

Primary Health Properties PLC

TERMS OF REFERENCE OF

THE AUDIT COMMITTEE (the “Committee”)

Revised and adopted by Resolution of the Board on 9 March 2005 and as amended by the Board on 20 February 2013, 19 August 2014, 17 February 2015, 18 August 2015 and 2 February 2016.

Reference to the “Board” shall mean the Board of Directors of the company.

1. Membership

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee. The Committee shall be made up of at least three members.
- 1.2 All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The Chairman of the Board may also be a member of the Committee, provided he or she was considered independent on appointment as Chairman.
- 1.3 The Board shall appoint the Committee Chairman 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.
- 1.4 Only members of the Committee have the right to attend Committee meetings. Other individuals, however, such as the Chairman of the Board (if not a member of the Committee), Managing Director, Finance Director, other directors of the company or representatives of Nexus Tradeco Limited (“Nexus”) as Adviser and Administrator, may be invited to attend all or part of a meeting as and when appropriate by the Committee Chairman.
- 1.5 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.6 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods or longer at the discretion of the Board, provided the director remains independent as determined by the Board.

2. Secretary

- 2.1 The Company Secretary or their nominee shall act as the Secretary of the Committee.

3. Quorum

- 3.1 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.

4. Frequency of Meetings

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

5. Notice of Meetings

5.1. Meetings of the Committee shall be convened by the secretary of the committee at the request of any of its members or by the 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 fewer than 5 working days prior to the date of the meeting. Supporting papers shall be sent to committee members and to other attendees as appropriate, at the same time.

6. Procedure and Minutes of meetings

6.1 The external auditors will normally be invited to attend all meetings and the Committee will meet privately with the auditors at least once a year.

6.2 The Committee, through its chairman, will report after each meeting to the Board on the business of that meeting and any matters that need to be brought to the attention of the full Board.

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

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

6.5 Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

7. Annual General Meeting and meetings with shareholders

7.1 The chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the committee's activities.

7.2 The chairman of the Committee shall attend meetings with shareholders when requests for his attendance are considered reasonable.

8. Duties

8.1 Financial Reporting

- 8.1.1 The Committee shall monitor the integrity of the financial statements of the Company including its annual and interim reports, preliminary results announcements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review any financial information contained in certain other documents such as announcements of a price sensitive nature. The Committee shall ensure that the annual report includes an appropriate description of its activities during the financial period.
- 8.1.2. The Committee shall review and challenge where necessary
- 8.1.2.1 the consistency of, and any changes to, accounting policies adopted on a year-on-year basis and applied across the Company and Group;
 - 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 8.1.2.3 whether the company has followed appropriate accounting standards and made appropriate estimates and judgements taking into account the views of the external auditor;
 - 8.1.2.4 the clarity of disclosure in the company's financial statements and the context in which statements are made; and
 - 8.1.2.5 all material information presented with the financial statements such as the operating and financial review and the corporate governance statement (insofar as it relates to audit and risk management).
- 8.1.3 The Committee shall review the Going Concern and Viability Statements presented in the Annual Report of the Company, and report to the Board its opinion on the Statements.
- 8.1.4 The Committee shall provide advice to the Board on 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 performance, business model and strategy.

8.2 Internal Control and Risk Management Systems

The Committee shall:

- 8.2.1 Keep under review the effectiveness of the company's internal controls and risk management systems;
- 8.2.2 Review the reports and minutes of the Nexus PHP Risk Committee and the PHP Group Risk Register
- 8.2.3 Keep under review the implementation and effectiveness of the Company's Audit Tendering Policy; and
- 8.2.4 Review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

8.3 Whistleblowing and fraud

The Committee shall:

- 8.3.1. Review the company's arrangements and those of Nexus for its directors and employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters in relation to the Company and the Advisory Agreement. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
- 8.3.2. Review the procedures of the company and Nexus for detecting fraud.

8.4 External Audit

The Committee shall:

- 8.4.1 Consider and make recommendations to the Board to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the company's external auditor. 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.
- 8.4.2 Oversee the relationship with the external auditor including (but not limited to):
 - 8.4.2.1 approval of 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;
 - 8.4.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;

- 8.4.2.3 assessing annually their independence and objectivity taking into account relevant UK professional regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services;
 - 8.4.2.4 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);
 - 8.4.2.5 agreeing with the Board policies on (a) the use of the external auditors for any non-audit services, taking into account any relevant ethical guidance on the matter, and (b) the employment of former employees of the company's auditor, then monitoring the implementation of these policies;
 - 8.4.2.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit parties, the level of any non-audit fees paid by the company compared to the overall fee and the auditors' total fee income; and
 - 8.4.2.7 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.
- 8.4.3 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.
- 8.4.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 8.4.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following
- 8.4.5.1 a discussion of any major issues which arose during the audit
 - 8.4.5.2 any accounting and audit adjustments; and
 - 8.4.5.3 levels of error identified during the audit.

The Committee shall also, taking these and other factors into account, review the effectiveness of the audit.

- 8.4.6 review any representation letters requested by the external auditors prior to signature by the Board;
- 8.4.7 review the management letter and the management's response to the auditors' findings and recommendations; and

- 8.4.8 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.

8.5 Reporting Responsibilities

- 8.5.1. The Committee Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 8.5.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.5.3. The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

8.6 Other matters

The Committee shall:

- 8.6.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 8.6.2 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;
- 8.6.3 give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate; and
- 8.6.4 at least once a year, review its own performance, 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.

9. Authority

The Committee is authorised:

- 9.1 to seek any information it requires from any representative of Nexus Tradeco Limited;
- 9.2 to obtain outside legal help and any professional advice, at the Company's expense, which might be necessary for the fulfilment of its duties; and
- 9.3 to call any member of staff of the third party service providers to be questioned at a meeting of The Committee as and when required.

Adapted from The Institute of Chartered Secretaries and Administration Guidance Note 101017