveries based on outcomes achieved on similar contract positions. The inherent uncertainty of such matters means that actual amounts of transactions may differ materially from estimates made. Any difference between the amounts previously recognised and the actual amount is recognised immediately in the consolidated profit and loss account.

Judgements

The Group considers Going Concern as an area of judgement and has included specific disclosure in relation to this within note 1 (iii). In light of the current liquidity and forecasts, this is not considered a significant judgement.

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

2. Group statutory turnover

| | 2021 £000s | 2020 £000s |
|--|------------------|------------------|
| Analysis of statutory turnover by class of business: | | |
| Construction | 771,925 | 808,260 |
| Residential Developments | 249,272 | 149,956 |
| Property Services | 474,500 | 417,911 |
| | 1,495,697 | 1,376,127 |

| | 2021 £000s | 2020 £000s |
|---|------------------|------------------|
| Analysis of statutory turnover by type: | | |
| Construction contracts | 1,269,642 | 1,155,718 |
| Rendering of services | 173,759 | 165,892 |
| Sale of residential properties | 52,296 | 54,517 |
| | 1,495,697 | 1,376,127 |

Group statutory turnover is materially within the United Kingdom.

3. Exceptional items

Group operating profit/(loss) has been arrived at after recognising the following items that are considered to be exceptional because of their size or non-recurring nature:

| | 2021 £000s | 2020 £000s |
|---|---------------|-----------------|
| Coronavirus job retention scheme grant income | - | 6,877 |
| Furlough costs | - | (10,899) |
| Restructuring costs | - | (6,254) |
| | - | (10,276) |

No exceptional costs were incurred by the Group in 2021.

In 2020, Coronavirus Job Retention Scheme grant income was government grant income received under the Coronavirus Job Retention Scheme in respect of furloughed employees. All amounts were received in cash during that year.

Furlough costs consisted of salary costs made to staff whilst on furlough who were therefore not performing any services for the Group. The cost incurred in 2020 included salary costs paid to staff in excess of the Coronavirus Job Retention Scheme grant income. In that year £8,949,000 of the furlough costs were recognised within cost of sales and £1,950,000 were included within administrative expenses.

Restructuring costs incurred in 2020 consisted of the cost of redundancy (e.g. settlement agreements, PILONs and redundancy payments) associated with the Group redundancy programme which was announced in May 2020 where 268 employees left the Group across various business units and functions. The redundancy programme was instigated as a direct consequence of the Group's response to the pandemic. In that year £4,734,000 of the restructuring costs were recognised within cost of sales and £1,520,000 were included within administrative expenses.

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

4. Group operating profit/(loss)

| | 2021 £000s | 2020 £000s |
|---|---------------|---------------|
| This is stated after charging/(crediting) | | |
| Amortisation of goodwill | 3,477 | 3,477 |
| Auditor's remuneration* | | |
| - audit of these accounts | 180 | 149 |
| - audit of subsidiary accounts | 169 | 140 |
| Cost of stock recognised as expense | 48,691 | 50,312 |
| Depreciation of tangible assets | | |
| (including loss on disposal £4,000 (2020: £17,000)) | 1,842 | 1,651 |
| Foreign exchange (loss)/gain | (2) | 85 |
| Hire of plant and machinery | 3,556 | 5,168 |
| Operating lease payments | 6,989 | 6,604 |
| Charitable donations | 830 | 878 |
| Research and development taxation credits | (1,408) | (1,552) |
| Research and development costs | 9,335 | 8,149 |

* excludes fee payments made through joint ventures

Remuneration receivable by the company's auditors other than that shown above is disclosed in the financial statements of the ultimate parent company, Wates Group Limited.

5. Staff numbers and costs

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

| | 2021 Number | 2020 Number |
|----------------|----------------|----------------|
| Operations | 2,443 | 2,463 |
| Administration | 1,012 | 881 |
| | 3,455 | 3,344 |

| | 2021 £000s | 2020 £000s |
|--|---------------|---------------|
| The aggregate payroll costs for the Group were as follows: | | |
| Wages and salaries | 198,095 | 177,618 |
| Social security costs | 22,616 | 21,059 |
| Other pension costs | 25,538 | 26,512 |
| | 246,249 | 225,189 |

The Group pension operating cost for the year was £9,594,000 (2020: £9,619,000) in respect of defined benefit arrangements (see page 43) and £15,944,000 (2020: £16,893,000) in respect of defined contribution arrangements.

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

6. Remuneration of directors

| | 2021 £000s | 2020 £000s |
|---|---------------|---------------|
| Directors' emoluments | 1,949 | 1,664 |
| Amounts receivable under long-term incentive scheme | 2,389 | - |
| Contributions to money purchase scheme | 26 | 18 |
| | 4,364 | 1,682 |

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

Four (2020: four) directors have retirement benefits accruing under defined contribution schemes.

| | 2021 £000s | 2020 £000s |
|---|---------------|---------------|
| Highest paid director - emoluments | 447 | 386 |
| - amounts receivable under long-term incentive scheme | 591 | - |

7. Net interest receivable

| | 2021 £000s | 2020 £000s |
|--|---------------|---------------|
| Interest payable and similar charges: | | |
| Group undertakings | (14) | - |
| Other | (41) | (85) |
| Interest payable and similar charges | (55) | (85) |

| | 2021 £000s | 2020 £000s |
|-----------------------------|---------------|---------------|
| Interest receivable: | | |
| Group undertakings | 2,259 | 3,194 |
| Bank | 3 | 44 |
| Other | 330 | 376 |
| Interest receivable | 2,592 | 3,614 |

Other interest receivable includes amounts from Joint ventures of £309,000 (2020: £352,000) which is also included within interest payable by joint ventures disclosed on the face of the Consolidated profit and loss account.

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

8. Taxation on profit/(loss)

a) Analysis of the charge/(credit) in the year

| | 2021 £000s | 2020 £000s |
|--|---------------|---------------|
| Current tax | | |
| UK corporation tax on the profit/(loss) for the year | 1,618 | (320) |
| Adjustments in respect of previous years | (37) | 325 |
| Total current tax | 1,581 | 5 |
| Deferred tax | | |
| Origination and reversal of timing differences | 926 | 28 |
| Impact of change in tax rate | (859) | (516) |
| Adjustments in respect of previous years | 75 | (48) |
| Total deferred tax | 142 | (514) |
| Total tax on profit/(loss) | 1,723 | (509) |

During the year beginning 1 January 2022, the net reversal of deferred tax assets is not expected to increase the corporation tax charge for the year significantly as the net reversal will be offset by lower current tax in respect of timing differences. There is no expiry date on timing differences.

b) Factors affecting the total tax charge/(credit) for the year

The total tax charge/(credit) for the year is lower (2020: higher) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

| | 2021 £000s | 2020 £000s |
|--|---------------|----------------|
| Profit/(loss) before taxation | 14,177 | (2,916) |
| Less share of loss after tax of joint ventures and associates taxed as separate entities | (33) | 43 |
| Group profit/(loss) before tax | 14,144 | (2,873) |
| Group profit/(loss) at standard rate of corporation tax in the UK of 19% (2020: 19%) | 2,687 | (546) |
| Effects of: | | |
| Permanent disallowable costs | 610 | 400 |
| Change in tax rates/timing differences | (1,036) | (639) |
| Group relief | (576) | (23) |
| Adjustments in respect of previous years | 38 | 299 |
| Group total tax charge/(credit) for the year | 1,723 | (509) |

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Notes to the accounts

9. Intangible assets – goodwill

| Group | £000s |
|---|---------------|
| Cost 1 January 2021 and 31 December 2021 | 69,550 |
| Amortisation: | |
| At 1 January 2021 | 24,491 |
| Provided during the year | 3,477 |
| At 31 December 2021 | 27,968 |
| Net book amounts: | |
| At 31 December 2021 | 41,582 |
| At 31 December 2020 | 45,059 |

The net book value of goodwill at 31 December 2021 includes amounts and remaining amortisation periods regarding the following acquisitions:

| Acquisition | Remaining amortisation period | Net book value of goodwill |
|---------------------------------|-------------------------------|----------------------------|
| Wates Property Services Limited | 9.4 years | £12,764,000 |
| Purchase Group | 12.9 years | £5,370,000 |
| Parts of the Shepherd Group | 13.8 years | £23,448,000 |

Wates Construction Limited Annual accounts and reports 2021

Notes to the accounts

10. Tangible fixed assets

| Group | Leasehold improvements £000s | Plant and Equipment £000s | Business systems software £000s | Group total £000s |
|----------------------------|---|--|--|----------------------------------|
| Valuation or cost: | | | | |
| At 1 January 2021 | 1,930 | 6,359 | 4,518 | 12,807 |
| Additions | 223 | 1,511 | 467 | 2,201 |
| Disposals | - | (2,143) | - | (2,143) |
| At 31 December 2021 | 2,153 | 5,727 | 4,985 | 12,865 |
| Depreciation: | | | | |
| At 1 January 2021 | 1,161 | 5,309 | 2,595 | 9,065 |
| Provided during the year | 374 | 657 | 807 | 1,838 |
| Disposals | - | (2,139) | - | (2,139) |
| At 31 December 2021 | 1,535 | 3,827 | 3,402 | 8,764 |
| Net book amounts: | | | | |
| At 31 December 2021 | 618 | 1,900 | 1,583 | 4,101 |
| At 31 December 2020 | 769 | 1,050 | 1,923 | 3,742 |

| Company | Plant and equipment £000s | Business systems software £000s | Company total £000s |
|----------------------------|--|--|------------------------------------|
| Cost: | | | |
| At 1 January 2021 | 3,363 | 580 | 3,943 |
| Additions | 1,501 | 69 | 1,570 |
| Disposals | (1,654) | - | (1,654) |
| At 31 December 2021 | 3,210 | 649 | 3,859 |
| Depreciation: | | | |
| At 1 January 2021 | 2,925 | - | 2,925 |
| Provided during the year | 366 | 97 | 463 |
| Disposed during the year | (1,654) | - | (1,654) |
| At 31 December 2021 | 1,637 | 97 | 1,734 |
| Net book amounts: | | | |
| At 31 December 2021 | 1,573 | 552 | 2,125 |
| At 31 December 2020 | 438 | 580 | 1,018 |

Group and company Business systems software as at 31 December 2021 included assets in the course of construction of £nil (2020: £580,000).

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Notes to the accounts

11. Joint ventures and other investments

| Group | Joint ventures £000s | Associates £000s | Total Joint ventures and associates £000s | Equity loans £000s | Total other investments £000s |
|----------------------------|-------------------------|---------------------|--|-----------------------|----------------------------------|
| At 1 January 2021 | 4,492 | 248 | 4,740 | 362 | 362 |
| Additions | 3,037 | - | 3,037 | - | - |
| Repayments | (62) | - | (62) | (103) | (103) |
| Deferred income | 59 | - | 59 | - | - |
| Share of (loss)/profit | (274) | 33 | (241) | 29 | 29 |
| At 31 December 2021 | 7,252 | 281 | 7,533 | 288 | 288 |

The investment in joint ventures includes loans amounting to £6,985,000 (2020: £4,163,000). Repayments includes dividends received from joint ventures and associates of £62,000 (2020: £nil).

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 |
| HSDP Nominee Ltd | 50.0% | (| Approach, |
| HWR Nominee Ltd | 50.0% | (| Leatherhead, Surrey, |
| | | | KT22 7SW |

The Group holds the following interests in limited liability partnerships:

| | Interest | | Registered office |
|--|----------|---|----------------------|
| Harrow Strategic Development Partnership LLP | 50.0% | (| |
| Havering and Wates Regeneration LLP | 50.0% | (| Wates House, Station |
| HWR Phase 1 Stage 1 LLP | 50.0% | (| Approach, |
| HWR Phase 1 Stage 2 LLP | 50.0% | (| Leatherhead, Surrey, |
| HWR Phase 1 Demo Stages 3-10 LLP | 50.0% | (| KT22 7SW |
| Signature Wates Residential LLP | 50.0% | (| |
| Laurus Living Space LLP | 50.0% | | Sale Point, 126-150 |
| | | | Washway Road, Sale, |
| | | | Manchester M33 6AG |

Associates

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

| | Interest | | Registered office |
|---|----------|---|---------------------------|
| Countrywise Repairs Limited | 49.0% | | Monson House, Monson Way, |
| | | | Tunbridge Wells, |
| | | | Kent TN1 1LQ |
| QSH Propco Limited | 15.0% | (| 1934 the Yard, |
| Quality Social Housing Management Limited | 15.0% | (| Exploration Drive, |
| | | | Leicester LE4 5JD |

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 |

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Notes to the accounts

11. Joint ventures and other investments continued

Equity loans

These comprise amounts advanced to homebuyers to assist in their purchase of the Group's residential properties under equity share schemes. The loans, with a cost of £288,000 (2020: £362,000), are repayable, together with a share in the capital appreciation, when the underlying property is sold. Included in this total are interest free loans with a cost of £67,000 (2020: £93,000), which were repayable if the properties were not sold by 2021. The outstanding loans are secured by a charge over the property so are therefore considered recoverable. Loans with a cost of £221,000 (2020: £269,000) were interest free until 2016 when a fee of 1.75 percent per annum is receivable, rising annually by the Retail Price Index plus one percent.

| Company | Shares in Group undertakings £000s | Interests in joint ventures £000s | Total £000s |
|-------------------------------|---|--|----------------|
| As at 1 January 2021 | 78,294 | 4,682 | 82,976 |
| Additions | - | 3,037 | 3,037 |
| As at 31 December 2021 | 78,294 | 7,719 | 86,013 |

The cost of shares in Group undertakings is £78,294,000 (2020: £78,294,000).

The investment in joint ventures includes loans amounting to £7,719,000 (2020: £4,682,000).

For the year ending 31 December 2021 the following subsidiary companies were entitled to exemption from audit of individual company accounts under Section 479A of the Companies Act 2006:

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

The Group's subsidiary undertakings are set out on pages 58 to 59.

12. Stocks

| | Group 2021 £000s | Group 2020 £000s | Company 2021 £000s | Company 2020 £000s |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Raw materials and consumables | 130 | 92 | - | - |
| Residential land and work in progress under development | 26,392 | 21,246 | 26,392 | 21,246 |
| | 26,522 | 21,338 | 26,392 | 21,246 |

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Notes to the accounts

13. Debtors

| | Group 2021 £000s | Group 2020 £000s | Company 2021 £000s | Company 2020 £000s |
|---|------------------------|------------------------|--------------------------|--------------------------|
| Amounts falling due within one year | | | | |
| Trade debtors | 66,594 | 70,847 | 47,503 | 50,133 |
| Amounts recoverable on contracts | 182,384 | 141,206 | 138,602 | 96,777 |
| Amounts owed by group undertakings | 130,415 | 92,237 | 123,333 | 92,017 |
| Amounts owed by subsidiary undertakings | - | - | - | 15,343 |
| Amounts owed by joint ventures and associates | 4,837 | - | 4,837 | - |
| Corporation tax | 5,732 | 3,215 | 5,524 | 2,733 |
| Deferred taxation (note 18) | 1,433 | 1,249 | 196 | 445 |
| Other debtors | 5,455 | 5,331 | 5,288 | 4,930 |
| Prepayments and accrued income | 11,579 | 8,496 | 4,666 | 2,529 |
| | 408,429 | 322,581 | 329,949 | 264,907 |
| Amounts falling due after more than one year | | | | |
| Amounts recoverable on contracts | 16,324 | 21,961 | 15,719 | 19,145 |
| Deferred taxation (note 18) | 3,373 | 3,699 | - | - |
| | 19,697 | 25,660 | 15,719 | 19,145 |
| | 428,126 | 348,241 | 345,668 | 284,052 |

14. Cash and cash equivalents

| | Group 2021 £000s | Group 2020 £000s | Company 2021 £000s | Company 2020 £000s |
|-----------------|------------------------|------------------------|--------------------------|--------------------------|
| Restricted cash | 24,789 | 4,327 | 24,789 | 4,327 |
| Cash at bank | 102,464 | 195,462 | 76,883 | 168,358 |
| | 127,253 | 199,789 | 101,672 | 172,685 |

Restricted cash represents money held in a proceeds account from property sales for a development site. The lower of 90% of the sales proceeds received and the full construction costs incurred to date can be released from the account on receipt of an approved valuation certificate. Following receipt of a certificate in February 2022, £23,580,000 of the balance was distributed in accordance with the terms of the original agreement. The balance at 31 December 2021 included £18,531,000 (2020: £2,218,000) due to the site partner which is also included in accruals (note 15).

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Notes to the accounts

15. Creditors: amounts falling due within one year

| | Group 2021 £000s | Group 2020 £000s | Company 2021 £000s | Company 2020 £000s |
|--|------------------------|------------------------|--------------------------|--------------------------|
| Advance payments on account of contracts | 116,703 | 152,774 | 110,509 | 147,921 |
| Trade creditors | 62,626 | 69,373 | 40,927 | 41,480 |
| Amounts owed to subsidiaries | - | - | 6,288 | 6,769 |
| Amounts owed to group undertakings | 24,216 | 12,451 | 21,956 | 12,433 |
| Other taxes and social security | 33,880 | 8,849 | 27,670 | 5,198 |
| Other creditors | 2,275 | 3,539 | 1,439 | 2,399 |
| Accruals | 295,188 | 220,459 | 253,991 | 187,187 |
| Deferred income | 2,674 | 2,559 | - | - |
| | 537,562 | 470,004 | 462,780 | 403,387 |

Other taxes and social security includes £nil (2020: £904,000) due under the Government's VAT Deferral New Payment Scheme.

Accruals included £18,531,000 (2020: £2,218,000) due to the site partner in respect of funds held in the restricted cash account (note 14).

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

| | Group 2021 £000s | Group 2020 £000s | Company 2021 £000s | Company 2020 £000s |
|---------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Other taxes and social security | - | 339 | - | - |
| Accruals | 14,633 | 14,950 | 12,824 | 13,316 |
| Deferred income | 1,379 | 2,652 | - | - |
| | 16,012 | 17,941 | 12,824 | 13,316 |

Other taxes and social security includes £nil (2020: £339,000) due under the Government's VAT Deferral New Payment Scheme.

17. Provisions for liabilities

| | Group 2021 £000s | Group 2020 £000s | Company 2021 £000s | Company 2020 £000s |
|-------------------------------------|------------------------|------------------------|--------------------------|--------------------------|
| At 1 January | 18,637 | 8,921 | 18,637 | 8,921 |
| Utilised during the year | (3,921) | - | (3,921) | - |
| Charged to profit and loss account | 9,351 | 12,997 | 8,071 | 12,997 |
| Credited to profit and loss account | (3,355) | (3,281) | (3,355) | (3,281) |
| At 31 December | 20,712 | 18,637 | 19,432 | 18,637 |

Provisions are construction activity related and are the Group and company's estimates of the amounts which are expected to be paid. These construction related amounts reflect the expected future loss which is arrived at after making an allowance for insurance policy excess, if the Group and company has received reasonable satisfaction of policy coverage from insurers that costs are recoverable for certain works and where the process is at an advanced stage. Some of these obligations are likely to crystallise more than one year after the balance sheet date.

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18. Deferred taxation

| | Group 2021 £000s | Company 2021 £000s |
|------------------------------------|------------------------|--------------------------|
| At 1 January | 4,948 | 445 |
| Charged to profit and loss account | (142) | (249) |
| At 31 December | 4,806 | 196 |

In line with the announcement in The Finance Act 2020 which received Royal Assent on 22 July 2020, deferred taxation balances in 2020 were measured at 19%. In line with The Finance Act 2021 which received Royal Assent on 10 June 2021 and which increased the main rate of corporation tax from 19% to 25% from 1 April 2023, all opening deferred taxation balances were remeasured at rates between 19% and 25% in line with their expected crystallisation date, with an adjustment recognised in the 2021 total tax charge.

Deferred taxation is provided as follows:

| | Group 2021 £000s | Group 2020 £000s |
|--|------------------------|------------------------|
| Accumulated depreciation in excess of capital allowances | 508 | 715 |
| Other timing differences | 4,298 | 4,233 |
| Deferred taxation | 4,806 | 4,948 |

| | 2021 £000s | 2020 £000s |
|--|---------------|---------------|
| Deferred taxation asset under one year | 1,433 | 1,249 |
| Deferred taxation asset over one year | 3,373 | 3,699 |
| | 4,806 | 4,948 |

| | Company 2021 £000s | Company 2020 £000s |
|--|--------------------------|--------------------------|
| Accumulated depreciation in excess of capital allowances | (41) | 208 |
| Short-term timing differences | 237 | 237 |
| Deferred taxation asset under one year | 196 | 445 |

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19. 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 | 2021 £000s | 2020 £000s |
|--|---------------|---------------|
| Financial assets | | |
| Debt instruments measured at amortised cost | | |
| • Loans receivable from joint ventures | 6,985 | 4,163 |
| Equity instruments measured at cost less impairment | | |
| • Equity loans (note 11) | 288 | 362 |
| Interest income | | |
| Total interest income for financial assets at amortised cost | 309 | 352 |

20. Called up share capital and reserves

| Group and Company | 2021 £000s | 2020 £000s |
|---|---------------|---------------|
| Issued and fully paid: 28,000,000 (2020: 28,000,000) Ordinary shares of £1 each | 28,000 | 28,000 |

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

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

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

| | 2021 £000s | 2020 £000s |
|--|---------------|----------------|
| Group operating profit/(loss) including joint ventures and associates | 11,640 | (6,445) |
| Profit on sale of properties with equity loans | (29) | (3) |
| Depreciation and amortisation | 5,319 | 5,128 |
| Joint ventures and associates | 241 | 239 |
| (Increase)/decrease in stocks | (5,184) | 8,374 |
| (Increase)/decrease in debtors | (78,960) | 102,584 |
| Increase/(decrease) in creditors | 65,605 | (54,867) |
| Increase in provisions | 2,075 | 9,716 |
| Cash from generated from operations | 707 | 64,726 |
| Interest received | 2,593 | 3,613 |
| Interest paid | (15) | (68) |
| Corporation tax (paid)/received | (2,689) | 1,116 |
| Net cash inflow from operating activities | 596 | 69,387 |

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22. Operating lease commitments

| | 2021 £000s | 2020 £000s |
|--|---------------|---------------|
| Group total future minimum lease payments under non-cancellable operating leases are as follows: | | |
| Within one year | 5,190 | 5,091 |
| Between one and five years | 6,076 | 6,082 |
| After five years | 19 | - |
| | 11,285 | 11,173 |

23. Contingencies

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

The consultation launched by the Secretary of State with the residential property development industry in January 2022 in relation to the remediation of unsafe cladding on buildings between 11-18m high (which also includes a request for information on buildings over 11m high constructed in the last 30 years and hence beyond the previous statute of limitations period) has the potential risk of additional residential property remediation activity. Until the outcomes from the consultation are clear and where necessary defined in statute, there is a high degree of uncertainty and as such it is not possible to quantify the impact, if any, on the Group's financial position. It is important to note that the Group's development activities of residential buildings over 11m during this extended period was limited. At this time the Board is continuing to monitor developments.

24. Related party transactions

Turnover in respect of the value of contracting work done for joint ventures in the year ended 31 December 2021 was £33,036,000 (2020: £4,617,000).

Amounts were due to the Group from joint ventures and associates at 31 December 2021 of £11,822,000 (2020: £4,163,000). Interest at market rates is receivable in respect of loans, which are unsecured, due from joint ventures.

25. Ultimate parent company

The company's ultimate parent company is Wates Group Limited (controlling party), which is incorporated in Great Britain and registered in England and Wales. The smallest and largest group into which the results of the company are consolidated is Wates Group Limited.

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

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Subsidiary Undertakings

At 31 December 2021

Except where otherwise stated:

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

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

Wates Construction Services Limited *

Wates Financial Services Limited *

Wates Group Properties Limited *

Wates Homes (Cambridge) Limited

Wates Homes Limited

Wates Interiors Limited *

Wates Property Services Limited *

Wates Maintenance Services Limited *

Wates PFI Investments (Projects) Limited *

Wates PFI Investments (QED) Limited *

Wates PFI Investments Limited *

Wates Regeneration (Coventry) Limited

Wates Regeneration (South Acton) Limited

Wates Regeneration (Tavy Bridge) Limited

Wates Surrey One Ltd (formerly known as Wates Smartspace Limited)

G Purchase Construction Limited

GW 217 Limited

Purchase Group Limited

Purchase Home Improvements Limited

Purchase Homes Limited

Purchase Support Limited

Relocation and Inventory Services Limited *

SES (Engineering Services) Limited *

Third Wates Investments Limited *

Woodside Lands Limited

*Owned directly by Wates Construction Limited

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

| | Interest | Address |
|--|----------|--|
| American Community School Expansion | 24.5% | Eastern International LLC, Bel City Gate Tower, 11 th Floor, Al Wahda Street, PO Box 1596, Sharjah, United Arab Emirates |
| American Community School Landscaping | 24.5% | |
| Qasr Al Hosn Fort and NCCC Main Contract Works | 24.5% | |