

## URBAN LOGISTICS REIT PLC

(the "Company")

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

ADOPTED BY RESOLUTION OF THE BOARD ON 4 MAY 2017

#### 1 DEFINITIONS

In this document: -

- (a) reference to the "**Board**" shall mean the Board of Directors of the Company;
- (b) reference to the "**Chairman**" shall mean the chairman of the Board;
- (c) reference to the "**Committee**" shall mean the Audit & Valuation Committee of the Board;
- (d) reference to the "**Manager**" shall mean the investment manager of the Company from time to time; and
- (e) reference to the "**Committee Chairman**" shall mean the member appointed as the chairman of the Committee.

#### 2 MEMBERS

2.1 The members of the Committee for the time being shall be:

- (a) Bruce Anderson (Committee Chairman);
- (b) Nigel Rich; and
- (c) Jonathan Gray.

#### 3 PURPOSE

The Committee is appointed by the Board to assist the Board in fulfilling its obligations relating to the Company's valuation cycle and the integrity of the internal financial controls and financial reporting of the Company.

#### **4 MEMBERSHIP**

- 4.1 The Committee shall be made up of at least two (2) members. Members of the Committee shall be appointed by the Board on the recommendation of the nomination committee in consultation with the Committee Chairman.
- 4.2 All members of the Committee shall be non-executive directors at least one of whom shall have recent and relevant financial experience and one of whom shall have recent and relevant valuation experience.
- 4.3 Only members of the Committee have the right to attend Committee meetings. However, the Chairman of the Company and representatives of the Management Company may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 4.4 The external auditors and the valuer of the assets owned by the Company (the "**Valuer**") will be invited to attend meetings of the Committee as requested.
- 4.5 Appointments to the Committee shall be indefinite as long as any member remains a director of the Company or until such member resigns from his or her position as a member of the Committee.
- 4.6 The Board shall appoint the Committee Chairman from among the members of the Committee who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

#### **5 SECRETARY**

The secretary of the Company or his or her nominee shall act as the secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to all issues.

#### **6 MEETINGS AND QUORUM**

- 6.1 The quorum necessary for the transaction of business shall be any two (2) non-executive Directors of the Company. 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.
- 6.2 Members may participate in a meeting of the Committee by means of conference telephone or other communication equipment.
- 6.3 Any matter 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 of 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 the votes cast at a meeting of the Committee called for such purpose.

## **7 FREQUENCY OF MEETINGS**

The Committee shall meet at least four times a year at appropriate times in the valuation, reporting and audit cycle and otherwise as required.

## **8 NOTICE OF MEETINGS**

8.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the external auditors if they consider it necessary.

8.2 Unless otherwise agreed by consent of all members in writing, 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. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **9 MINUTES OF MEETINGS**

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

9.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

9.3 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.

## **10 ANNUAL GENERAL MEETING**

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

## **11 DUTIES**

The Committee should carry out the duties below for the Company, major subsidiary undertakings and the group as a whole, as appropriate.

### **11.1 Financial Reporting**

(a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly, interim management statements, and any other

formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

- (b) In particular, the Committee shall review and challenge where necessary: -
- a. the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/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 of disclosure in the Company's financial reports and the context in which statements are made; and
  - e. all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

## 11.2 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 performance, business model and strategy.

## 11.3 Internal Controls and Risk Management Systems (including those of the Manager)

The Committee shall: -

- (a) keep under review the adequacy and effectiveness of the Company's internal financial controls and risk management systems and monitor the proper implementation of such controls;
- (b) keep under review the adequacy, appropriateness and effectiveness of the Manager's financial controls and risk management systems; and
- (c) review and approve the statements to be included in the annual report concerning internal or external controls and risk management.

## 11.4 Compliance, whistleblowing and fraud

The Committee shall: -

- (a) review the adequacy and security of the Company's arrangements for any employees of the service providers to the Company 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;
- (b) review the Company's procedures for detecting fraud; and
- (c) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

#### 11.5 External Audit

The Committee shall: -

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting of shareholders, in relation to the appointment, re-appointment and removal of a firm of external auditors. The Committee shall oversee the selection process for new auditors and if an 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 10 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 external 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 duration of the tendering process;
- (c) oversee the relationship with the external auditor including (but not limited to): -
  - a. recommendations 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 and that the level of fees in respect of any non-audit services is appropriate with regards to the extent of the non-audit services being provided;
  - b. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - c. assessing annually their independence and objectivity 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;
  - d. 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);

- e. review and approve the Company's hiring policy regarding partners, employees and former partners and employees of the present and any former auditor, then monitoring the implementation of this policy. If the Company should consider hiring an employee of the present or a former audit firm, review the appropriateness of this appointment;
  - f. monitoring the 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;
  - g. assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - h. seeking to ensure co-ordination with the activities of the internal audit function if and when an internal auditor is appointed;
  - i. considering the risk of the withdrawal of the Company's present external auditor from the market; and
- (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 and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement; and
- (f) review the findings of the audit with the external auditor. This shall include but not be limited to, the following: -
- a. a discussion of any major issues which arose during the audit;
  - b. any accounting and audit judgements; and
  - c. levels of errors identified during the audit.

The Committee shall also: -

- (g) review the effectiveness of the audit;
- (h) review any representation letter(s) requested by the external auditor before they are signed by management;
- (i) review the management letter and management's response to the auditor's findings and recommendations; and

- (j) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

#### 11.6 Reporting Responsibilities

- (a) The Committee Chairman shall report formally to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities. The Committee Chairman shall also report to the Board on how it has discharged its responsibilities, as set out herein.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor; and all other information requirements set out in the Quoted Companies Alliance (QCA) Corporate Governance Code for Small and Mid-size Quoted Companies (the "**QCA Code**").
- (d) In compiling the reports referred to above, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should 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.

#### 11.7 Valuation Responsibilities

The Committee shall review the bi-annual property valuation report produced by the Valuer (or such other person as may from time to time provide such property valuation services to the Company) before its submission to the Board, focussing in particular on:

- (a) significant adjustments from the previous property valuation report;
- (b) reviewing the individual valuations of each property;
- (c) compliance with applicable standards and guidelines including those issued by the Royal Institution of Chartered Surveyors and the AIM Rules;
- (d) reviewing the findings and any recommendations or statements made by the Valuer; and
- (e) considering any further matters relating to the valuation of the properties.

## 11.8 Other Matters

The Committee shall: -

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company's secretary for assistance as required;
- (b) 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;
- (c) at all times give due consideration to laws and regulations, the provisions of and recommendations in the QCA Code, the requirements of the AIM Rules for Companies (including the Note for Investing Companies) and UK Listing Authority's Prospectus and Disclosure and Transparency Rules and any other applicable rules (as appropriate);
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference;
- (f) arrange for periodic review 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; and
- (g) work and liaise as necessary with all other Board committees.

## 12 AUTHORITY

The Committee is authorised:-

- (a) to seek any information it requires from any employee of the Company in order to perform its duties;
- (b) to obtain, at a reasonable cost and at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- (c) to call any employee or any representative of the Manager to be questioned at a meeting of the Committee as and when required; and
- (d) 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.