

REPORT OF THE AUDIT COMMITTEE

Membership

Stephen Young was Chairman of the Committee throughout 2013. At the start of the year other members of the Committee were Stuart Corbyn, June de Moller, Robert Farnes and Simon Fraser. On 1 July 2013 Robert Farnes left the Committee and on 1 August 2013 June de Moller was replaced by Richard Dakin. All current 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. Meetings were attended by the Group's external Auditor, independent property valuers (CBRE) and members of the Group's senior management when invited.

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 fair, balanced and understandable and 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 and controls that exist for bringing all the relevant information to the attention of the preparers of the report and accounts.
- 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 provided to 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 addressed them in the manner described.

- 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, the external Auditor was asked to prepare a separate report on the procedures carried out in auditing the valuation and the results thereof. In addition, the Committee met with the Group's external valuers before both the interim results and the final results. These meetings were led by members of the Committee with relevant and current expertise in property valuation.
These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the properties.
- Revenue recognition
Revenue recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee considered two specific treatments where risk may arise for the Group. These involved the treatment of lease incentives and the recognition of profit arising from a transaction where the profit is conditional on future performance. The Committee sought explanations from management for the treatments adopted and was satisfied with the response. 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 presentation.
- Going concern
The Committee noted that this was a matter reserved for the full Board. Having considered those factors that the Board uses in its judgement such as the Group's two year cash flow forecasts, the level of unutilised, committed bank facilities and the projected capital expenditure the Committee concluded that no additional procedures were necessary.
- 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 so gained.
- Compliance with the REIT regulations
The Committee noted that, should the Group not comply with the REIT regulations, it could be expelled from the REIT regime which would have a significant effect on the financial statements. The Committee considered the frequency with which compliance with the regulations was reported to the Board and the margin by which the Group complied and agreed that no further action was required for the current year.

REPORT OF THE AUDIT COMMITTEE

CONTINUED

- Assessed the effectiveness of the external audit
In carrying out this task the Committee took into account the views of both management and the Auditor. It reviewed the audit plan and considered the quality of the planning, the extent to which it was tailored to the business and its responsiveness to any changes in the business. The Committee also reviewed the content of the external Auditor's management letter and the responses of management to the comments made therein.
- 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:
 - The level of the audit fee.
 - The nature of other services provided to the Group and the fees derived from them.
 - The existence and influence of any associated parties.
 - The duration of the appointment both of the audit firm and of any individuals involved on the audit.
 - Any participation in client affairs.
 - Any financial relationships including share ownership.
 - Any threatened or actual litigation involving the client.
- 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 were no such appointments in the last two years.

- Conducted a tendering process for the 2014 audit of the Group.

This was anticipated in last year's report and took into account emerging best practice, the fact that BDO had been the Group's Auditor since 1985 and that the current audit partner reaches the end of his five-year term in 2014.

The Committee commenced the tendering process in December 2013 and participating firms were asked to submit proposals against a number of specific criteria. In the course of preparing the proposals each firm was given access to members of the Company's senior management and shown a selection of the Group's properties. The final phase of the tendering process will be a presentation to the Committee and executive management in March 2014. Assuming that all the firms meet the criteria for appointment and satisfy the Committee as to their independence, a recommendation will be made to the Board based on the quality of the audit offered. An appropriate resolution will then be put to shareholders at the AGM of the Company to be held on 16 May 2014.

- 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.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

27 FEBRUARY 2014