

REPORT OF THE AUDIT COMMITTEE

Membership

Throughout 2015, the Committee consisted of Stuart Corbyn, Simon Fraser and Richard Dakin under the chairmanship of Stephen Young. Claudia Arney joined the Committee in January 2016. All committee members are considered independent by the Board, having no day-to-day involvement with the Company and, with the exception of Stuart Corbyn, not having been with the Company for more than nine years. The Board's position regarding Stuart is discussed on page 85. Due to his position as Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited, Richard Dakin does not take part in the Committee's considerations regarding the valuation of the Group's property portfolio.

Stephen Young is a qualified accountant and is considered to have appropriate recent and relevant financial experience. The Committee has access to further financial expertise, at the Company's expense, if required.

Roles and responsibilities

The terms of reference for the Committee are available on the Company's website.

Meetings

The Committee met four times during the year to discharge its responsibilities. These were attended by the Group's external auditor and members of the Group's senior management when invited. Two additional meetings are held each year with the Group's independent property valuers (CBRE) to consider the valuation of the property portfolio.

Work of the Committee

During the year, the Committee has carried out the following:

- Reviewed the Group's annual report and accounts to consider whether, taken as a whole, they were fair, balanced and understandable and whether they provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy and advised the Board accordingly.
In carrying out this review, and subsequently reporting its opinion to the Board, the Committee had regard to the following:
 - The adequacy of the systems for bringing all the relevant information to the attention of the preparers of the report and accounts and the adequacy of the controls operating over the system.
 - Whether the procedures for obtaining assurance over the accuracy of the information were sufficient.
 - The consistency of the reports within themselves and with other reports and whether they are in accordance with the information received by the Board during the year.
 - Whether the statements were written in straightforward language with the use of any 'adjusted' measures adequately explained.

- Considered the appropriateness of the accounting policies, assumptions, judgements and estimates used in the preparation of the financial statements.

In discharging this responsibility, the Committee identified the following significant issues and carried out the procedures set out below:

- Valuation of the Group's property portfolio
The Committee considers this to be the major area of judgement in determining the accuracy of the financial statements. In view of this, meetings were held with the Group's external valuers before both the interim results and the final results to consider the portfolio valuation contained therein. These meetings were led by members of the Committee with relevant and current expertise in property valuation. Key matters discussed during the meetings include the assumptions underlying the valuation, any valuation which required a greater level of judgement than normal, for example development properties, and any valuation movements that were not broadly in line with that of the IPD benchmark. The assumptions were also discussed with the auditors who have their own valuation experts and carry out their own independent tests.
These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the Group's property portfolio.
- Revenue recognition
Review recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee identified that the recognition of profit arising from a transaction where profit is conditional on future performance could represent a transaction with elevated risk. The Committee sought explanations from management for both the treatment and assumptions adopted and was satisfied with the answers given. The Committee also discussed these with the auditor who concurred with the treatment.
Taking all factors into consideration, the Committee was satisfied with management's approach, estimates and presentation.
- Management override of internal control
In the absence of an internal audit function, the Committee looks for external assurance on the operation of controls over certain parts of the business. This is achieved by instructing third parties (which may include the external auditor) to review the control environment in a particular area. The Committee remains satisfied with the level of assurance gained from this approach.

- **Taxation and REIT compliance**
The Committee noted that, should the Group not comply with the REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime which would have a significant effect on the financial statements. The Committee noted the frequency with which compliance with the regulations was reported to the Board and considered the margin by which the Group complied. Based on this and the level of headroom shown in the latest Group forecasts the Committee agreed that no further action was required for the current year.
- **Borrowings and derivatives**
This was considered an area of elevated risk due to the conversion of the Group's 2.75% convertible bonds 2016 in January 2015. The Committee sought assurance from management regarding the accounting treatment of the conversion and was advised that the Group's corporate lawyers had advised both on the initial structure of the convertible bonds and the effect on the Group's reserves at the time of conversion. In addition, being a first half transaction, the accounting had been discussed and agreed with the auditor at the time of the Group's interim reporting. This was subsequently confirmed by the auditor. The Committee was satisfied with the level of assurance gained from these procedures.
- **Monitored the integrity of the Group's interim and annual financial statements and the two business updates published during the year and reviewed the significant financial reporting judgements contained in them.**
- **Assessed the effectiveness of the external audit taking into account the views of both management and the auditor. It also reviewed the audit plan and considered the quality of the planning, the extent to which it was tailored to the business and its ability to respond to any changes in the business. Having considered all these matters the Committee has recommended to the Board that PwC be re-appointed as auditor to the Group.**
- **Considered the adequacy of the Group's procedures for safeguarding the objectivity and independence of the external auditor.**
In assessing this matter the Committee noted the following:
 - Each year the auditor issues the Committee with an Independence Letter which confirms their independence and compliance with the Auditing Practices Board (APB) Ethical Standards. This is provided after the auditor has considered the following matters:
 - Any relationships of which they are aware that, in their professional judgement, may reasonably be thought to bear on their independence and the objectivity of the audit engagement partner and staff.
 - Any services that the auditor has provided to the Group in addition to the audit of the consolidated financial statements.
 - The total amount of fees that the auditor has charged the Group for the provision of services during the reporting period.
 - The amounts of any future services that have been contracted for, or where a written proposal has been submitted.
 - The Company operates a policy under which the auditor cannot be appointed for any non-audit work where the fee exceeds £25,000 without the appointment being approved by the Audit Committee. There have been no such appointments during 2015.
- **Reviewed the terms of reference for the Committee.**
- **Considered the appropriateness of the Group's viability statement and going concern assumption and advised the Board accordingly.**
- **Considered the need for an internal audit function and concluded that one was not needed given the scale and complexity of the business, but that external assurance may be sought in particular areas identified as higher risk.**
- **Noted that the accounts for the Group's pension schemes had been audited and that no matters had been raised.**

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

25 FEBRUARY 2016