

Terms of Reference for the Audit and Risk Committee (the “Committee”)

Amended and approved by the Board on 12 April 2016

Table of Contents

1.	Background.....	1
2.	The Committee's Duties	1
3.	Composition.....	5
4.	Quorum	6
5.	Meeting Administration	6
6.	Secretary	7
7.	Self-Evaluation.....	7
8.	Reporting Responsibilities	7
9.	Other Matters.....	8
10.	Authority.....	9

1. Background

- 1.1 The Board has resolved to establish an Audit and Risk Committee.
- 1.2 The Board has delegated to the Committee responsibility for overseeing the financial reporting and internal financial controls of the Company and its subsidiaries (collectively “the **Group**”), for reviewing the Group’s internal control and risk management systems, and for maintaining an appropriate relationship with the external auditor of the Group.

2. The Committee’s Duties

The Committee performs the following duties for the Company, its major subsidiary undertakings and the Group as a whole, as appropriate.

Financial reporting

- 2.1 To monitor the integrity of the Company’s financial statements, including its annual and half-yearly reports, any interim management statements, any preliminary results announcements and any other formal announcements relating to its financial performance, and to review and report to the Board on the significant financial reporting issues and judgements which they contain (having regard to matters communicated to it by the external or the internal auditor).
- 2.2 To review and challenge where necessary:
 - a. the consistency of, and any changes to, significant accounting policies on a year on year basis, across the Company and the Group;
 - b. the methods used to account for significant or unusual transactions where different approaches are possible;
 - c. whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - d. the clarity and completeness of disclosure in the Company’s financial reports and the context in which statements are made;
 - e. all material information presented with the financial statements, such as the strategic report and viability statement, the corporate governance statement (insofar as it relates to audit and risk management) and the internal control and risk management statement.
- 2.3 To assess the effectiveness of the Group’s financial reporting procedures.
- 2.4 Where the Committee is not satisfied with any aspect of the Group’s financial reporting, to report its views to the Board.

- 2.5 To review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Internal audit

- 2.6 To monitor and review the effectiveness of the Group's internal audit function, in the context of the Company's overall risk management system.
- 2.7 To review and assess the annual internal audit plan.
- 2.8 To consider and approve the remit of the internal audit function, and to ensure it:
- a. has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and
 - b. has adequate standing and is free from management or other restrictions.
- 2.9 To approve the appointment and removal of the head of the internal audit function.
- 2.10 To ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, and is accountable to the Committee.
- 2.11 To review reports addressed to the Committee from the internal auditor.
- 2.12 To review and monitor management's responsiveness to the findings and recommendations of the internal auditor.
- 2.13 To meet the head of internal audit at least once a year, without management present, to discuss their remit and any issues arising from the internal audit reviews.

External audit

- 2.14 To consider and make recommendations to the Board on the appointment, re-appointment, resignation or removal of the Group's external auditor, to be put to shareholders for approval at the Annual General Meeting.
- 2.15 To oversee the selection process for a new external auditor¹ and initiate and supervise any competitive tender process undertaken by the Company for the provision of external audit services.
- 2.16 To investigate the issues leading to any resignation of an external auditor and decide whether any action is required.
- 2.17 To oversee the relationship with the external auditor, including but not limited to:
- a. negotiating and agreeing for and on behalf of the Board the external auditor's remuneration, including fees for audit and non-audit services and

¹ **Note:** Para C.3.7 of the Corporate Governance Code provides that FTSE 350 companies should put their audit services contract out to tender at least once every ten years.

- ensuring that the fees are appropriate to enable an effective and high quality audit to be conducted;
- b. approving in advance fees amounting to £20,000 or more on a case by case basis in respect of non-audit services provided by the external auditor with follow up reporting by management to the Committee and, in cases where the fee is under £20,000, management will report after the event to the Committee;
 - c. negotiating and agreeing for and on behalf of the Board the scope of the audit;
 - d. influencing the appointment of the individual identified by the external auditor as being primarily responsible for the conduct of the audit;
 - e. monitoring and reviewing the external auditor's independence and objectivity, and the effectiveness of the audit process, taking into account relevant legal, professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
 - f. agreeing with the Board a policy on the employment of former employees of the external auditor, taking account of relevant ethical standards, and monitoring the application of this policy;
 - g. monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the fees paid by the Group compared to the overall fee income of the firm, and other related regulatory requirements;
 - h. assessing annually the external auditor's qualifications, expertise and resources and the effectiveness of the audit process, taking into account relevant professional and regulatory requirements, which shall include a report from the external auditor on its own internal quality control procedures; and
 - i. seeking to ensure co-ordination between the external auditor and the internal audit function.
- 2.18 To meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage, and to meet the external auditor at least once a year without management present to discuss the auditor's remit and any issues arising from the audit.
- 2.19 To review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
- 2.20 To review the findings of the audit with the external auditor, including but not limited to:

- a. any significant issues which arose during the audit;
 - b. key accounting and audit judgements;
 - c. the level of errors identified during the audit;
 - d. the effectiveness of the audit process;
 - e. the basis for the going concern assumption; and
 - f. compliance with relevant financial reporting standards and relevant financial and governance reporting requirements.
- 2.21 To review any representation letter(s) requested by the external auditor before they are signed by management on behalf of the Board.
- 2.22 To review the management letter and management's response to the external auditor's findings and recommendations.

Internal control and risk management systems and related reporting

- 2.23 To act as a forum to address financial, legal and regulatory risks across the Group. Noting that:
- a. risks at a project level (e.g. health & safety) will continue to be managed by the Asset Management division and the Executive Committee
 - b. risks in new bids will continue to be managed by the Primary Investment division and the Executive and Investment Committees
 - c. corporate risks (e.g. non-compliance with the Group banking facility covenants) will continue to be managed by Central functions.

Management will brief the Committee periodically on each of the above. The Committee will take a holistic view of existing and emerging risks throughout the Group and in particular identify any which it believes are not being addressed. It will focus on the confluence of risks affecting the Group's markets, projects and the way it works.

- 2.24 To advise the Board on the Group's overall risk appetite and tolerance, and to monitor and keep under review the business risks facing the Group and the policies and processes for managing them.
- 2.25 To review the results of regular stress testing by management (e.g. for inflation, interest rate and foreign exchange movements) of the major financial exposures of the Group.
- 2.26 To advise the Board on any proposed strategic transactions, including acquisitions and disposals of 'recourse' businesses.
- 2.27 To monitor and keep under review the effectiveness of the Group's internal financial and operational controls.

- 2.28 To receive and review regular assurance reports from management, internal and external audit and others on subjects related to risk and control, and to assess the timeliness and effectiveness of corrective action taken by management.
- 2.29 To review and approve for recommendation to the Board the statements in the annual and interim reports on principal risks and their mitigants.
- 2.30 To monitor and review
 - a. the Group risk register
 - b. compliance of the Group's UK Financial Conduct Authority – regulated subsidiary(s) with its statutory and other regulatory responsibilities;
 - c. the efficacy of the Group's specialised insurance programme;
 - d. business continuity and disaster recovery plans; and
 - e. Group policies and procedures for data protection and cyber security.
- 2.31 To provide qualitative advice to the Remuneration Committee on any risk weightings applied to performance objectives in executive remuneration.

Whistleblowing, fraud, bribery and other compliance

- 2.32 To review the Group's arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties in financial reporting or other matters, with the aim of ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action. To review a report at least annually from relevant management on whistleblowing.
- 2.33 To review the Group's policies and procedures for preventing and detecting fraud, its systems and controls for preventing bribery and money laundering, its code of corporate conduct/business ethics and its policies for ensuring that the Group complies with relevant regulatory and legal requirements. [To receive reports from management on these subjects (including from the Group's money laundering reporting officer) and to consider appropriate action thereon.

3. Composition

- 3.1 The Committee shall have at least three members. Members of the Committee are appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit and Risk Committee.
- 3.2 All members of the Committee shall be independent non-executive Directors. The Chairman of the Board may not be a member of the Committee. If the Board decides that a member of the Committee is no longer independent, that member will cease to be a member of the Committee.

- 3.3 Each member of the Committee will have competence in accounting and/or auditing with the Committee as a whole having competence relevant to the sectors in which the Group operates.
- 3.4 All independent non-executive Board members are welcome to attend Committee meetings. The Committee may invite others (including subject matter experts and members of the executive management team) to attend all or part of any meeting if it thinks it is appropriate or necessary. The external auditor and the finance director will be invited to attend meetings of the Committee on a regular basis.
- 3.5 Appointments to the Committee are for a period of up to three years, extendable for two further three-year periods, provided the Director in question still meets the criteria for membership of the Committee.
- 3.6 The Board appoints the Chairman of the Committee. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present may elect one of their number to chair the meeting.

4. Quorum

- 4.1 The quorum necessary for the transaction of business is two members.
- 4.2 A duly convened meeting of the Committee at which a quorum is present is competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. Meeting Administration

- 5.1 The Committee shall meet as often as it deems necessary. but in any case usually five times a year, at appropriate times in the financial reporting and audit cycle, at such times and places determined by the Committee Chairman. The Committee will approve the annual calendar of its meetings. Additional meetings may be called by the Committee Chairman. The Committee may hold meetings by telephone or using any other method of electronic communication, and may take decisions without a meeting by unanimous written consent, when deemed necessary or desirable by the Chairman.
- 5.2 Meetings of the Committee are called by the Secretary of the Committee at the request of any of its members or at the request of the external or internal auditor.
- 5.3 Unless otherwise agreed by all Committee members, notice of each meeting confirming the venue, time and date (and dial-in details if required) of the meeting must be sent, with an agenda of the items to be discussed and any supporting papers, to each member of the Committee, any other person required to attend the meeting and all other non-executive Directors, as soon as practicable, and in any event no later than five working days before the date of the meeting (and ideally should be provided ten working days in advance).

- 5.4 Outside the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Group's governance, including the Board Chairman, the chief executive officer, the finance director, the external audit lead partner and the head of internal audit.

6. Secretary

- 6.1 The Company Secretary or such person as the Company Secretary nominates acts as the Secretary of the Committee.
- 6.2 The Secretary must ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.
- 6.3 The Secretary must minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.4 The Secretary must ascertain, at beginning of each meeting, whether any conflicts of interest exist, and if so, minute them accordingly.
- 6.5 Draft minutes of Committee meetings must be sent promptly to the Chairman and then subsequently to all members of the Committee. Once approved, minutes must be made available to all members of the Board (and the Board must be made aware of this).

7. Self-Evaluation

- 7.1 The Committee will review its own performance, composition and terms of reference at least once a year and recommend to the Board any changes it considers necessary or desirable. This review will normally be undertaken in conjunction with the Board's own review of its effectiveness.

8. Reporting Responsibilities

- 8.1 After each Committee meeting, the Chairman will report to the Board on the Committee's proceedings and on how it has discharged its duties and responsibilities.
- 8.2 This report will include inter alia:
- a. the significant issues that it considered in relation to the financial statements and internal control systems and how these were addressed;
 - b. its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
 - c. any other issue on which the Board has asked for the Committee's opinion.

- 8.3 The Committee may make such recommendations to the Board it deems appropriate on any area within its remit where action or improvement is necessary or desirable.
- 8.4 The Committee Chairman will attend the Company's Annual General Meeting and respond to any shareholder questions on matters within the Committee's area of responsibility, as directed by the Chairman of the Annual General Meeting.
- 8.5 The Committee will compile a report to shareholders to be included in the Company's annual report. The report will inter alia:
- a. explain the significant issues that the Committee considered in relation to the financial statements and internal control systems and how these issues were addressed;
 - b. explain how the Committee has addressed the effectiveness of the external audit process;
 - c. explain the approach taken to the appointment or reappointment of the external auditor
 - d. state the length of tenure of the current external auditor and when a tender was last conducted;
 - e. if the external auditor provides non-audit services, explain how auditor objectivity and independence are safeguarded; and
 - f. make any statement of compliance required by law or regulations.
- 8.6 In compiling the reports referred to in 8.1 and 8.5, the Committee will exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, and will include at least those matters that have informed the Board's assessment of whether the Company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

9. Other Matters

- 9.1 The Committee shall:
- a. have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required on all Committee matters;
 - b. receive appropriate and timely training, in the form of an induction programme for new members and on an ongoing basis for all members;
 - c. give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;

- d. oversee any investigation of activities which are within its terms of reference;
and
- e. work and liaise as necessary with all other Board Committees.

10. Authority

10.1 The Board authorises the Committee to:

- a. undertake any activity within its terms of reference;
- b. seek any information from any Group employee or contractor that it requires to perform its duties;
- c. obtain external legal or other professional advice on any matter within its terms of reference at the Company's expense, and to invite persons giving such advice to attend Committee meetings;
- d. call any Group employee or contractor to be questioned at a Committee meeting, as and when required; and
- e. publish in the Company's annual report details of any issues that have not been resolved between the Committee and the Board.