



Above all, it's about people



Proud to be Wates

Annual Review 2013

What we do

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

Construction



Wates Construction focuses on three key areas: government and public sector; education; and commercial building projects where we have strong relationships – 75% of our business is from repeat customers.

Turnover

£403m*

New contract wins in 2013

36

Living Space



Wates Living Space is the partner of choice for local authorities and social landlords. We have practical solutions to assist in the delivery of new affordable housing and planned and responsive maintenance.

Turnover

£349m**

New contract wins in 2013

58

Interiors and Retail



Wates Interiors and Retail delivers high quality, high volume, national roll-outs, retail and office fit-outs and cut-and-carve projects for a range of customers including TSB, Royal Mail, John Lewis and the Home Office.

Turnover

£110m

New contract wins in 2013

510

Developments



Our team of land buying, planning and development experts select the best sites in the best locations in Southern England to deliver new housing to meet local needs.

Turnover

£67m*

New sites secured in 2013

6

Needspace?



We provide flexible, managed workspace for entrepreneurs and growing businesses in convenient locations in London and the South East.

Turnover

£2m

Deals completed in 2013

60

Total number of employees

2,074

Total contract wins in 2013

670

* includes share of joint ventures' turnover

** includes share of joint ventures' and associates' turnover

Who we do it for

We work with a diverse range of customers in both the public and private sectors. Each of our businesses has a distinct market focus enabling us to get close to all our customers, and we enjoy high levels of repeat business.



How we have performed

Wates delivered a solid performance in 2013, despite a challenging year for the construction industry as a whole. We are well positioned to take advantage of an improvement in market conditions in 2014.

Group turnover (£m)**

£931m

2013	£931m
2012	£1,194m
2011	£1,117m

Group profit before tax (£m)

£22.3m

2013	£22.3m
2012	£25.7m
2011	£40.1m

Net assets (£m)

£79.1m

2013	£79.1m
2012	£70.2m
2011	£64.3m

Group forward order book (£bn)

£2.4bn

2013	£2.4bn
2012	£1.6bn
2011	£2.0bn

2013 Overview and Performance 1

At a glance



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See how we have created a new façade for Debenhams’ flagship store

Chief Executive’s Review – Page 3

“Wates combines the flexibility, agility and long-term perspectives of a family-owned company with robust processes and corporate rigour.”



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Proud to be Wates

Our success over the last 117 years has been built on our reputation. A reputation that is underpinned by our values. We strive to deliver the best for our customers, partners, employees and shareholders and work hard to generate excellent results. We respect people and the communities in which we work. We take an intelligent approach to everything we do and our relationships are built on trust. We work as a team.

These values make a difference to the way we think, act and do business with our customers and suppliers.

They are what make us proud to be Wates.



Investing for future growth

Despite continuing difficult market conditions for the construction industry, I am pleased to report that the Wates Group delivered a solid performance in 2013. This in itself is testimony to the diligence of our people right across the business; and provides a platform for future growth.

Our balance sheet and cash positions are strong and our rigorous financial management, together with strong, long-term commitment from the Wates family, means that we are well placed to take advantage of an upturn in the market in 2014.

In 2013 we won some significant new business. Living Space continues to be one of the UK’s leading affordable homes contractors and is building long-term partnerships with key clients – local authorities and housing associations. It has made great progress on the Kirklees PFI and is involved with a number of exciting projects including the £120m regeneration of Erith Park in the London Borough of Bexley.

Our Construction business was appointed to a number of public sector frameworks including the Priority Schools Building Programme and the Ministry of Defence’s £400m UK Defence Infrastructure Programme.

Our Interiors and Retail business has taken on new projects from Royal Mail, Asda, Primark and TSB. These are blue chip clients who recognise our professionalism and commitment to delivery.

Our Developments business is growing and continues to invest in housing land and house building joint ventures. Its expertise aims to ensure that it regularly achieves planning success on complex schemes and during 2013 it purchased several new sites, including The Frythe at Old Welwyn in Hertfordshire.

These achievements provide a clear picture of the contribution of our former Group Chief Executive Paul Drechsler. Under Paul’s leadership Wates doubled its turnover and became an even greater influence in the sector. He championed our deep rooted values and our passion for community engagement. Paul takes with him our warmest thanks and sincerest best wishes.

On behalf of the Board I would like to take this opportunity to thank Friedrich Ternofsky for his support and contribution over the past six years and for his leadership of the Remuneration Committee. I would also like to thank Peter Johnson for his valuable contribution to the Board from 2002. We wish them both well in their retirement from the Wates Board. I welcome Deena Mattar who joined the Board in 2013.

The arrival of a new Group Chief Executive represents a milestone for any business. We welcome Andrew Davies, who has joined us from BAE Systems and who brings tremendous experience in high level strategy, major government programmes and capital projects. His wealth of experience will help to develop our business as we write new chapters and embrace new challenges at Wates.

Our priority, in the immediate future, is ongoing investment for future growth. Wates Living Space is investing in responsive maintenance in order to take a bigger share of this substantial market. We are also working with our customers to find innovative ways to finance much-needed affordable new homes and creating developmental partnerships with our customers. We are also investing in more residential developments through our Development business.

In order to make the very most of the economic opportunities that are, slowly, emerging we have introduced a number of programmes such as ‘Delivering the Promise’ to provide our customers with unparalleled project delivery on time and on budget by focusing on operational excellence. This is not rhetoric, it’s a commitment to how we behave.

We’re proud to have won a number of awards in 2013. These include the inaugural Corporate Citizenship award at the National Business Awards which we won against stiff competition. We also won the Social Enterprise Awards 2013 ‘Buy Social – Market Builder’ Award. Special mention should go to Sean Millican, a Wates apprentice quantity surveyor, who was awarded the UK Contractors Group Apprentice of the Year Award.

It is people like Sean and the many people from Wates who volunteer their time and energy to so many different causes that make Wates what it is. Amidst a significant wider effort by Wates people, I would like to congratulate the 29 adventurers who made it to Everest Base Camp and raised over £69,000 for our charity, Barnardo’s. It was a terrific achievement and a great team building exercise.

Wates will always value the strong connection with our people. They are a vital component not only in the business itself but also in building links with the communities in which we build.

On behalf of the Wates Group Board, I would like to thank the management teams and all our people for delivering another successful performance in 2013. They make us what we are; driven by values, spurred on by innovation and built on an ethos that is enduring.

James Wates

James Wates CBE
Chairman

James Wates
Chairman

Andrew Davies
Chief Executive



Commitment to our customers, communities and the environment

Our focus on values

When I joined the Wates Group in January 2014, I was attracted by the opportunity to lead one of the most successful and highly regarded construction companies in the UK – a company that combines the flexibility, agility and long-term perspectives of a family-owned company with robust processes and corporate rigour.

It is a business that focuses on five key values: integrity – we do what we say; intelligence – we think beyond the obvious; performance – we go the extra mile for our customers; responsibility for people and communities; and teamwork because everybody at Wates plays a part.

Continued progress in difficult market conditions

In 2013, Wates demonstrated resilience in adapting to difficult market conditions and each of our businesses has continued to progress. Living Space has built homes across 34 different sites as part of the Kirklees PFI. It’s a complex project and is having an immensely positive impact on local neighbourhoods and communities. Our Construction business has seen commercial work grow as well as in key areas such as education. Significant projects include the redevelopment of Debenhams’ flagship store on London’s Oxford Street with a unique kinetic façade and the completion of Newport Magistrates’ Court, an award-winning £12m three-storey court building poised to become a new sustainable landmark for the city. Interiors and Retail has focused on key areas – high volume roll outs; fit-out; and cut and carve projects for retail landlords – and improved margins. It has won additional business from existing customers including TSB bank and new projects from major retailers including Primark. Our Developments business has enjoyed another good year realising value from some long-term projects and successful planning applications and Needspace? has shown a resilient performance in a difficult market.

Safety is our number one priority

Safety remains our number one priority. I’m pleased that we have seen an improvement in our safety performance. We have achieved a 36% reduction in our level of reportable injury rate. Our aim is to deliver safer working for all by changing behaviour, embedding existing good practices and investing in programmes and processes that will encourage and promote safe working on every site. Our Plan Right, Start Right programme ensures that site supervisors plan all activity on site at a strategic level. Every morning employees on all our sites gather to discuss what will happen on the site during the shift and any potential risks that they may face. This means our sites are more organised, better run and safer.

The challenges ahead

Economic conditions will continue to be difficult, although there are some reasons for optimism and our customers are demonstrating greater confidence. The impact of the economic upturn has resulted in some increase in demand and new opportunities, but the impact will be progressive and will take some time to come through in financial performance. While volumes indicate improvement in 2014, it may be 2015 before we see significant market recovery. During 2013, the construction industry overall had a difficult and challenging year with margins continuing to come under pressure. Like everyone in this industry, we are concerned about the effect of inflation on the sector as the economy improves.

Our strategic priorities

We have a clear strategy and action plans in place so that each business knows exactly what it needs to do to ensure that our robust performance continues in 2014 and beyond. Our strategy is to focus on operational excellence; strong risk management; and careful customer relationship development. We will remain commercially vigilant and only enter into contracts we believe will have commercially viable outcomes.

Our aim is that every project is injury-free and delivered on time and on budget. We will focus on driving performance in 2014 to take advantage of the economic upturn.

Identifying and seizing new opportunities

We continue to operate in private residential and social housing and both markets offer significant growth opportunities over the next three to five years. Equally our partnerships and joint ventures have also delivered excellent results and we are well positioned in this sector.

We are also a leader in the education sector with the provision of secondary and primary schools and we have also secured a role on the government’s Priority Schools Building Programme. Our goal is to secure more public sector frameworks nationally in the year ahead and to take advantage of increased expenditure by the government in all types of infrastructure.

Our investment in planned and responsive maintenance also offers great opportunities to increase our share of this large market. Our financial stability means that we are well placed to seize new opportunities as they come along.

Wates is driven by its deeply held values and its commitment to communities and the wider environment. We are proud of that commitment and the way in which our people, customers, supply chain and wider stakeholders work with us to ensure we make a positive difference. Our ‘Reshaping Tomorrow’ initiative prioritises those environmental and community issues where we can make a real difference.

Building on long term relationships

We enjoy high levels of repeat business because our customers know that they can trust us. In difficult economic times, customers are also attracted by our financial stability. That stability is partly a function of the long-term perspective of a family owned business. We have to carry out business responsibly if we are to be here for the long term.

Our social credentials, and the way in which we deal with the wider community, are important to our customers. It’s also about the strength of our relationships and the quality of work. Our people are exceptionally good ambassadors for the business and they develop good relationships with customers. It is those relationships that help to underpin our success and will continue to do so in the years ahead.

Our priorities for 2014 are to build on last year’s performance. We will aim for consistency in the continuing difficult, but recovering, market conditions. We will maintain our strategic flexibility to respond to opportunities as they emerge and we will retain the organisational agility to respond to these opportunities.



Andrew Davies
Chief Executive

Our corporate governance structure

Board of Directors
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Executive Committee
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Audit Committee
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Our Executive Committee

Full biographies on pages 44 to 45

1. Andrew Davies
Chief Executive

2. Huw Davies
Chief Financial Officer
and Company Secretary

3. David Smith
Chief Operating Officer
and Managing Director
of Construction

4. John Howell
Group Production Director

5. Andrew Hobart
Managing Director,
Wates Living Space

6. Helen Bunch
Managing Director,
Wates Interiors and Retail

7. Stuart Togwell
Group Commercial Director



1.



2.



3.



4.



5.



6.



7.

Our people drive performance

Huw Davies
Chief Financial Officer
and Company Secretary



Group Performance

The family ownership of the Wates Group is founded on the principles of sustainability. Our purpose is to deliver a business with increased value, opportunity and reputation from one generation to the next. This necessitates a continual focus on financial strength and stability, with strategic reinvestment of surplus funds to maximise shareholder value. In 2013 the Group once again demonstrated great resilience and adaptability in achieving another solid operating and financial performance. These results fully reflect our ability to gain value from the cash generated from our construction activities through investment in land development and property. We further strengthened our balance sheet during the year and finished 2013 with net cash in excess of £95m. This provides the quality of covenant that our stakeholders require, and means we are well placed to continue our investment strategy across all business units in 2014 and beyond.

Group turnover, including the Group’s share of joint ventures and associates, decreased by 22% to £0.9bn, reflecting delays in some projects won, and also our commitment to focusing on the right projects at the right price, with appropriate terms and conditions. Total operating profit was down 11% at £23.1m, with the impact of reduced turnover partially offset by improved and more consistent trading performance and another strong performance by our Developments business. Overall operating margin therefore improved from 2.2% to 2.5% in the year. Pre-tax profits at £22.3m showed a reduction of 13% on the previous year.

The balance sheet was further strengthened during the year with a 13% increase in shareholders’ funds to £79.1m (2012: £70.2m). The Group maintained a strong cash position throughout the year, and finished the year with cash at bank of £103.1m.

Financial Key Performance Indicators

Group turnover*

£931m

2013	£931m
2012	£1,194m
2011	£1,117m

Total operating profit

£23.1m

2013	£23.1m
2012	£25.9m
2011	£32.7m

Cash at bank

£103.1m

2013	£103.1m
2012	£121.3m
2011	£132.1m

Group profit before tax

£22.3m

2013	£22.3m
2012	£25.7m
2011	£40.1m

Net assets

£79.1m

2013	£79.1m
2012	£70.2m
2011	£64.3m

Order book (£bn)

£2.4bn

2013	£2.4bn
2012	£1.6bn
2011	£2.0bn

* includes share of joint ventures’ and associates’ turnover

The Group has in place a revolving credit facility of £25m, which continues to remain unutilised. To enhance liquidity for further investment, our subsidiary Needspace? entered into an £8m term loan during the year.

Construction

The Group’s Construction activity – turnover including share of joint ventures and associates (which includes Construction, Living Space and Interiors and Retail) – was £0.9bn, 23% down on 2012, largely as expected at the start of the year. As previously reported, the cost base was reduced in anticipation of ongoing challenging market conditions, and this enabled Construction to deliver a solid pre-tax profit of £16.5m (2.0% net margin), from £19.8m (1.8%) last year.

Our construction activity is well placed for future growth, finishing the year with a forward-order book of £2.4bn – some 50% higher than the previous year.

Developments

The Developments business continued its established strategy of creating value through residential land management. In 2013 planning permission was achieved for 292 residential properties with decisions pending in relation to applications for a further 746 properties. In 2013 pre-tax profit was £9.6m (2012: £9.2m), generated from turnover (including share of joint ventures) of £67.0m (2012: £73.1m). In addition to six land transactions, house building through joint venture activity delivered 339 completions. With a year-end capital employed of £60.3m (2012: £61.2m), the business controls over 2,400 acres of selected land to pursue planning for residential development and has house-building joint ventures on 10 sites with a total of 1,867 properties and 1,037 still to be financially completed.

Needspace?

Needspace? provides flexible office space to small and medium sized entities from four centres across London and the South East. During the year, the business delivered strong capital growth of £1.1m, representing an increase of 7.7% on the book value at the start of the year, together with a consistent profit before tax of £0.4m (2012: £0.4m).

External debt funding of £8m was arranged during the year, secured against the Needspace? property assets, to provide additional investment capital, either directly within Needspace? or elsewhere in the Group.

Cash flow

The Group’s cash position has proved resilient to the impact of decreased turnover with strong operating cash flow throughout the year such that we finished with a gross cash balance of £103.1m (2012: £121.3m). Inflows from Group operating profit (£13.7m), net bank loans (£7.8m) and net interest (£3.0m) were offset by outflows due to capital expenditure (£2.6m), net loans to, and dividends from, joint ventures (£1.5m), equity dividends paid (£12.3m) and working capital unwinding (£26.0m).

Pensions

The defined benefit scheme deficit is calculated in accordance with FRS 17 (as amended). At the end of 2013 the net deficit was £29.3m (2012: £33.2m). The market value of the scheme’s assets was £168.8m (2012: £162.0m) and the net present value of the

liabilities was £205.4m (2012: £205.1m). During the year, the Group made special contributions of £3.2m (2012: £5.7m). This reduced both cash and the pension deficit, but had no effect on the profit and loss account. There was an actuarial gain in the year of £6.0m (2012: loss of £5.1m). Pension charges of £5.0m (2012: £5.4m) were made to the profit and loss account in accordance with FRS 17.

Shareholders’ funds

Shareholders’ funds increased by 13% to £79.1m.

Shareholders’ funds at 31 December 2012	70.2
Profit for the financial year	16.2
Pension movements	3.6
Dividends	(12.3)
Currency translation difference	0.2
Revaluation reserve	1.2
Shareholders’ funds at 31 December 2013	79.1

Tax

The Group’s tax liabilities arise and are fully met within the UK. The tax charge for the year was £6.1m, which gave an effective rate of 27.3% (2012: 27.3%). This compares to the UK main corporation tax rate of 23.3%. The tax charge exceeds the UK main corporation tax rate due to disallowable costs in the Middle East and amortisation of goodwill.

Dividend

During the year, dividends totalling £12.3m (2012: £13.9m) were paid. The full dividend relating to 2012 of £9.6m was paid in May, and an interim dividend relating to 2013 of £2.7m was paid in November.

Wates Giving

The Group continued to contribute to Wates Giving, the charitable programme of the Wates Family Enterprise Trust. In 2013 this amounted to £1.3m. The programme’s focus remains investment in local projects that provide sustained benefits to communities.

Huw Davies
Chief Financial Officer



Driving performance in a growth market



Delivering growth in a competitive market
2013 was a challenging and difficult year for the Construction industry as a whole. We knew that maintaining our focus on bidding selectively where acceptable returns could be foreseen would mean fewer opportunities to bid; and that these opportunities would be hard fought. Throughout 2013, we remained focused on dealing with this challenge.

As we move into 2014, confidence is returning, the headlines show growth in the Construction sector as a whole, and improving opportunity. It's early days and being led by the recovery in the domestic housing market; overall, investment remains well below pre-financial crisis levels, and we do not currently anticipate the recovery to have a significant impact on our industry until 2015. Opportunity is there, however, and we start 2014 with a substantial increase in our order book, up to £2.4bn from £1.6bn this time last year.

There are other challenges too. The industry is operating on the principles of very lean pricing, and margins continue to come under pressure. In addition, there are concerns about a shortage of skilled labour and the effect of inflation as the economy improves.

To deal with these challenges and to obtain competitive advantage, our strategy remains threefold:

- 1. Establishing and nurturing relationships**
We carefully select who we work with, and only enter contracts that are commercially viable.
- 2. Maintaining and building our reputation**
We focus on providing our customers with the highest quality of service, with a commitment to deliver every project safely, on budget and on time. Delivering The Promise, introduced this year, further reinforces our commitment to quality.
- 3. Delivering value**
Price competition is inevitable. We look beyond price, seeking to maximise the value our clients receive from the projects we deliver.

An increased order book and opportunities to grow further
There are real opportunities for Wates to leverage its competitive position across all our businesses. Within the Construction Group:

- Our Construction business is a key player in the education market and has a place on the Government's £2.4bn Priority Schools Building Programme. We were also appointed by the Ministry of Defence as a partner in its £400m UK Defence Infrastructure Organisation national framework, and we see more opportunities in public sector frameworks as the Government increases spending on all types of infrastructure projects.



- Wates Living Space is under-represented in the large and stable market for planned and responsive maintenance services with local authorities and housing associations. Because of our strong reputation for quality, we are well placed to grow by becoming a full service maintenance provider. We also see significant opportunities to work with these clients to find innovative ways to finance and build more new homes.
- Our Interiors and Retail business has seen a significant rise in demand for high-volume roll-outs; retail and office fit-outs; and cut-and-carve projects services as our customers look at new ways of expanding their own businesses.

Developments
Our Developments business is primed to take advantage of the upturn in house-building by investing in land and house-building joint ventures in prime locations in Southern England. The Board has therefore approved an increase in the capital allocated to this business in 2014.

Needspace?
Needspace? is experiencing high occupancy levels as start-up businesses and entrepreneurs continue to seek flexible, affordable space in which to grow their businesses. The Board has approved the Needspace? plans to invest further; the Company will assess and respond to further acquisition opportunities as they arise.



Everyone at Wates is focused on the successful delivery of our strategy



Driving growth
Our strategy is to carefully select markets and customers that offer Wates the best opportunities for growth and profitability now and in the future. To maximise the number of contracts we win, we have 'Selling the Difference'. Another new programme, 'Delivering the Promise' ensures seamless handover of all our projects.

Enhancing margins
Margins are tight across the construction industry and look set to remain so in the future. We will continue to focus on cost reductions, value engineering, improving our productivity and leveraging advances in technology. We are also focusing on improving our risk management process from bids through to the execution of projects, and we have introduced a number of operational changes, including smarter procurement and improving the quality of our projects through better handovers, which leads to increased customer satisfaction.

Allocating capital to maximise returns
We aim to deliver a high return on capital through property development and investment, and through the active and dynamic management of our portfolio. Our priorities in 2014 are to continue to focus on land acquisition and planning in London and the South East, and to selectively invest in joint venture opportunities with house builders. We will also select new investment opportunities in the affordable homes sector through development, investment and private rental. In addition, we will also continue to seek to add London-based profitable assets to Needspace?, our commercial property portfolio.

Generating cash and managing the balance sheet
Cash generation and managing the balance sheet will continue to be a priority so that we have the financial strength to grow the business for future generations. We are emphasising working capital management, particularly debtors, and maximising profits on individual projects where we can convert a high proportion of headline operating profit into cash.

Promoting sustainability and our commitment to Corporate Social Responsibility (CSR)
We aim to be at the forefront of CSR practice in the UK. Our 'Reshaping Tomorrow' programme prioritises the environmental and community issues where we can make a real difference to the communities in which we work, to our customers and to our supply chain.

Among those issues are reducing carbon emissions, water consumption and waste to landfill; responsible sourcing of materials; working with social enterprises; providing local employment and training opportunities; using our resources to raise the aspirations and skills of young people; and providing volunteering opportunities for our people.

Utilising our resources



Our key resources

People

Relationships

Delivering opportunities

Our business, above all, is about people. We are proud of our people and they are proud of working for Wates.

It is our talented, well-supported and managed people that deliver results and make a real contribution to our business. We continue to support their development and have delivered around 4,500 training days in 2013 across a diverse range of learning and development areas (from safety to technical to leadership).

Growing our own talent is important and we take on between 30 and 40 management, production and commercial trainees a year. We have designed our training programmes to help them develop a real career in our industry, ensuring it combines technical, behavioural and professional development with on the job experience on our projects across the country.

We are also investing in the skills our industry needs for the future. We have launched the Wates Apprenticeship Training Agency (WATA) which is delivered in partnership with two National Apprenticeship Service accredited Apprentice Training Agencies, Reds10 (South/London) and Vision (Midlands/North). Apprentices are recruited through WATA and work either for Wates or our supply chain for a fixed period. It's mutually beneficial for us and our supply chain. It enables us to meet client commitments in a flexible and cost effective way and at the end of the programme, apprentices will have gained the right experience, skills and qualifications to progress into permanent employment.

Building strong relationships

Our relationships with our customers are the key to our success. We carefully manage those relationships, many of which are long-term and well established – 83% of our projects are from repeat customers. We also carefully select who we work with and only enter into contracts that we believe will have commercially viable outcomes.

Our strong relationships with our supply chain ensure that we deliver the highest quality projects for our customers. Our approach to supply chain management is to work in partnership and form strategic alliances with like-minded subcontractors. A large number of our core supply chain partners have been working with Wates for many decades, sharing a strong track record of extraordinary delivery. By working together we are able to raise standards in terms of health and safety, quality and cost certainty.

Among the initiatives we are involved in is the Supply Chain Sustainability School which trains people on sustainability issues including waste, carbon and sustainable procurement. Through collaboration with industry contractors including Kier, Skanska and Sir Robert McAlpine we are able to work more effectively with the supply chain to address some of the sustainability challenges we face.

And in partnership with the UK Contractors Group, we have launched the first national industry-accredited training programme on environmental impacts. The Site Environmental Awareness Training Scheme (SEATs) provides practical training to site supervisors on issues such as waste, nuisance, materials and pollution prevention. It is the first common and transferable training programme for the industry – reducing the costs and duplication of in-house training and driving environmental best practice and standards.



Risk management objectives

Risk management is at the heart of what we do, and is the source of value creation as well as a vital form of control. The Group’s risk strategy is to focus on opportunities within our core market sectors that optimise the balance between return and risk in accordance with our risk appetite.

We believe that our ability to assess, understand and gauge project risk gives us the capability to selectively accept projects where we feel we can best perform. We have an experienced management team, particularly in risk management and project execution, which helps us to better anticipate and understand potential risks and, therefore, how to manage them. Our risk management capabilities allow us to better control costs and ensure timely performance, which in turn leads to clients who are satisfied with the delivered product.

The Group’s risk management framework has been designed and implemented to support these objectives. The key elements of our risk management framework comprise our risk governance, including risk policies and business standards and risk oversight.

Performance against strategic objectives and the impact of risk are embedded within all of our reporting frameworks and reviewed at every level within the Group. A consistently applied methodology is used at project, Business Unit and Group levels to identify the key risks that could have a significant impact on the ability of Wates to achieve its objectives. These are recorded in risk registers and evaluated to determine the likely impact and probability of occurring. Control actions are developed to mitigate or eliminate risks that are considered unacceptable. Risk owners are identified and given responsibility for ensuring actions are implemented with appropriate review dates. The risk registers are reviewed and updated regularly with the relevant risk owners.

Reporting and monitoring

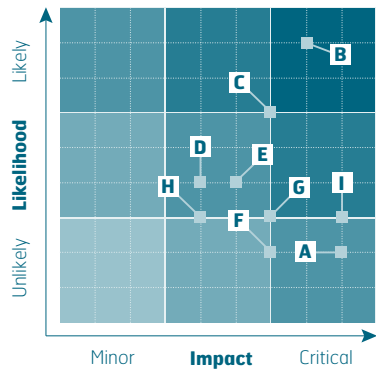
As part of its oversight function, the Board monitors how management operates the Group. When granting authority to management, approving strategies and receiving management reports, the Board considers, among other things, the risks and vulnerabilities the Group faces. In addition, the Board discusses risks related to the Group’s business strategy at the Board’s annual strategic planning meeting every October. The Board has delegated responsibility for the oversight of certain risks to the Audit Committee.

Risk management and the assessment of risk are integrated with management reporting at all levels of the Group. The Executive Committee have ownership of the headline risks, and the status of mitigation is regularly reviewed by the Executive Committee. Each Business Unit assesses its risks which are reported on as part of the quarterly Business Unit reviews. As a sub-committee of the Executive Committee, the risk management committee, which is chaired by the Chief Executive, is responsible for monitoring risk within the Group. The Group Risk Committee meets quarterly each year to:

- review risk management policies, procedures and processes;
- review the Wates headline risks and Business Unit risk registers to assess the risks and monitor the implementation of any actions required;
- receive feedback from internal audit and other internal reviews on the operation of internal controls and the effectiveness of risk management processes;
- review any emerging risks and any potential impact they may have on risk appetite; and
- issue reports to the Audit Committee and Board on the operation of risk management practices and key risks.

Risk assessments

The likelihood and impact of our principal risks are shown here, with the highest likelihood and highest impact risks sitting in the upper right section, and the lowest likelihood and impact risks sitting in the lower left section.



Our risks:

- | | | |
|----------------------|---------------------------------------------|-------------------|
| A. Health and Safety | E. Inflation | H. Subcontractors |
| B. Market risk | F. Liquidity | I. Reputation |
| C. Competition | G. Appointing and retaining talented people | |
| D. Project delivery | | |

Risk management process



Principal risks

Risk	Mitigation
A. Health and Safety Wates is involved in activities and environments that have the potential to cause serious injury to personnel, subcontractors, customers, members of the public, or damage to property or the environment and damage to our reputation.	<p>Safety is a primary focus of our business and is critical to our reputation.</p> <p>In order to control risk and prevent harm, Wates is focused on achieving the highest standards of health and safety management. This is achieved through setting effective health and safety procedures and ensuring effective leadership and organisational arrangements are in place to deliver these procedures.</p> <p>Health and safety performance is regularly reviewed against agreed targets to facilitate continual improvement.</p>
B. Market risk Demand for our services is cyclical, and may be vulnerable to sudden economic downturns and reductions in government and private industry spending, which may result in clients delaying, curtailing or cancelling proposed and existing projects.	<p>The Group’s strategic focus is on those sectors in which a competitive advantage is maintained and that have the most potential to grow revenue. To limit the impact of exposure to any one sector, the Group has diversified its product and service offering across different market segments.</p>
C. Competition The construction sector is highly competitive, and this competition can place downward pressure on prices and margins. If we are unable to compete effectively in our markets, we run the risk of losing market share.	<p>We mitigate this risk by seeking to target the projects in relation to which we have a competitive advantage, manage our costs and margins. The risk profile of every bid is assessed to determine whether it is in line with the strategic objectives of the Group before approval to tender is given.</p>
D. Project delivery Execution of projects involves professional judgement regarding the planning, design and construction often in complex environments.	<p>Wates operates a system of uniform applied policies and procedures. These, combined with comprehensive management oversight, the risk management process, project reviews, internal audit, peer reviews and customer feedback help mitigate the risk to successful project delivery.</p>
	<p>The Group’s projects could encounter difficulties that could lead to cost overruns, lower revenues, litigation or disputes.</p>

Principal risks

Risk	Mitigation
<p>E. Inflation Exposure to unforeseen increases in material and labour costs on existing contracts having a negative impact on profit margins and availability as demand increases.</p>	<p>Commodity and labour costs are monitored on an ongoing basis. Back to back agreements are entered into to match client and subcontract terms and conditions where practicable. Strategic supply agreements are entered into for key commodities and strategic partner relationships formed with key suppliers.</p>
<p>F. Liquidity Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due.</p>	<p>Our approach to managing liquidity is to seek to ensure that we will always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation.</p> <p>In addition, we seek to ensure that we have efficient cash management processes and carry sufficient cash and credit lines to meet expected operational expenses.</p>
<p>G. Appointing and retaining talented people The success of our business is dependent on being able to attract and retain personnel who have the necessary and required experience and expertise. Competition for these and other experienced personnel is intense.</p>	<p>As a family-owned business we know that our people are at the core of our ongoing success. We seek to mitigate this risk by offering market-competitive remuneration, training and career development opportunities, and by being an attractive and engaging employer.</p> <p>In addition, there is a continual review of remuneration and benefits to ensure sector competitiveness.</p> <p>The Wates Leadership Development Framework sets out the leadership development path for employees as they progress to more advanced roles.</p>
<p>H. Subcontractors Much of the work performed under our contracts is carried out by third-party subcontractors we hire. We also rely on third-party equipment manufacturers or suppliers to provide much of the equipment and materials used for projects. If a subcontractor, supplier or manufacturer fails to provide services, supplies or equipment as required under a contract for any reason, we may be required to outsource these services, equipment or supplies to other third parties on a delayed basis or on less-favourable terms, which could impact contract profitability.</p>	<p>Wates operates a system of uniform applied policies and procedures for the selection, appointment and monitoring of subcontractor performance. These are integrated into our comprehensive project oversight and risk management processes. Subcontractor performance and risk are regularly reviewed as part of the project reviews process. In addition, 'Subguard' insurance cover protects the Group in the event of any significant loss incurred through a subcontractor.</p>
<p>I. Reputation Our good standing within the construction industry could be affected if business conduct falls below our high standards, or if we are not seen to comply with legal or regulatory requirements.</p>	<p>We clearly set out our expectations for our employees for dealing with all stakeholders. The Code of Conduct and continued training supports our employees in delivering to the highest standards of ethics and integrity.</p>

Business Review and Case Studies



Wates Interiors and Retail began their relationship with Hammerson Oracle in 2011 with the reconfiguration of the Apple store. Since then they have negotiated and delivered a further three projects and have secured a further two projects, continuing their presence throughout 2014.

The Oracle
Reading

2013 was a year of many achievements at Wates. Our financial stability, efficiency, innovation and commitment to delivering the highest levels of service to our customers has led to significant new business wins.

445
new homes across 34 sites delivered as part of the Kirklees PFI project.

Appointed to 15-year planned maintenance programme with Wolverhampton Homes worth

£104m

Living Space



Refocusing Wates Living Space

Wates Living Space continues to be one of the UK’s leading affordable housing and maintenance providers. Our focus for future growth is to continue to build long-term partnerships with key clients – local authorities and housing associations – by building more affordable homes and improving existing housing through planned and responsive maintenance. In 2013, 92% of Wates Living Space business was with repeat clients and those relationships are underpinned by our shared values and commitment. We make a real and lasting difference in the communities in which we work and are recognised as an industry leader in Corporate Social Responsibility. In 2013, Wates won the Corporate Citizen of the Year award given by the National Business Awards, amongst a host of other awards.

Among the highlights of 2013 was our work on the regeneration of Erith Park in the London Borough of Bexley. This £120m housing project will transform the Larner Road estate and create around 596 new homes for 1,800 local people. We also delivered over 445 new homes across 34 sites, as part of the Kirklees PFI project. Our priority remains operational excellence, delivering projects safely, on time and on budget, every time.

A growing focus on maintenance

Our successful acquisition of Linbrook Services – rebranded as Wates Living Space – continues to gain momentum. The business grew by 16% in 2013 and we are actively investing in maintenance as part of our strategy to grow the business nationally. Our aim is to position Wates Living Space as a leading provider of both planned and responsive maintenance; and to take a bigger share of this £43bn per annum market.

This renewed focus on maintenance is already bearing fruit and our forward order book for 2014 is very positive. During 2013 we were appointed by Wolverhampton Homes on a 15-year planned maintenance programme worth £104m. We also secured a new contract with our existing client, Sandwell Metropolitan Borough Council, following a competitive bid. This £40m, three-year project consists of internal and external works to low and high-rise properties and we were awarded the contract because of our commitment to the local economy and supply chain.

Expertise in energy efficiency improvements

We have built an industry-leading expertise in delivering energy efficiency and retrofit solutions to our clients. This market was in transition in 2013 as first the Government introduced the new Energy Companies Obligation (ECO) scheme and the Green Deal remained in the early stages of development. Despite the political uncertainty around ECO and green levies which further slowed the development of the market, we continued to deliver for clients and their resident communities where fuel poverty remains a significant challenge.



Strategic partnership with Wolverhampton Homes

In 2013, we were appointed by Wolverhampton Homes – which manages over 23,000 properties on behalf of Wolverhampton City Council – to carry out a £104m 15-year planned and responsive maintenance programme which includes energy efficiency projects and void reductions for thousands of homes across the city. As part of the project, we are using over 30 local suppliers and are providing apprenticeships for local young people.



The regeneration of Erith Park

Wates Living Space as part of its partnership with Orbit South is replacing seven high-rise blocks on the former Larner Road estate in Erith with 596 new homes for the residents of Bexley. The development includes a mix of homes for affordable rent, private sale and low cost home ownership. Work on the site started in April 2013 and the first homes will be ready in late 2014. Orbit South and Wates are working together as part of this regeneration project to ensure positive community relationships thrive, new employment and training opportunities are offered and Erith Park becomes a desirable place to live.



“Erith Park is transforming the area with new, good-quality, low-cost family homes, and is creating more jobs for local people.”

Richard Blakeway
Deputy Mayor for Housing,
Land and Property

Delivering more homes

The shortage of affordable homes across the UK offers us significant opportunities to work with our customers to find innovative ways to make it easier to finance and build more new homes. In 2013, we launched a new Partnership Housing Business and we will be pursuing further opportunities in 2014. Through this Partnership Housing Business we have signed two significant development partnerships; one with Orbit Group for the regeneration of Erith Park in London Borough of Bexley and secondly with the Homes and Communities Agency (HCA) on a £9m joint venture to build 75 new homes at Drake’s Place in Aylesbury. In both projects we will take development responsibility for a number of units for private sale as part of the broader, mixed tenure schemes.

In Manchester, we are developing 241 homes on five sites that have been financed under a partnership model created by the city council, the Homes and Communities Agency and Greater Manchester Pension Fund. This innovative scheme – the first of its type in the UK – uses land owned by Manchester City Council and the Homes and Communities Agency and finance from the Greater Manchester Pension Fund. Utilising our own Wates standard house types, underpinned by BIM (Building Information Management), we can offer attractive new home designs that both meet local preferences and deliver an overall reduction in plot build costs.

We have also invested in Quality Social Housing, an organisation which provides financial solutions to deliver affordable homes with no Government subsidy. This accelerates the development of housing schemes in partnership with councils and housing associations. Wates Living Space will be the lead construction partner on QSH schemes going forward.

Construction

Construction – adapting to change

The market for construction remains challenging. Margins are tight, customers are more demanding and contract negotiations are becoming increasingly sophisticated. There is a risk that, as the UK economy improves, we will see issues around the shortage of skilled labour and materials.

However, while turnover is down compared with last year, we won £416m of new business in 2013. Among the new contracts is a new £35m production facility for the confectionery company, Haribo, in Castleford, West Yorkshire; a £28m project to deliver new exhibition space for the Victoria & Albert Museum; and the delivery of new student accommodation at Commercial Road, London, with a value of £27.5m. We were also appointed by the Ministry of Defence as a partner in the £400m UK Defence Infrastructure Organisation national framework following a two-year procurement process; and we secured one of 10 hard-fought places on the new Education Funding Agency

framework worth £4bn. At the end of 2013, it was announced that we have been selected as the only contractor for the £133m SCAPE regional East Midlands Property Alliance (EMPA) framework.

With an upturn in market conditions we need to readdress how we conduct business to ensure that we continue to do well in the new world of construction.

Working in a new world

The construction sector is changing rapidly, and we are adapting our business to those changing market conditions so that we can fulfil our vision, part of which is to become the most trusted construction partner in the UK. We will continue to focus on three key areas: education; commercial; and government and public sector projects where we have strong relationships with customers with visible pipelines of work – 75% of our business is from repeat customers.

However, we need to build on these foundations to look to new areas of growth within the market. This will enable us to increase our margins and turnover in the years ahead and take advantage of new opportunities in prime residential projects, care homes and warehouses and manufacturing facilities.

Making a difference in education

Wates has a strong track record in education. We built our first school in 1961 and have delivered more than 76,000 school places over the last four years. Today, 40% of our construction projects are in the education sector. The Department for Education recently awarded us a £40m contract to deliver new schools in Coventry. This is part of the Government’s Priority Schools Building Programme and involves the rebuild or refurbishment of four primary schools, one secondary school and a special educational needs school, totalling 3,845 pupil places. We have also been awarded the £36m East of England batch of priority schools in Cambridgeshire, Essex, Hertfordshire and Kent, and are bidding to win more in 2014.

New business won in 2013 worth

£416m

75%
of our business is from repeat customers.

40%
of our construction projects are in the education sector.



Lion Salt Works
roars back to life

Our 40 years of experience in dealing with heritage projects led to our appointment by Cheshire West and Chester Council to restore the historic Lion Salt Works in Northwich. It demonstrates our ability to deliver heritage projects through a framework. This sensitive £5.6m restoration scheme involves the reopening of this Scheduled Ancient Monument as a living museum, which will enable visitors to find out about the impact of the salt industry on Cheshire’s economy and landscape.





Unique façade for Debenhams’ flagship store

We were appointed by British Land to work on a distinctive kinetic façade, made up of 187,000 perforated aluminium shingles, for Debenhams department store on Oxford Street. Designed by American artist Ned Kahn, it is the first application of its kind in the UK. The £9.7m project was extremely challenging, as we had to remove 240 tonnes of concrete before installing the façade on a live site, around the clock, just metres from the public.





BIM in practice – Metropolitan Police Service

We used Building Information Management (BIM) to successfully deliver custody centres for the Metropolitan Police in Croydon and Wood Green. As a result, all builders’ work was installed on a right-first-time basis, and the Croydon centre took 10 weeks less to build than a custody centre using traditional methods.

“The operations team used the BIM model on site to help with logistics, including the planning of the scaffolding, resulting in project savings.”

Greg Slater
Project Manager, Wood Green

Improvements to the pre-construction process

We have made a number of changes to enable us to win more business and to make more of the relationships that we already have with customers. An improved pre-construction process means that we are better prepared to bid for work and will have the right people, with the right skills, in the right place at the right time. Our goal is to improve our win strike rate by 20% and reduce abortive bid costs by 25%.

Wates Building Services – improving cost advice

Wates Building Services (WBS) is a new service that will provide a number of benefits and enable us to tender for work with more certainty, provide better cost advice to our bidding teams and provide competitive tenders for the Mechanical, Electrical and Plumbing (MEP) market. Our aim is to maximise cost advantages to our customers and to improve efficiency.

Enhanced procurement

We are enhancing our procurement process so that we can increase savings and share the benefits with our customers. This involves removing duplication and leveraging our spend. We have already developed a new cost strategy for education projects driven by design control, product repeatability and volume leverage, and will transfer what we have learned to other sectors including commercial, local authority and Government work.

Whitmore Park Primary – the first priority school in the UK

Wates is near completion on a new £4.89m building for Whitmore Park Primary School in Coventry. It is the first school in the UK to be delivered under the Government’s £2.4bn Priority Schools Building Programme, which was set up to tackle the condition of schools in need of urgent repair.



“Wates is a contractor I felt I could trust to deliver the project on time and on budget. ‘Delivering the Promise’ is very much part and parcel of ensuring that has happened.”

David Thompson
West Hampstead Developments

Delivering the Promise

Our focus for 2014 and beyond is to become the most trusted construction partner in the industry by giving our customers, supply chain, employees and stakeholders confidence that we can deliver efficiently, safely and profitably, on time, on budget and defect-free. We have introduced ‘Delivering the Promise,’ a programme that ensures that we improve the quality of handovers and manage our projects on a ‘right first time’ basis. It is a simple but effective step-by-step approach that helps us to understand our customers’ expectations through open and honest communication and aims to ensure a defect-free project each time.

Our commitment to the environment

Wates is committed to a sustainable future. Our framework for sustainability prioritises those environmental issues that are important to our customers and those where we can collaborate with our peers to make a real difference to the built environment. These are improving energy efficiency and reducing our carbon footprint; minimising waste; sourcing products and services in a responsible and ethical way; using water efficiently; and being good neighbours. By integrating these principles throughout our projects, we can deliver more sustainable buildings for our customers and help to shape the communities around them.

One of our initiatives, which we run in partnership with Costain and Skanska, is the first nationally accredited environmental training programme for people working on construction sites. The Site Environmental Awareness Training Scheme (SEATS) covers site environmental sustainability, water management, resource efficiency, contamination and hazard awareness, and aims to promote best practice. Wates is also a Supply Chain Sustainability School partner in collaboration with Action Sustainability and industry leading contractors. Our supply chain partners attend these sessions which provide a free and structured learning environment aimed at giving practical support to develop sustainability knowledge and competence.

“It clarified some issues for me and educated me on some others. It’s great that the industry has a course which is accepted by all the main contractors.”

Tony Mitchell
Operations Manager, O’Brien Contractors

Being considerate neighbours

We are committed to improving standards across our projects and use the Considerate Constructors Scheme (CCS) code of practice as a framework for this. The CCS is shaping UK construction into a more considerate industry – one that engages with its community, supports and develops its workforce, and better protects the environment. In 2013, we registered our 1,000th site under CCS, and our average score was 38.91 compared with an industry average of 35.22. In the annual CCS awards, 33 of our sites were honoured. In 2014, we will ensure that 75% of the projects registered for CCS will achieve a minimum score of 40. This means that across each of the code elements of appearance, safety, community, workforce and environment, we are committed to achieving a minimum of ‘excellent’ performance.

Investing in BIM

Building Information Management (also called Building Information Modelling – BIM) is a way of working that captures every detail to ensure that high-quality, defect-free buildings are designed and built on time, safely and on budget. From the bid stage to handing over a building to a customer and beyond, it is changing the way our industry works. The Government is driving this change and has mandated that by 2016, all public sector projects worth over £5m must use BIM technology.

We have committed to invest £5m in BIM for use with public and private sector clients. BIM enables us to create a digital prototype of a building simulating how it will be delivered and how it will operate. It reduces risks, errors, unforeseen costs and delays. It will give us competitive advantage and will provide significant gains for our customers and supply chain.

The Wates BIM team has completed six pilot projects using the new technology, and we have seen significant benefits in terms of coordination, clash detection, risks and logistics.



An example of how BIM works



Using BIM to eliminate potential defects at Dixons Allerton Academy

We used BIM for our work on the £30m Dixons Allerton Academy in Bradford. It enabled the design and build team to work together to investigate, highlight and eliminate potential problems before they appeared on site. It also helped us to manage the client’s expectations and to reduce changes.

“Not only did the team use the 3D BIM model for coordination and clash detection, but they also explored the advantages gained by the use of 4D in terms of programme and logistics.”

David Lingard
Design Manager, Dixons Allerton Academy

Interiors and Retail



Strong performance from Interiors and Retail

Interiors and Retail enjoyed a strong year, winning substantial new projects from customers including Royal Mail, TSB, Primark, John Lewis, the Home Office, Hammerson and Land Securities. Our experience of working in secure and live environments, where safety is paramount, ensures that we continue to win business in a tough market. We are highly selective about the projects that we take on, and we focus on key clients, responding to their demand for high-volume roll-outs; retail and office fit-outs; and cut-and-carve projects that range in value from a few hundred pounds to £15m.

Our ability to mobilise teams nationally, and to work in live environments and out of hours, makes Wates Interiors and Retail extremely attractive to customers who are rolling out new offerings on a large scale. We have worked with Marks & Spencer on the development of their in-store delis and bakeries, and with Asda, on their in-store opticians and pharmacies. And as the retail industry changes, and more sales are carried out online, this creates new opportunities. Asda, for example, asked us to install new ‘click and collect’ grocery collection points at 47 of its stores across the UK. We are confident that the growth of online retailing and ‘click and collect’ will lead to new business.

The team also secured a series of projects valued at £16m for the Royal Mail Group. However, our long-standing relationship with Royal Mail, our expertise and our ability to leverage better procurement than our competitors resulted in us winning the entire contract.

The heart of the Interiors and Retail business remains fit-out for office and retail, where we have immense experience and expertise in working in environments with high levels of security. During 2013 we were involved in a highly collaborative and innovative framework for one of the UK’s leading banks including: branch and office refurbishments, critical engineering, ATM replacement and property upkeep programmes. In addition, we were awarded a £12m six-floor fit-out under competitive tender for the same customer in Central London. We also completed work for the Ministry of Justice (MoJ) on its London headquarters and numerous projects across London. We see opportunities to work with the MoJ on further projects going forwards in 2014. Other interior projects included a number of Home Office fit-outs across the UK. The relationship with American Express continues to go from strength to strength, with further projects awarded in Brighton and Burgess Hill.



“Working closely with the customer, the £4m project was delivered in just 16 weeks.”

Delivered in 5 months

9 distribution centres

New headquarters for TSB

We were asked to develop a new London office for TSB Bank, the newly launched high street bank. The office, on Gresham Street in the City of London, incorporated flexible working space across the 2,950m² floor plate, driving a high population density and flexible ways of working.

The space-efficient solutions provided include: traditional workstations and meeting rooms; innovative collaboration and team-working areas; along with a club area where employees can spend their breaks in a relaxed environment.

Working closely with the customer, the £4m project was delivered in just 16 weeks and within the agreed budget. And although it was not a contract requirement, we ensured that two new communications rooms, which were part of the scheme, were available four weeks prior to handover.



In the Retail sector, we continue to enjoy an ongoing relationship with John Lewis and carried out a major refurbishment of its High Wycombe store, creating 37% more floor space. We also renewed our relationship with Primark, completing a 15-week fit-out project on a live shop floor in Watford. In 2013, we undertook a number of cut-and-carve projects with some of the UK's leading retail landlords and developers, including Land Securities and Hammerson. These maximise the value of every square metre of retail space and ensure that landlords can get new tenants into their shopping centres quickly and efficiently. Land Securities and Hammerson have extended the number of projects they have asked us to work on at the O2 Centre in Finchley Road, London and the Oracle shopping centre in Reading, and we see further opportunities in this sector.

Working with Royal Mail

In 2013 we delivered nine Parcellforce refurbishments with a combined value of around £16m. Royal Mail initially planned to use a number of contractors, but our expertise in procurement and our ability to work across the UK meant that we were asked to deliver the entire project. We began initial talks with Royal Mail in March, and by September had completed the work. All nine distribution centres were delivered on time, within budget and accident-free.



Developments

Continued success for the Developments team

Wates Developments has enjoyed another very successful year with a profit of £9.6m. The growing strength of our land portfolio (over 2,400 acres), our continued success in securing residential planning for complex sites and our well-considered investment in high value development schemes with partners, means that the Developments business is an important part of the overall Wates Group.

It is our ambition to continue to grow the business still further and we see rising opportunity in the land and planning market going forward.

The business operates as an investor in land and as a planning promoter for residential development schemes. We collaborate with many companies within the development sector in pursuit of land and planning consents, and are long-term development partners in the residential sector with Linden, Barratt and David Wilson Homes. Through these relationships we create attractive new developments and provide new homes and infrastructure that make a real and lasting contribution to the local and wider community.

Our excellent track record in performance, financial strength and corporate stability make us an attractive purchaser of land or promoter for landowners. In turn, our commitment to investing in residential development makes us the partner of choice for housebuilders. Being a valued joint venture partner that offers capital and expertise in development is a core aspect of our business model and we maintain the ability to expand our exposure to development through our wide-ranging portfolio of opportunities.

During 2013, we expanded our team of land, planning and development experts who focus on selecting the best sites in the best locations in the South of England. Obtaining planning permission for these sites is often complicated and sometimes very contentious, yet we enjoyed many successes in the year. Both the UK Government and local authorities now recognise the chronic shortage of homes in the UK, particularly in the South, and the need to build more. We recognise that the planning environment, whilst still very challenging, has improved as a result of new policy frameworks.

Our expertise in this area means that we are able to secure planning permission on difficult sites. We continue to focus on in-depth consultation with local people and collaboration with local planning authorities. We are able to add our deep technical knowledge of the development sector and by understanding the potential of every site, we are able to deliver schemes that optimise value and create places where people want to live.

Our primary goals for 2014 are to build on the progress made last year, increase returns and, following recent substantial investment from the Group, drive the business forward to further growth.



Heath Wood, Lindfield

Wates Developments has successfully completed an extremely complex planning and land promotion of a 36 acre site with seven landowners in Lindfield, West Sussex. The project has currently taken over four years to complete and in 2013 the business secured a valuable planning consent for 230 homes, to include a five acre nature conservation area and eight acres of informal recreation space. Through our quality of design and positive engagement with the council and community the consent was achieved locally on an unallocated greenfield site. An acquisition, jointly with Barratt Homes, followed and construction on the site will begin in March 2014 and is scheduled to be concluded for the summer 2017. This successful transaction has delivered circa £4m in land profit to the business with the potential for in excess of £7m development profit for Wates Developments.

Wates Developments has enjoyed another successful year with a profit of

£9.6m

“Wates Developments took us step by step through a complex planning process, delivering a wonderful conclusion which has made a huge difference to our family’s future.”

Ros and Julian Hepplewhite
Landowners



The Frythe, Old Welwyn

Wates Developments has acquired this 47-acre site, a former pharmaceutical laboratory, within a parkland setting in Welwyn village. The acquisition was made jointly with long-standing partners Linden Homes for nearly £40m. It is one of our largest acquisitions in recent years and represents our twelfth joint venture development with Linden. The scheme is for 182 properties and at the heart of the site lies ‘The Frythe,’ a Victorian property of historical importance which was used as an intelligence base during the Second World War. The building will be refurbished and converted into 12 luxury apartments as part of the development. The site will also include a range of three, four and five bedroom houses set amongst mature trees and landscaped areas. Detailed planning is now secured and work begins in March 2014 with completion anticipated in 2017.

“Working together we secured The Frythe against strong competition and have since won phase one planning consent to commence this flagship development.”

Darren Maddox
Managing Director, Linden Homes Chiltern

Needspace?



Needspace? – meeting the needs of entrepreneurs

Needspace? provides affordable and flexible managed workspace for start-ups and small businesses in quality locations in London and the South East. Our aim, at each of our locations, is to create a community of entrepreneurs developing their businesses alongside others in a supportive and inspiring environment.

In 2013, we averaged 83% occupancy reaching up to 100% at our Clapham space. We also delivered a total return in 2013 of 15.6%, which compares favourably with the industry benchmark total return from the Investment Property Databank (IPD) of 10.9%.

Small businesses are attracted by our flexible terms and straightforward monthly payments. And as the economic climate has improved, our businesses have grown with us. Many of our customers have enjoyed a very successful year and have taken on additional people and more space. We have also successfully nurtured other businesses, which have now matured and moved on to take commercial leases at larger premises. Their places have been taken by other tenants, who range from office-based professionals to computer games designers and an explorer who used our Clapham hub as the headquarters for his expedition to retrace the steps of Captain Scott’s 1912 trek to the South Pole and to complete the return journey, which Scott did not achieve.

Our goals for the year ahead are to grow the business, increase occupancy and expand into new sites in London.



Computer Games designers grow with Needspace?

When a group of computer games industry veterans decided to form a new company, Another Place Productions, they needed office space close to central London. Our location in Earlsfield was ideal and now the team of seven are using it as a base from which to grow their popular app, ‘Dragon Finga’.

“Needspace? provides serviced offices on such flexible terms. We’ve found a smart and well managed environment that also represents really good value for money.”

Jeremie Texier
Production Director, Another Place Productions

83%
average occupancy across Needspace? portfolio

Making a difference to communities

We have a deep commitment to the communities in which we work – it’s embedded in everything we do, and it’s an ethos that is shared by all our people. Our values of integrity, intelligence, performance, teamwork and respect for people and communities are at the heart of everything that we do and our financial stability, family ownership and long-term commitment to the construction industry enables us to lead by example and to focus on improving the environment and communities around us, now and for future generations.

We prioritise our focus on raising educational aspirations; improving people’s skills and creating employment; and by providing time for our employees to volunteer. Our focus on these issues means that we’re not just a leader in our own industry, but our efforts are recognised in the world beyond construction. More information on our commitment to communities can be found in our Annual Sustainability Review.

Record numbers for Business Class
We have supported a record number of students – 8,519 – across the UK through our involvement in Business in The Community’s Business Class programme. Wates employees, supply chain and customers have given their time to help raise the aspirations of young people and break down the barriers to employment through construction workshops, mentoring and CV writing.

Building Futures

Building Futures is a two-week QCF accredited course that we run in partnership with Ixion Holdings, a not-for-profit training organisation which is part of Anglia Ruskin University. The course provides people over the age of 19 with the skills they need to move between unemployment and a job. Since we launched Building Futures in 2005, more than 725 people across the UK have taken part and 56% have moved into employment, education or further training.

Connecting with social enterprises

Our clients increasingly expect value beyond construction and want us to demonstrate the social value we can offer. In response, we launched the industry’s first national social enterprise brokerage in partnership with Social Enterprise UK. It will be used to source services such as catering, cleaning and waste management from social enterprises at each of our construction sites, and we aim to spend £5m with the sector by 2015.

“This brokerage service will not only influence the construction sector, but the wider business community, too.”

Nick Temple
Director of Business and Enterprises, Social Enterprise UK.



Creating opportunities for young people

Wates is a strong supporter of the Prince’s Trust ‘Get Into Construction’ programme. It was through this scheme, which helps disadvantaged young people develop skills and confidence, that we first met Sean Millican. Sean joined us as an apprentice quantity surveyor, and his enthusiasm, leadership qualities and ambition to succeed has resulted in him winning the UK Contractors Group Apprentice of the Year award.

“To be nominated at all makes me really proud but to have won makes this the highest point in my career so far. I am now looking forward to developing my skills with such a brilliant team.”

Sean Millican
UKCG Apprentice of the Year



Giving something back

In October, after months of preparation and tough training sessions, 29 brave explorers took on the challenge of climbing to Mount Everest Base Camp in aid of our charity, Barnardo's. Despite appalling weather and altitude sickness, the team made it to Base Camp and raised £69,000.

“From watching the moon rise over the Himalayas to almost being attacked by a yak, it was a truly amazing adventure.”

Avtar Dhillon
Production Trainee, Wates Living Space



The Strategic Report on pages 2 to 41 was approved by the Board of Directors on 11 March 2014 and signed on its behalf by:

James Wates
Chairman

Andrew Davies
Chief Executive

Corporate Governance



Upholding the highest standards of conduct and ethics

James Wates
Chairman

Wates Group and its Board of Directors is committed to the construction industry and the markets in which we operate. We are also committed to upholding the highest standards of conduct and ethics among our businesses, our employees and our supply chain. We take our corporate governance responsibilities very seriously in the interests of all our stakeholders. Governance helps us to conduct our business responsibly, with openness and integrity, and in accordance with all the laws and regulations to which our business activities are subject.

We have a well-defined and well-structured corporate governance process in place to underpin our vision and values. This process supports the Wates family's aim of achieving long term growth and handing on a stronger, more sustainable business to the next generation.

The Board believes that by following the Corporate Governance Code's principles, we are working in the best interest of our shareholders, customers, employees, partners and the local communities in which we work. As a family-owned business, we are not required to comply with the UK Corporate Governance Code, but we believe that by doing the right things in the right way, we can protect our brand, our reputation and our relationships.

James Wates CBE
Chairman





1. Andrew Davies
Chief Executive
Andrew was appointed Chief Executive of the Wates Group in January 2014. Prior to this, Andrew spent 28 years at BAE Systems in various commercial, strategic and operational roles. These included Managing Director of Maritime, a major division of BAE Systems, with over 14,000 employees. Other roles included Managing Director of Land Systems and Group Strategy Director when he was also a member of the Group Executive Committee.

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

3. David Smith
Chief Operating Officer and Managing Director, Wates Construction
Dave started his career in construction as a surveyor with Sir Robert McAlpine. He joined Wates in 1985, later leading the specialist refurbishment division in London. In 1999 he became MD of Wates’ public sector business and in 2005, he was appointed MD of Wates Construction, taking responsibility for the Company’s education, commercial and public sector work. Dave was appointed to the Wates Group Board in 2009. He is the Company’s representative for the UK Contractors Group and chairs the UKCG Health & Safety Leadership Group.

4. James Wates
Chairman
James joined Wates Construction in 1983 and the Wates Construction Board as Marketing Director in 1994. He was appointed to the Wates Group Board in 1997 and became Chairman in 2013. He is Chairman of the Nomination Committee and until April 2013 was a member of the Remuneration Committee. Outside the Group James is involved with several industry bodies. He is Chairman of CITB, Chairman of the UK Contractors Group, a Vice Chairman of the CBI Construction Council, past President of the British Council for Offices, a Commissioner for the UK Commission for Employment and Skills and past President of the Chartered Institute of Building. He is a Trustee of the Building Research Establishment and the College of Estate Management, a Governor of Emanuel School, a Governor of the University of Westminster, Vice Chairman of Queen Elizabeth’s Foundation for the Disabled and Chair, Prince’s Trust Construction & Business Services Leadership Group. He is also a patron of the Wates Family Enterprise Trust. In January 2012, James was awarded the CBE for services to Construction and the Charitable sector.

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



6. Timothy Wates
Director
Tim started his career at Cazenove & Co. in the City, prior to joining the Wates Group. He rejoined the Board in 2011, serving previously from 2006 to 2008, and is a member of the Audit Committee. Tim’s main focus in Wates is Housing – he chairs Wates Developments and works closely with Wates Living Space. He also chairs the Wates Pension Fund, is Chairman of the Wates Family Council – the Family Shareholder forum, and externally he is Vice Chairman of the Coast to Capital Local Enterprise Partnership and a UKTI Business Ambassador. Tim is a Non-Executive Director of Tampopo and Pedder Properties, Trustee of various Wates Family charities, a Director of the Clink Charity and a School Governor. He holds an MBA from the Judge Business School, University of Cambridge.

7. Andrew Wates
Director
Andy joined the Wates Group in 1995, having spent six years gaining experience of the construction industry with Costain Construction and John Shreeves & Partners. Andy was appointed to the Wates Group Board in May 2011 and is a member of the Remuneration Committee. He is a Non-Executive Director of Myriad CEG, and a Trustee of the Wates Family Enterprise Trust and Construction Youth Trust. Formerly the Managing Director of Wates Interiors, Andy was appointed the Group’s Portfolio Development Director in 2012 to lead advancements in the Group’s long-term investment portfolio. He holds an MBA from Roffey Park Business School.

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

9. David Barclay
Independent Non-Executive Director
David was appointed Non-Executive Director of Wates Group in December 2012 and is the Group’s Senior Independent Director. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. He also holds non-executive positions at The British Library and Wessex Water Services, where he is Senior Independent Director and Chairman of the Audit Committee. He is former Non-Executive Deputy Chairman of the John Lewis Partnership and Vice Chairman of Dresdner Kleinwort, the investment bank. Earlier in his career, he spent 10 years in the UK civil service, including two years as private secretary to the then Prime Minister, Margaret Thatcher.

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

11. Deena Mattar
Independent Non-Executive Director
Deena was appointed Non-Executive Director of Wates Group in February 2013, and is a member of the Audit and Remuneration Committees. Until its recent sale to Schneider Electric, Deena was a Non-Executive Director of the global technology company Invensys and Chairman of its Audit Committee. She is also Non-Executive Director and Chairman of the Audit Committee for the information and communication technology company RM, which provides IT products and services to educational institutions. Deena started her career with KPMG in their property and construction division, later joining Kier Group, where she spent 12 years, most recently as Group Finance Director.



1. Andrew Davies
Chief Executive

2. Huw Davies
Chief Financial Officer and Company Secretary

3. David Smith
Chief Operating Officer and Managing Director, Wates Construction

4. Helen Bunch
Managing Director, Wates Interiors and Retail
Helen joined Wates in 2006 as Group Strategy Director with 15 years of international sales, marketing and business management experience. She worked in a number of different divisions of ICI, based at various times in Europe, Japan and America. Helen became Managing Director of Wates Retail in January 2011 and took on responsibility for the Interiors business in June 2012. Helen is a School Governor at Westminster Academy.

5. Andrew Hobart
Managing Director, Wates Living Space
Andy joined Wates in December 2012 having previously spent 13 years in senior roles in the support services sector. He was previously Managing Director at Balfour Beatty Workplace, a £600m turnover support services business employing over 8,500 people, and before that was Divisional Managing Director of Rentokil Initial’s Pest Control Division, leading the organic and acquisitive growth of this £450m business, which employs 6,000 people and operating across Europe, North America and Africa.

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

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

UK Corporate Governance Code
The UK Corporate Governance Code 2012 (the Code) is the standard against which we measured ourselves in 2013. We can confirm that we were fully compliant with all provisions of the Code for the period under review, except where, as a private family-owned company, elements of the Code are not appropriate.

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

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

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

The Board delegates authority for all day-to-day management of the Group’s affairs to the Executive Committee. In addition, certain governance responsibilities are delegated to Board committees, which support the Board in carrying out its duties. These committees are made up of Independent Non-Executive Directors, together with Non-Executive Directors from the Wates family, and provide the Board with independent oversight. A report on the Audit, Remuneration and Nomination committees follows on page 49 to 52.

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

On 30 April 2013, and following a planned transition, the role of Chairman passed from Paul Drechsler, formerly Group Chairman and Chief Executive to James Wates, who became Non-Executive Chairman of the Group.

Board of Directors
Our Board comprises Chairman, Chief Executive, Chief Financial Officer, Chief Operating Officer, three Independent Non-Executive Directors and four family Directors. In February 2013, we welcomed Deena Mattar to the Board as Independent Non-Executive Director and at the AGM in April we said goodbye to two of our long-standing Non-Executive Directors, Peter Johnson and Fritz Ternofsky, who both contributed greatly to the Group over the past 10 years.

On 6 January 2014, Paul Drechsler stepped down from the Board, and we were pleased to welcome Andrew Davies as our new Chief Executive Officer.

A biography for each of our Board Directors can be found on pages 44 to 45.

Our Directors update their skills, knowledge and familiarity with the Company by attending appropriate external seminars and training courses, meeting with senior management, and visiting regional and divisional operating offices. We have a formal induction programme for all new Directors, which is tailored to specific experience and knowledge, and which provides access to all parts of the business, including to shareholders.

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

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

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

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

Details of individual Directors’ attendance of Board meetings in 2013 are shown in the following table:

Name of Director	Maximum number of Board meetings Director could attend	Number of Board meetings Director attended	Percentage of meetings attended
James Wates Deputy Chairman until 30 April 2013 Chairman from 30 April 2013	8	8	100%
Paul Drechsler Chairman until 30 April 2013 Chief Executive until 6 January 2014	8	8	100%
Executives			
Huw Davies – Chief Financial Officer	8	8	100%
David Smith – Chief Operating Officer	8	8	100%
Non-Executives – Family			
Andrew Wates	8	8	100%
Charles Wates	8	7	90%
Jonathan Wates	8	8	100%
Timothy Wates	8	8	100%
Non-Executives – Independent			
David Barclay	8	8	100%
Peter Johnson – retired 30 April 2013	3	3	100%
Deena Mattar – appointed 1 February 2013	7	7	100%
Graeme McFaul	8	8	100%
Friedrich Ternofsky – retired 30 April 2013	3	3	100%

Board diversity

The Group is an equal opportunities employer and promotes an environment free from discrimination. The Group’s policy on diversification extends to the Board. New Board appointments are based on a balance of skills and experience and will always be objective, free from bias and based solely on relevant experience, knowledge and individual merit.

Activities of the Board in 2013

The Board operates a forward agenda of standing items appropriate to the Group’s operating and reporting cycles. Items requiring Board approval or endorsement are clearly defined. Other items are for monitor or review against strategic priorities, risk management or the adequacy of internal controls.

During 2013, the Board focused on key priorities relevant to the following categories:

Financial and operational performance

- The Board approved the 2012 Annual Report and Accounts and set the Group’s 2013 Budget. Every month the Board received detailed reports on the Group’s operating and financial performance, and gave consideration to the Group’s safety performance, economic and market conditions, competitor behaviour, cash retention levels and the work-in-hand position. The Board received regular presentations from each of the business units and function heads, including updates on their individual operational, commercial and financial performance, and risk management issues.

Strategy

- The strategy conference with the Executive Committee in October 2013 provided the Board with an opportunity to obtain a clear understanding of the businesses’ markets and the sectors selected in which to grow. It also enabled the Board to review the Group’s long-term goals and the actions required to achieve financial targets. The Board also gave consideration to the allocation of capital to support the business plan and how to prioritise investment options. The Board endorsed the Group’s 2013 five-year strategy, received updates on progress against the 2012 strategic plan and continued to test the overall strategy against delivery of shareholder preferences.

Employees

- The Board considered continued personal development of the Executive Committee, senior management succession planning and development of a long-term talent pool. Results from the employee engagement survey were reviewed, together with updates on the initiatives taking place across the business to address regional improvements arising from the survey.

Risk management

- The Group’s Risk Register and key corporate risks were regularly reviewed, together with the adequacy of mitigation controls. The Board also considered development of a risk-appetite statement, defining acceptable threshold and tolerance parameters for key risks.

Governance

- The Board discussed changes in the composition of the Board and its committees and defined the primary roles of Chairman, Chief Executive and Senior Independent Director. The Board also considered and approved terms of reference for each of the Board committees and agreed those matters to be reserved for Board approval. In line with the Group’s delegated authority schedule the Board received business cases for all contracts in excess of £35m in value.

Social environment

- The Board received reports on the Group’s corporate social responsibility activities and re-affirmed its commitment to the Group’s key social responsibility principles, namely: to strengthen relationships with stakeholders; engage staff and drive pride; and to be a leader of CSR initiatives.

External economic environment

- The Board regularly considered the impact of prevailing economic conditions on the Group’s short and long-term strategic performance and management’s response to challenging market conditions and competitor behaviour.

Board effectiveness

We did not assess the effectiveness of our Board or committees in 2013 due to changes in Director appointments during the year. Having now worked together for over a year, we believe 2014 is the right time to schedule an effectiveness review and to set improvement actions that will further strengthen and enhance our performance.

Audit Committee

Purpose

The Board delegates a number of specific duties to the Audit Committee, in order to assist in the discharge of its duties and to bring independent oversight to the Group’s activities. The Committee’s primary concerns are the integrity of the Group’s financial statements; the effectiveness of internal controls; the performance of the internal audit function; performance and independence of the external auditors; and compliance with legal and regulatory requirements.

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

Audit Committee members

The Audit Committee is chaired by Graeme McFaul, a chartered management accountant, and comprises three other Non-Executive Directors: David Barclay and Deena Mattar, who are considered independent, and Tim Wates, a family Director. Fritz Ternofsky was a member of the Committee from July 2012 until April 2013, when he retired from the Board. The Board is satisfied that the recent and relevant financial experience of the Committee’s Chairman and its members complies with the principles of the UK Corporate Governance Code in relation to skill, knowledge and experience.

Audit Committee meetings

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

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

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

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

Details of individual directors’ attendance of Audit Committee meetings in 2013 are shown in the following table:

Name of Director	Maximum number of Committee meetings Director could attend	Number of Committee meetings Director attended	Percentage of meetings attended
Committee Chairman Graeme McFaull	4	4	100%
Non-Executive – Family Timothy Wates	4	4	100%
Non-Executives – Independent David Barclay	4	4	100%
Deena Mattar – appointed 1 February 2013	4	4	100%
Friedrich Ternofsky – retired 30 April 2013	1	1	100%

External auditors

PricewaterhouseCoopers were reappointed external auditors at the Group’s AGM in April 2013. The Committee assesses the effectiveness of their performance every year after completion of the annual audit plan. In July 2013, the Committee evaluated their performance in relation to the 2012 audit. The evaluation took the form of a questionnaire to a cross-section of staff involved in the audit process, including members of the financial, commercial, IT and internal audit functions, and members of the Executive Committee. The calibre of the external auditors, their governance, independence and professionalism, received good feedback.

As a private company, the Group is not subject to external restrictions in terms of non-audit work provided by the external auditors, but for good governance we choose to implement our own policy in relation to the level of their remuneration and the extent of their non-audit services. At our meeting in July 2013, the Committee was satisfied that the Group’s external auditors engagement policy had been complied with, and concluded that the external auditors remained objective and independent, and that the audit process was robust and strong.

PricewaterhouseCoopers were appointed external auditors in May 2011. The Audit Committee identifies re-tendering of the external audit service at least every 10 years as good practice.

Internal audit function

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

Activities of the Audit Committee in 2013

The Audit Committee monitors, interrogates and challenges management on its risk mitigation, financial performance and the effectiveness of its internal controls on a regular basis. The Committee looks to the internal and external auditors to ensure that their activities remain focused and in the right areas, and that management responds to the auditors’ key findings in a timely manner.

In 2013, the Committee’s activities included:

Financial reporting and governance

- review of the financial statements in the 2012 report and accounts
- receiving a report from the external auditors on their audit of the annual report and accounts
- consideration of the external auditors’ management letter and a report on management’s actions in response
- review and agreement of the scope of the external audit swork for the 2013 accounts
- review of the 2013 half year accounts
- evaluation of tax matters, with no material issues arising
- review of the Committee’s terms of reference and assessment of their compliance.

Risk management

- consideration of the Group’s risk management framework and output from the Group-wide process used to identify, evaluate and mitigate risks, including review of the Group’s headline risks and the business unit risk registers
- agreement of a schedule of business unit and function presentations in 2014
- review of the effectiveness of the Group’s internal control systems and disclosures made in the annual report and accounts in relation to those controls.

External and internal audit

- evaluation of the performance of the external auditors
- assessment of the external auditors’ independence, objectivity and scope of non-audit work
- evaluation of the performance of the internal audit function
- receiving reports from the Head of Internal Audit on the work undertaken by the internal audit function and management’s responses to proposals made in the audit reports issued during the year
- agreement to increase the frequency of reporting by the internal audit function from bi-annual to quarterly
- receiving the annual opinion on risk management and internal control from the Head of Internal Audit
- approval of the 2014 internal audit plan.

Operational performance

- receiving quarterly reports from the Group Commercial Director on contract reviews and financial movements in the period
- conclusion of follow-up audits on contract reviews, concentrating on previously reported areas of non-compliance
- receiving a report on the Group’s annual insurance renewal, including major claims and issues across insurance classes, loss ratio analysis and review of the adequacy of the Group’s overall insurance provisions
- review of the Group’s whistleblowing policy, receiving reports on activity through the confidential helpline, together with follow up actions and adequacy of the arrangement
- review of the Group’s litigation register and long term exposure to parent company guarantees.

Detailed business unit and function updates have featured on the Audit Committee forward agenda for some years and are taken in rotation. Presentations were received from the Interiors and Retail and Developments business units in 2013 with Construction and Living Space scheduled to present to the Committee in 2014. Function reviews such as business continuity planning, data security and Group policy reviews are scheduled in rotation every 18 months.

Assurance

The Audit Committee is satisfied that no significant failings or weaknesses were identified for the period under review for purposes of this report. Where areas for improvement were identified during the year, processes were implemented and improvement actions monitored against progress. The Committee considers that appropriate accounting policies have been adopted and that appropriate estimates and judgements have been made. Furthermore, the Committee considers that this annual review provides the information necessary for shareholders and other stakeholders to assess the Company’s performance, strategy and business model.

Remuneration Committee

Purpose

The Committee’s primary objective is to set senior remuneration at a level that will enhance the Group’s resources by attracting, retaining and motivating quality senior management who can deliver the Group’s strategic ambitions within a framework aligned with shareholder interests. The Committee firmly believes that the best people on the right remuneration, with an emphasis on performance-related pay, places the Group in a strong position to face challenges emanating from economic and market change, and to deliver long-term sustainable value for all stakeholders.

Remuneration Committee members

The Remuneration Committee comprises four Non-Executive Directors and is chaired by David Barclay, who succeeded Fritz Ternofsky as Chairman when he retired from the Board in April 2013. Members include Graeme McFaull and Deena Mattar who are Independent Non-Executive Directors and Andrew Wates, a family Director.

Remuneration Committee meetings

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

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

New Bridge Street provides independent commentary on matters considered by the Committee, providing updates on legislative requirements, best practice, market practice and remuneration benchmarking, both within the industry and outside sectors.

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

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

Activities of the Remuneration Committee in 2013

- In line with its primary remit, the Committee’s activities during the year included:
- approval of the Directors’ Remuneration Report for inclusion in the 2012 annual report;
 - review and recommendations around criteria for pay, bonus and LTIP payments;
 - approval of employee participation of the Group’s LTIP plan;
 - review of the achievements of Executive Directors’ individual objectives;
 - analysis of earnings progression in the business and industry;
 - consideration of market trends and benchmarking data for purposes of salary recommendations;
 - review of guidelines and best practise on executive remuneration and the Group’s response;
 - review of the Department of Business, Innovation & Skills recommendations on revised Directors’ Remuneration Report disclosures;
 - consideration of the transition and retention of the CEO;
 - consideration of the effectiveness and independence of the Committee’s advisors;
 - satisfying itself that the Group’s remuneration policy did not create any undue pressures or risks; and
 - review of the Committee’s terms of reference and assessment of their compliance.

Details of individual directors’ attendance of Remuneration Committee meetings in 2013 are shown in the following table:

Name of Director	Maximum number of Committee meetings Director could attend	Number of Committee meetings Director attended	Percentage of meetings attended
Committee Chairman			
Friedrich Ternofsky – retired 30 April 2013	1	1	100%
David Barclay – from 1 May 2013	3	3	100%
Non-Executive – Family			
Andrew Wates	3	3	100%

Nominations Committee

Purpose
The Board operates a Nomination Committee to ensure that the Board remains balanced and effective, that succession plans are in place, and that its structure, composition and skills remain aligned to the Group’s strategic objectives. The Committee’s primary objective, when necessary, is to identify and evaluate candidates for future appointments and, in doing so, takes advice from independent external recruitment consultants.

Nomination Committee members

The Committee comprises Independent Non-Executive Directors under the chairmanship of James Wates. David Barclay and Graeme McFaul are current members. Peter Johnson was a member until his retirement from the Board in April 2013.

Nomination Committee meetings

The Committee has no formal schedule of meetings and meets as required. In 2013, the Committee met individually and collectively, both informally and via telephone conference call, to discuss Board appointments.

Activities of the Nomination Committee in 2013

In 2013 the Committee’s primary focus was the appointment of a new Independent Non-Executive Director and succession of the Chief Executive Officer. The Committee recommended the appointment of Deena Mattar in February 2013 and the appointment of Andrew Davies as Chief Executive with effect from January 2014.

Executive Committee

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

Executive Committee members

Paul Drechsler chaired the Executive Committee from 2004 until he stepped down from the Board at the end of December 2013. Andrew Davies joined the Committee in January 2014 as the incoming Chief Executive Officer. The Committee consists of individuals responsible for the strategic business units and key functions.

A biography for each of our executive Directors can be found on page 46.

Executive Committee meetings

The Committee has a schedule of 10 formal meetings and further interim meetings as required. The primary focus at every meeting is the Group’s financial and safety performance, people matters, operations and risk management, process and control improvements, and progress against the Group’s strategic objectives. The Committee’s responsibility and authority are set by the Board and delegated by the Chief Executive to individual members of the Committee. They in turn are accountable to him for the performance of their respective business unit or function and submit medium to long-term strategic plans, annual budgets and quarterly forecasts for approval.

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

Wates Developments and Needspace? are business units within the Group that have different reporting and governance requirements. Developments reports to the Board under the chairmanship of Tim Wates, while Needspace? reports directly to the Chief Executive Officer.

Activities of the Executive Committee in 2013

Details of the achievements of the Executive Committee in 2013 are highlighted in the Business Review and Case Studies on pages 17 to 41.

Group Risk Committee

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

Group Risk Committee members

The Committee is chaired by the Chief Executive and comprises members of the Executive Committee, regional business Directors and function leaders, including the Head of Internal Audit and the Group Financial Controller. The Board remains satisfied that the composition of the Committee strengthens the Group’s approach to risk management and mitigation, and that the Committee remains focused on the key risks affecting financial and operational performance.

In order to strengthen the Committees’ work and to further enhance cohesion of the Group’s risk management approach, including the cascade of Group-wide messages and lessons learnt, it was agreed that the three main business unit commercial leads should attend all future Committee meetings, when previously they had attended in rotation.

Group Risk Committee meetings

The Committee meets formally four times a year and operates a rolling forward agenda of items commensurate with reporting cycles. After each meeting, the Chief Executive provides feedback to the Executive Committee on the Committee’s activities and conclusions and reports any material issues to the Board.

Minutes of the Group Risk Committee are circulated to all members of the Committee, Executive Committee and the Board.

Activities of the Group Risk Committee in 2013

Much of the Committee’s focus in 2013 was on improving controls and processes, and adopting new approaches to risk identification, classification and mitigation. The Head of Internal Audit, in conjunction with the Executive Committee and business unit and function leads, provided support in the redesign of the Group’s risk-management framework and risk registers. This enables the Group to maintain a consistent approach to risk controls and to ensure they are aligned to the strategic planning process. During 2013, the Committee:

- approved a new Group-wide risk-management framework
- approved redesign of the corporate and business unit risk registers, including refresh of rating scores for the purpose of risk prioritisation;
- interrogated headline risks identified within both the Group and business unit risk registers;
- satisfied itself that mitigating actions were in place for specific risks within each register;
- approved redesign of the quarterly commercial report, focusing on risks specific to individual projects;
- considered the Group’s appetite for risk and the protection of its reputation;

- contributed to development of a Group-wide risk universe;
- considered a risk appetite statement to create a common understanding and language around risk tolerances and capacity;
- regularly reviewed counterparty risk and associated risks;
- considered the emergence of inflation risk and its impact on project delivery;
- reviewed litigated matters including material insurance claims;
- tracked management’s response to control weaknesses identified by the annual internal assurance certification;
- implemented improvements to the contract review process to strengthen controls in the identification of projects at risk;
- considered the Group’s resilience to fraud and satisfied itself that appropriate prevention and detection methods were in place and effective;
- approved introduction of a formal cash management plan;
- considered the risks and industry response to legislative changes such as project bank accounts;
- ensured that adequate insurance policies were in place to protect the Group’s long-term aims;
- monitored progress of the internal audit plan;
- considered the purpose and timing of independent project reviews and ensured no overlap or duplication with the internal audit plan;
- evaluated the Group’s whistle-blowing arrangements;
- received reports on the activities and focus of the Developments business unit risk committee; and
- reviewed the Committee’s composition, governance and terms of reference.

The Group’s operational risks and their mitigation are outlined in the Risk Management section.

Communication with shareholders

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

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

Financial reporting

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategy and Business Model Review on pages 10 and 11. The financial position of the Group, including its cash flow, liquidity position and the management of principal risks and uncertainties, are described in the Risk Management section on pages 14 to 16.

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

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

Internal controls

The Board takes ultimate responsibility for the Group's systems of risk management and internal control, and for reviewing their effectiveness. The Group's principal risks and uncertainties and how they are mitigated are summarised on pages 15 and 16.

The Board assessed the effectiveness of the risk management process and internal controls during 2013 and to the date of this report. Such assessment was based on reports made to the Board, Audit and Group Risk Committees, including:

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

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

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

- an established management structure operating throughout the Group, with clearly defined levels of responsibility and delegation of authorities;
- operating guidelines with authorisation limits set at appropriate levels in both business units and Group functions;

- a comprehensive budgeting and forecasting system, which is regularly reviewed and updated;
- a formal quarterly review of each business unit's year-end forecast, business performance, risk and internal control matters, as carried out by the directors of each business unit with the Chief Executive and Chief Financial Officer in attendance;
- monthly management reporting, including regular comparison of actual results against latest forecasts;
- established standards governing the Group's client and contract selection processes, tendering and settlement processes and contract risk management process;
- established standards governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposures;
- approval of investment decisions;
- regular monitoring, review and reporting of health, safety and environmental matters; and
- internal audit function reviews of risks and controls.

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

This Annual Review includes the Strategic Report for the year ended 31 December 2013, which is only part of the Company's Annual Accounts and Reports 2013. The Auditors' Report on those Annual Accounts was unqualified and did not contain a statement under either section 498(2) of the Companies Act 2006 (inadequate accounting records or returns, or accounts not agreeing with records and returns) or section 498(3) (failure to obtain necessary information and explanations), and in that Report, the Auditors' statement under section 496 of the Companies Act 2006 (whether Strategic Report and Directors' Report consistent with those accounts) was unqualified.

This Annual Review also includes supplementary material, including the Summary Consolidated Profit and Loss Account, the Summary Consolidated Balance Sheet, the Summary Consolidated Statement of Total Recognised Gains and Losses, the Summary Consolidated Cash Flow Statement and the Segmental Information, which is a summary of information in the Annual Accounts and Reports 2013. This Annual Review is not the Company's statutory accounts.

The Annual Accounts and Reports 2013 will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 28 April 2014. The Annual Report and Accounts 2012 have been delivered to the Registrar of Companies.

Full copies of the Annual Accounts and Reports 2013 and future years' annual accounts and reports may be obtained free of charge by writing to:

The Company Secretary

Wates Group Limited
Wates House
Station Approach
Leatherhead
Surrey KT22 7SW

Summary Consolidated Profit and Loss Account

For the year ended 31 December 2013

	2013 £000s	2012 £000s
Turnover:		
Group and share of joint ventures and associates	931,171	1,193,568
Less share of turnover of joint ventures and associates	(79,476)	(96,577)
Group turnover: continuing operations	851,695	1,096,991
Cost of sales	(762,822)	(1,001,922)
Gross profit	88,873	95,069
Administrative expenses (including restructuring costs)	(75,145)	(78,241)
Group operating profit:		
Continuing operations	13,728	16,828
Operating profit from interests in joint ventures and associates	9,364	9,046
Total operating profit – Group and share of joint ventures and associates:		
Before restructuring costs	23,092	30,778
Restructuring costs	–	(4,904)
Total operating profit – Group and share of joint ventures and associates	23,092	25,874
Profit on sale of investments	–	1,302
Deficit on revaluation of investment properties	(100)	(220)
Profit on ordinary activities before interest and taxation	22,992	26,956
Net interest receivable	3,291	2,672
Net interest payable – joint ventures	(1,931)	(1,763)
Net other finance charges	(2,012)	(2,130)
Profit on ordinary activities before taxation:		
Before restructuring costs and profit on sale of investments	22,340	29,337
Restructuring costs	–	(4,904)
Profit on sale of investments	–	1,302
Profit on ordinary activities before taxation	22,340	25,735
Taxation	(6,094)	(7,024)
Profit for the financial year	16,246	18,711

Summary Consolidated Balance Sheet

As at 31 December 2013

	2013 £000s	2012 £000s
Fixed assets		
Intangible assets		
Goodwill	24,622	26,232
Tangible fixed assets	20,173	19,260
Investments in joint ventures:		
Share in gross assets	104,281	79,930
Share in gross liabilities	(100,406)	(71,272)
Loans provided to joint ventures	47,831	37,920
Total investments in joint ventures	51,706	46,578
Other investments	3,764	2,679
	100,265	94,749
Current assets		
Stocks	8,411	9,726
Debtors		
Amounts falling due within one year	194,193	182,965
Amounts falling due after more than one year	13,908	15,174
	208,101	198,139
Cash at bank and in hand	103,129	121,254
	319,641	329,119
Creditors: amounts falling due within one year	(287,230)	(301,482)
Net current assets	32,411	27,637
Total assets less current liabilities	132,676	122,386
Creditors: amounts falling due after more than one year	(20,044)	(13,497)
Provisions for liabilities	(4,252)	(5,470)
Net pension liability	(29,259)	(33,198)
Net assets	79,121	70,221
Capital and reserves		
Called-up share capital	14,777	14,777
Share premium account	956	956
Capital redemption reserve	17,447	17,447
Revaluation reserve	2,995	1,770
Profit and loss account	42,946	35,271
Shareholders' funds	79,121	70,221

Summary Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2013

	2013 £000s	2012 £000s
Profit for the financial year	16,246	18,711
Unrealised surplus on revaluation of investment properties	1,225	550
Currency translation difference on foreign currency net investment	155	255
Actuarial gain/(loss) recognised in the pension scheme net of deferred taxation	3,532	(4,728)
Total recognised gains and losses relating to the year	21,158	14,788

Summary Consolidated Cash Flow Statement

For the year ended 31 December 2013

	2013 £000s	2012 £000s
Cash outflow from Group operating activities	(8,499)	(7,769)
Dividends received from joint ventures	12,018	1,815
Returns on investments and servicing of finance		
Interest received	3,116	2,632
Interest paid	(72)	(10)
Net cash inflow from returns on investments and servicing of finance	3,044	2,622
Taxation		
Corporation tax paid	(4,152)	(6,235)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,825)	(1,317)
Purchase of investments	(780)	(109)
Disposal of tangible fixed assets	11	15
Disposal of investments	–	1,333
Net loans (to)/repaid by joint ventures	(13,482)	7,669
Net cash (outflow)/inflow from capital expenditure and financial investment	(16,076)	7,591
Equity dividends paid	(12,258)	(13,865)
Net cash outflow before financing	(25,923)	(15,841)
Management of liquid resources		
Cash withdrawn from short-term deposit	5,411	11,080
Net cash inflow from management of liquid resources	5,411	11,080
Financing		
Issue of preference share capital	–	5,000
Increase in bank loan	7,879	–
Repayment of bank loan	(81)	–
Net cash inflow from financing	7,798	5,000
(Decrease)/increase in cash	(12,714)	239

Segmental information

	2013 Turnover £000s	2012 Turnover £000s	2013 Profit before tax £000s	2012 Profit before tax £000s
Construction:				
Before restructuring costs and profit on sale of investments			16,539	23,406
Restructuring costs			–	(4,904)
Profit on sale of investments			–	1,302
Construction	830,256	1,071,129	16,539	19,804
Residential development	19,532	24,009	9,553	9,165
Other activities	1,907	1,853	(3,752)	(3,234)
Group total:				
Before restructuring costs and profit on sale of investments			22,340	29,337
Restructuring costs			–	(4,904)
Profit on sale of investments			–	1,302
Group total	851,695	1,096,991	22,340	25,735

	2013 Net assets £000s	2012 Net assets £000s
Construction	(70,774)	(103,944)
Residential development	60,325	61,244
Other activities	(5,751)	(8,333)
Cash and net debt	95,321	121,254
	79,121	70,221

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

Other activities include the Group's provision of workplace and support services activity and the net pension liability.

Group Five Year Summary

	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m
Profit and loss account					
Group turnover (plus share of joint ventures’ and associates’ turnover)	945	985	1,117	1,194	931
Group turnover	904	895	1,034	1,097	852
Operating profit	38.0	41.1	32.7	25.9	23.1
Profit on ordinary activities before taxation	38.9	43.5	40.1	25.7	22.3
Balance sheet					
Net assets	59.5	60.7	64.3	70.2	79.1

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