

THE PRS REIT PLC

(the "**Company**")

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

(as adopted on 2 May 2017)

1. Definitions

- 1.1 Reference to the "**Committee**" shall mean the Audit Committee.
- 1.2 Reference to the "**Board**" shall mean the board of directors of the Company.
- 1.3 Unless otherwise stated, reference to "**Chairman**" shall mean the Chairman of the Committee.
- 1.4 Unless otherwise stated, reference to the "**Secretary**" shall mean the Secretary of the Committee.

2. Membership

- 2.1 The Committee shall be made up of at least three members. Members of the Committee shall be appointed by the Board in consultation with the Chairman of the Committee.
- 2.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
- 2.3 The Committee as a whole shall have competence relevant to the real estate investment trust sector.
- 2.4 The Chairman of the Board may be a member of the Committee, but may not chair the Committee.
- 2.5 Only members of the Committee have the right to attend Committee meetings. However, other individuals (if not members of the Committee) such as other directors, representatives of the Company's investment manager or other external advisers may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.6 The external auditors will be invited to attend meetings of the Committee on a regular basis, and at least once a year.
- 2.7 The Committee should have at least one meeting, or part thereof, with the external auditor without the AIFM or investment adviser being present should the Committee deem it necessary.
- 2.8 Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee. The Board may fill vacancies in the Committee by appointment from amongst the Board.
- 2.9 The Board shall appoint the Chairman who shall be an independent non-executive director. In the absence of the Chairman and/or an appointed deputy, the remaining members of the Committee present shall elect one of themselves to chair the meeting.
- 2.10 Each member of the Committee shall disclose to the Committee:
 - 2.10.1 any personal, financial or other interest in any matter to be decided by the Committee; or

- 2.10.2 any potential conflict of interest arising from a cross-directorship or otherwise; and
- 2.10.3 any such member shall abstain from voting on resolutions of the Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so required by the Board) shall resign from the Committee.
- 2.11 The Chairman shall appoint a Secretary of the Committee, which shall be either the Company Secretary or a member of the Committee as appropriate. The Committee shall have access to the Company Secretary on all Committee matters.
- 3. Quorum**
- 3.1 The quorum necessary for the transaction of business shall be two members of the Committee. 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.
- 3.2 Members may participate in a meeting of the Committee by means of a telephone or other communication equipment.
- 3.3 Any matters to be determined by the Committee shall be decided by a majority of the votes cast at a meeting of the Committee called for such purpose. Any action of the Committee may also be taken by an instrument or instruments in writing signed by all the members of the Committee (including in counterparts) and any such action shall be as effective as if it had been decided by a majority of votes cast at a meeting of the Committee called for such purpose.
- 4. Frequency of Meetings**
- 4.1 The Committee shall meet at least twice a year at appropriate times in the Company's reporting and audit cycle and otherwise as required.
- 4.2 Additional meetings may be called by a member of the Committee, or may be requested by the Chairman.
- 4.3 Outside of the formal meeting programme, the Chairman shall maintain a dialogue with key individuals involved in the Company's governance, including the chairman of the Board and the external audit lead partner.
- 5. Notice of Meetings**
- 5.1 Meetings of the Committee shall be called by the Secretary at the request of any of its members or at the request of external auditors if they consider it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. The Secretary or his or her nominee shall ensure that supporting information and papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
- 6. Minutes of meetings**
- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

- 6.3 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.

7. **Duties**

7.1 *Financial Reporting*

7.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half year reports (where applicable), and any formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

7.1.2 The Committee shall review, and report to the Board on, the significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements and related formal statements, having regard to matters communicated to it by the external auditor, and challenge where necessary:

- (a) the appropriateness, consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) decisions requiring a major element of judgement;
- (d) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (e) any significant adjustments resulting from the audit;
- (f) assessing the basis on which the Company has been determined as a going concern;
- (g) for the purposes of the viability statement;
 - (i) assessing the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and how they are managed and mitigated;
 - (ii) assessing the prospects of the Company over such period deemed appropriate (but longer than 12 months); and
 - (iii) determining and reporting to shareholders in the annual report whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of assessment.
- (h) compliance with applicable regulatory and legal requirements, including certain Listing Rules which the Company has resolved to voluntarily comply with;
- (i) compliance with best practice in the area of corporate governance;

- (j) the clarity and completeness of disclosures in the Company's financial statements and the context in which statements are made; and
- (k) all material information presented with the financial statements, such as the Strategic Report, the Directors' Remuneration Report and the corporate governance statement (insofar as it relates to the audit and to risk management).

- 7.1.3 Review the annual report in its entirety.
- 7.1.4 Review the summary financial reports.
- 7.1.5 Review circulars issued in respect of takeovers and other major non-routine transactions.
- 7.1.6 Review press statements and advertisements relating to financial matters prior to their issue.
- 7.1.7 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

7.2 *Narrative Reporting*

Where requested by the Board, the Committee should 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.

7.3 *Internal Controls and Risk Management Systems*

The Committee shall:

- 7.3.1 keep under review the Company's internal financial controls, being the systems established to identify, assess, manage and monitor financial risks, and risk management systems;
- 7.3.2 keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures with respect to the Company's record keeping, asset management and operations for the identification, assessment and reporting of risks;
- 7.3.3 review the Company's disclosures included in the annual report in relation to internal control, risk management and longer-term viability, prior to endorsement by the Board, and the policies and process for identifying and assessing business risks and the management of those risks by the Company;
- 7.3.4 liaise with the Board and ensure that other statements regarding the Company's investment manager, including relevant details of its remuneration and appointment and its continued appointment, are included in the annual report; and
- 7.3.5 ensure that the annual report includes:
 - (a) the full text of the Company's published investment policy;
 - (b) a detailed and meaningful analysis of the Company's PRS portfolio; and

- (c) a summary of the independent valuation of the Company's PRS portfolio carried out by a RICS Registered Valuer in accordance with the requirements of Valuation Practice Statement 1 of the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards, as amended from time to time.

7.4 *Compliance, Whistleblowing and Fraud*

The Committee shall as appropriate given the nature of the Company:

- 7.4.1 review the adequacy and security of the Company's arrangements for its employees, if any, and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 7.4.2 review the Company's procedures for detecting fraud;
- 7.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 7.4.4 review the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- 7.4.5 review the adequacy and effectiveness of the Company's compliance function.

7.5 *Internal audit*

The Committee, subject to the Company having an internal audit function, shall:

- 7.5.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 7.5.2 approve the appointment and removal of the head of the internal audit function;
- 7.5.3 consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 7.5.4 review and assess the annual internal audit plan;
- 7.5.5 review promptly all reports on the Company from the internal auditors;
- 7.5.6 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 7.5.7 meet the head of internal audit at least once a year to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

7.6 *External Audit*

7.6.1 The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Company's annual general

meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall be responsible for the selection procedure and oversee the selection process for new external auditors and if an external auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;

- (b) ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms and, in respect of such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- (c) oversee the relationship with the external auditor including (but not limited to):
 - (i) approval of their remuneration, whether fees for audit or non-audit services, and satisfying itself that the level of fees is appropriate to enable an effective, high quality audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit, and reviewing the scope of the audit;
 - (iii) assessing annually their independence and objectivity, taking into account relevant UK law, regulation, ethical standards and other professional and regulatory requirements;
 - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
 - (v) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
 - (vi) seeking information annually about the auditor's policies and processes for maintaining independence and monitoring compliance with relevant requirements, including those regarding the rotation of audit partners and staff;
 - (vii) assessing annually and reporting to the Board on the qualifications, expertise, resources and independence of the external auditors and the effectiveness of the audit process which shall include obtaining a report from the external auditor on their own internal quality procedures and consideration of the audit firm's annual transparency reports; and
 - (viii) seeking to ensure co-ordination with the activities of the internal audit function (if applicable);
- (d) 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;

- (e) review the annual audit plan and ensure that it is consistent with the scope of the audit engagement, including planned levels of materiality and proposed resources;
- (f) review the findings of the audit with the external auditor. This shall include but not be limited to the following:
 - (i) a discussion of any major issues which arose during the audit, including those that have been resolved and those that remain unresolved;
 - (ii) an explanation from the auditor as to how they have addressed any risks to audit quality previously identified;
 - (iii) a review of the evidence received in relation to any accounting and audit judgements;
 - (iv) levels of errors identified during the audit and the reasons for any that remain unadjusted; and
 - (v) the effectiveness of the audit.

7.6.2 The Committee shall also:

- (a) review any representation letter(s) requested by the external auditor before they are signed by the Board;
- (b) report to the Board identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- (c) develop and recommend to the Board a policy on the engagement of the auditors to supply non-audit services and monitor the level of fees payable to the external auditor in respect of these services, taking into account any relevant ethical guidance and legal requirements on the matter, and keep the policy under review;
- (d) approve any non-audit services, ensuring that the provision of such services does not impair the auditor's independence or objectivity. In the context of non-audit services that are not prohibited by law, the Committee should apply judgement concerning the provision of such services;
- (e) develop a policy for how the Committee will assess whether non-audit services have a direct or material effect on the audited financial statements, how the Committee will assess and explain the estimation of the effect on the financial statements and how the Committee will consider the auditor's independence;
- (f) at the end of the annual audit cycle, the Committee should assess the effectiveness of the audit process. In the course of doing so, the Committee should:
 - (i) review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;

- (ii) obtain feedback about the conduct of the audit from key people of the AIFM or Administrator involved; and
- (iii) review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

7.7 *Annual General Meeting*

The Chairman shall attend the Company's annual general meeting prepared to respond to any shareholder questions on the Committee's activities.

8. **Reporting Responsibilities**

- 8.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and how it has discharged its responsibilities.
- 8.2 The Committee or its Chairman shall discuss formally with the Board, at least once a year, the relationship with the external auditors, and identify any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.
- 8.3 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.4 The Committee shall compile a report to shareholders on its activities, including its membership and the frequency of and attendance at its meetings, to be included in the Company's annual report which shall include the elements listed at paragraph 9.2 below.

9. **Communication with Shareholders**

- 9.1 The terms of reference of the Committee, including its role and the authority delegated to it by the Board, should be made available. A separate section in the annual report should describe the work of the Committee in discharging those responsibilities and be signed by the Chairman.
- 9.2 The Audit Committee section should include, inter alia:
 - 9.2.1 a summary of the role and work of the Committee;
 - 9.2.2 how any Committee composition requirements have been addressed and the names and qualifications of all members of the Committee during the period;
 - 9.2.3 the number of Committee meetings;
 - 9.2.4 how the Committee's performance evaluation has been conducted;
 - 9.2.5 an explanation of how it has assessed the effectiveness of the external audit process and of the approach taken to the appointment or re-appointment of the external auditor;
 - 9.2.6 the length of tenure of the current audit firm, the current audit partner name, and for how long the partner has held the role;
 - 9.2.7 when a tender was last conducted and advance notice of any re-tendering plans;

- 9.2.8 if the external auditor provides non-audit services, the Committee's policy for approval of non-audit services and an explanation of how auditor objectivity and independence is safeguarded;
- 9.2.9 the audit fees for the statutory audit of the Company's consolidated financial statements paid to the auditor and its network firms for audit-related services and other non-audit services, including the ratio of audit to non-audit work. For each significant engagement, the report should explain what the services are and why the Committee has concluded that it was in the interests of the Company to purchase them from the external auditor;
- 9.2.10 the significant issues that the Committee considered in relation to the financial statements and how these were addressed.

10. **Other Matters**

- 10.1 The Committee shall:
 - 10.1.1 have access to sufficient resources in order to carry out its duties, including access to the company secretary of the Company for assistance as required;
 - 10.1.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
 - 10.1.3 give due consideration to applicable laws and regulations including without limitation to the requirements of the Prospectus Rules, Disclosure Guidance and Transparency Rules, the Market Abuse Regulation, the provisions of the UK Corporate Governance Code, and the AIFM Directive as such apply to the Company from time to time, as well as voluntary compliance with certain provisions of the Listing Rules;
 - 10.1.4 review and approve the minutes of any meetings of the Committee;
 - 10.1.5 report to the Board on the proceedings of each meeting and make recommendations to the Board where it deems that action or improvement is required;
 - 10.1.6 consider annually whether there is a need for an internal audit function and make a recommendation to the Board accordingly;
 - 10.1.7 oversee any investigation of activities which are within its terms of reference; and
 - 10.1.8 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 recommend any changes it considers necessary to the Board for approval.
- 10.2 Members of the Committee shall have the right to obtain legal and other professional advice on any matter within its terms of reference.
- 10.3 If at any time the external auditors shall request a meeting with the Committee the Committee shall arrange such a meeting as soon as reasonably practicable.
- 10.4 The Committee shall also have the power to consider such other matters as deemed appropriate.

11. **Authority**

- 11.1 The Committee is authorised:
- 11.1.1 to seek any information it requires from:
 - (a) any member of the Board; or
 - (b) any director or employee of the Investment Adviser of the Company (from time to time) or employee of the Company in order to perform its duties;
 - 11.1.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
 - 11.1.3 to call any employee or officer of the Company to be questioned at a meeting of the Committee as and when required; and
 - 11.1.4 to have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.