

REPORT OF THE AUDIT COMMITTEE

Membership

Throughout 2014 the Committee consisted of Stuart Corbyn, Simon Fraser and Richard Dakin under the chairmanship of Stephen Young. All Committee members are considered independent by the Board, having no day-to-day involvement with the Company and not having been with the Company for more than nine years. 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 interim and annual financial statements and the published interim management statements to consider whether, taken as a whole, they were each fair, balanced and understandable and whether they provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

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 each other 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.

These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the Group's property portfolio.

- Compliance with REIT guidelines

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.

- Accounting for borrowings and derivatives

The Committee considered this to be an area of increased risk for the current year due to the option to redeem the Group's 2.75% convertible bond 2016 being exercised over the year end.

Management explained the conversion process and accounting treatment to the Committee and it was noted that the Group's lawyers were advising on the transaction. Management also advised the Committee that the Auditor concurred with the proposed accounting treatment. This was subsequently confirmed by the Auditor.

The Committee was satisfied with the level of assurance gained from these additional procedures.

- Revenue recognition
Revenue recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee had, in previous years, considered two treatments where the level of risk might have been elevated. Having discussed both treatments with management and established that the treatments and assumptions were consistent with previous years, the Committee decided that no additional procedures were required in the current year.
- Management override of internal control
In the absence of an internal audit function, the Committee looks for external assurance on the operation of certain controls in 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 process.
- Assessed the effectiveness of the external audit
In assessing the effectiveness of the external audit the Committee took 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 these factors the Committee has recommended the re-appointment of PwC to the Board.
- 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; and
 - 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 since PwC were appointed in May 2014.

- Completed the tendering process for the 2014 audit of the Group.
The tendering process was started in December 2013 with participating firms preparing and submitting proposals against a number of specific criteria. The final phase of the tendering process involved presentations to the Committee and executive management in March 2014. Following these presentations, a recommendation was made to the Board based on the quality of the audit being offered, and subsequently a resolution to appoint PwC as the Group's Auditor was passed at the 2014 AGM. In accordance with the current regulations, the Group will re-tender the audit after 10 years.
- Reviewed the terms of reference for the Committee.
- 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 no matters raised.
- Reviewed the Group's whistleblowing policy and procedure and introduced improvements to ensure that it continued to meet best practice.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

26 FEBRUARY 2015