

## Hammerson plc

### Audit Committee Terms of Reference

Members	Pierre Bouchut Gwyn Burr Andrew Formica Judy Gibbons	(Chair)
Secretary	Sarah Booth	
By invitation	Chair of the Board Chief Executive Chief Financial Officer Group Financial Controller Risk and Controls Manager External Auditor External Valuer	

#### 1. Purpose

- 1.1 The purpose of the Audit Committee (the Committee) is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the financial reporting process, the integrity of the Company's financial and narrative statements, the independence and effectiveness of the external and internal audit processes and auditors, the systems of internal control and the identification and management of principal risks and emerging risks, the process for compliance with law, regulations and ethical codes for practice and the external asset valuation process and methodology.

#### 2. Membership

- 2.1 The Committee shall comprise at least three members, all of whom shall be independent non-executive directors. The Chair of the Board shall not be a member of the Committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee.
- 2.2 At least one member of the Committee shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies and experience of preparing financial statements under IFRS.

- 2.3 The Committee will, at least annually, review its composition and membership (and make recommendations for changes as it sees fit) in order to ensure that the Committee as a whole has competence relevant to the sector in which the Company operates.
- 2.4 Only members of the Committee have the right to attend Committee meetings. Other Directors, members of management, and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.5 Representatives of the external auditor, a representative of the internal audit function of the Company and representatives of the external valuer will be invited to attend meetings of the Committee on a regular basis.
- 2.6 Appointments to the Committee shall be for an initial period of up to three years, which may be extended by no more than two additional three year periods, provided the director still meets the criteria for membership of the Committee.
- 2.7 The Board shall appoint the Committee Chair who shall be an independent non-executive director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

### **3. Secretary**

- 3.1 The General Counsel and Company Secretary or her nominee shall act as the Secretary of the Committee.

### **4. Quorum**

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

### **5. Meetings**

- 5.1 The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 5.2 At least once a year, without the presence of the Executive Directors or management, the Committee shall meet separately with each of the external auditor, the external valuer and the head of the internal audit function.
- 5.3 Outside the formal meeting programme the Committee Chair will maintain a dialogue with key individuals including the Chair of the Board, the Chief Executive, the Chief Financial Officer, the external auditor lead partner and the head of the internal audit function.

- 5.4 The Chair will meet with the external valuer and the external auditor to discuss the half year and year end valuation process to ensure that there has been a full and open exchange of information and views.

## **6. Notice of Meetings**

- 6.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair, or any of its members, or the Chief Executive or the Chief Financial Officer or head of the internal audit function if they consider it necessary.

- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be made available to each member of the Committee, any other person required to attend and all other Non-Executive directors, five working days before the date of the meeting or such other reasonable time considered adequate for the appropriate preparation for the business of the meeting. Supporting papers shall be made available to the Committee members and to other attendees as appropriate, at the same time.

## **7. Minutes of Meetings**

- 7.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

- 7.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all members of the Board unless it would be inappropriate to do so.

## **8. Engagement with Shareholders**

- 8.1 The Committee Chair should attend the Annual General Meeting to make a statement and answer any shareholder questions on the Committee's activities and achievements over the year.

- 8.2 The Committee Chair shall seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

## **9. Duties**

The Committee shall carry out the duties below for the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

## 9.1 *Financial and Narrative Reporting*

The Committee shall:

- (a) monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements and any other formal announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements which they contain before their submission to the Board, having regard to matters communicated to it by the external auditor.
- (b) review and challenge where necessary or appropriate:
  - the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;
  - the methods used to account for significant or unusual transactions where different approaches are possible;
  - whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - whether the Company remains a "going concern" upon review of supporting assumptions;
  - the clarity of disclosure in the Company's financial reports and the context in which statements are made;
  - the completeness of the audit information provided to the external auditor;
  - the viability statement contained in the annual report; and
  - all material information presented with the financial statements, such as the strategic report and the corporate governance statements (relating to the audit and to risk management).
- (c) where required by the Board, review the content of the annual report and advise the Board whether the annual report, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

## 9.2 *Internal Controls and Risk Management Systems*

The Committee shall review and approve as necessary:

- (a) the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems including a review of the

Company's Risk Management Framework and all material controls including operational and compliance controls;

- (b) a post completion review of development projects against project specifications to include an evaluation of lessons learned and having specific regard to any change in Company strategy;
- (c) the project planning for significant changes in system controls and Information Technology;
- (d) the contingent liabilities of the Company on a bi-annual basis;
- (e) any material reputational and financial risk to the Company; and
- (f) the statements to be included in the annual and half-yearly reports concerning internal controls and risk management.

### 9.3 *Compliance and fraud*

The Committee shall review:

- (a) the Company's procedures for detecting fraud including a review of the fraud response plan and fraud report;
- (b) the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- (c) the Directors' expenses report on a bi-annual basis and the Company's gifts and entertainments registers on an annual basis.

### 9.4 *Internal Audit*

The Company conducts internal audit activities through a programme of reviews. The implementation of any recommendations are overseen by the Internal Controls and Risk Management Committee. The work of the Audit Committee in relation to internal audit includes:

- (a) monitoring and reviewing the effectiveness of the Company's internal audit services and activities in the context of the Company's overall risk management system;
- (b) reviewing the Company's internal controls report at each Committee meeting;
- (c) approving the appointment and removal of the external provider of internal audit services;
- (d) considering and approving the remit of the internal audit function and ensuring it has adequate resources and appropriate access to information to enable it to perform its function effectively and efficiently in accordance with the relevant

professional standards. The Committee shall also ensure the internal audit function has adequate standing and is free from management or other restrictions;

- (e) reviewing and approving the annual internal audit plan, ensuring it is aligned to the key risks of the business;
- (f) reviewing reports addressed to the Committee from the internal auditor;
- (g) reviewing and monitoring management's responsiveness to the findings and recommendations of the internal auditor; a
- (h) meeting the head of the internal audit function annually, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of the internal audit function shall be given the right of direct access to the Chair of the Board and to the Committee.
- (i) annually assessing the effectiveness of the internal audit function including by:
  - meeting with the head of internal audit without the presence of management to discuss the effectiveness of the function;
  - reviewing and assessing the annual internal audit work plan;
  - receiving a report on the results of the internal auditors' work; and
  - monitoring and assessing the role and effectiveness of the internal audit function in the overall context of the Company's risk management system.

## 9.5 *External Audit*

The Committee shall:

- (a) have primary responsibility for the appointment of the external auditor and shall consider and initiate the tender process for any new external auditor contract and determine and oversee the selection procedure for the appointment of the external auditor, ensuring that all tendering firms have access as necessary to information and individuals for the duration of the tendering process;
- (b) consider and make recommendations to the Board, to be put to shareholders for approval in general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor.
- (c) influence the appointment of an audit engagement partner;
- (d) investigate the issues leading to any resignation of the external auditor and decide whether any action is required;

- (e) in considering the recommendations set out in 9.5(b) monitor the auditor's compliance with the appropriate Ethical Standards for Auditors, relating to the rotation of audit partners as recommended by the FRC;
- (f) oversee the relationship with the external auditor including (but not limited to):
- any recommendation on their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - assessing annually their independence and objectivity and the effectiveness of the external auditor taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services (see 9.5(o) below);
  - satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
  - agreeing with the Board on a case by case basis whether a former employee of the Company's auditor may subsequently be employed by / engaged by the Company;
  - monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and staff, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures and consideration of the audit firm's annual transparency reports; and
  - seeking to ensure co-ordination with the activities of the internal audit function
- (g) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- (h) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (i) review the audit report from the external auditor for the year end and interim results;

- (j) review and approve the following year's meeting dates and proposed internal controls review programme;
- (k) receive an analyst presentation on a bi-annual basis relating to the year-end and interim results; and
- (l) review the findings of the audit with the external auditor. This shall include, but not be limited to a discussion of any major issues which arose during the audit, including any accounting and audit judgements, levels of error identified during the audit, and the effectiveness of the audit.

The Committee shall also:

- (m) review any representation letter(s) requested by the External Auditor before they are signed by management;
- (n) review the management letter and management's response to the auditor's findings and recommendations;
- (o) develop and implement policy on the engagement of the External Auditor to supply non-audit services taking into account any relevant ethical guidance on the matter and to report to the Board as appropriate, identifying any matters in respect of which it considers that action or improvement is needed including recommendations as to steps to be taken;
- (p) ensure that the External Auditor is not placed in a position to audit its own work; and
- (q) review a report from the External Auditor describing its arrangements to ensure objectivity and to identify, report and manage any conflicts of interest.

#### 9.6 *Insurance*

- (a) The Committee shall review annually the Group Insurance Report.

#### 9.7 *Pensions*

- (a) The Committee shall review annually the funding arrangements for the Hammerson Group Management Limited Pension and Life Assurance Scheme.

#### 9.8 *Tax Strategy*

- (a) The Committee shall review and approve annually the Group's tax strategy statement for publication on the internet.

### 10. **Reporting Responsibilities**

- 10.1 The Committee Chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.



- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall produce and review a report on its activities to be approved by the Board and included in the Company's annual report including the following matters:
- (a) how the Committee composition requirements have been addressed;
  - (b) an explanation of how the Committee has addressed the independence and effectiveness of the external audit process and the approach taken for the appointment or reappointment of the external auditor;
  - (c) the significant issues that the Committee considered in relation to the financial statements and how these were addressed, having regard to matters communicated to it by and/or consulted on by the external auditor;
  - (d) an explanation of how the performance evaluation of the Committee has been conducted;
  - (e) an explanation, if the external auditor provides non-audit services, regarding the safeguarding of auditor objectivity and independence; and
  - (f) all other information requirements as set out in the UK Corporate Governance Code and other related guidance as appropriate.
- 10.4 The Committee shall make available on the Company's website its terms of reference explaining clearly its role and the authority delegated to it.

## 11. Other matters

The Committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 11.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 11.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules and any other applicable Rules, as appropriate;
- 11.4 be responsible for co-ordination of internal audit services and of the external auditors;
- 11.5 oversee any investigation of activities which are within its terms of reference; and

11.6 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and report such results and recommend any changes it considers necessary to the Board for approval.

## 12. Authority

The Committee is authorised to:

- 12.1 seek any information it requires from any employee of the Group in order to perform its duties;
- 12.2 obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 12.3 call any employee to be questioned at a meeting of the Committee as and when required.

**Adopted by the Board on 30 January 2019**