

The Local Shopping REIT Plc

audit committee

Terms of reference

THE LOCAL SHOPPING REIT PLC

AUDIT COMMITTEE

TERMS OF REFERENCE

1. PURPOSE

- 1.1 The purpose of the Committee is to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control principles set out in the Combined Code, and to maintain an appropriate relationship with the Company's auditors, as required by section C.3 of the Combined Code.

2. CONSTITUTION AND MEMBERSHIP

- 2.1 The Audit Committee has been established as a committee of the Board by resolution of the Board.
- 2.2 The members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee. The Committee shall comprise at least two members, all of whom shall be independent non-executive Directors. The Chairman of the Company shall not be a member of the Committee. At least one member of the Committee should have significant, recent and relevant financial experience.
- 2.3 The chairman of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee. In the absence of the chairman of the Committee, the members present shall select one of their number present to chair the meeting. The Chairman of the Company shall not be eligible to be appointed as chairman of the Committee.
- 2.4 The Company Secretary shall act as the Secretary of the Committee. Where the Secretary is also an executive Director, the Committee may nominate one of its members to act as secretary for any meeting which the Committee wishes to hold without executive Directors being present.

3. ATTENDANCE

- 3.1 The Committee shall invite a representative of the external auditors to attend all meetings of the Committee. The Committee should have at least one meeting, or part of a meeting, with the external auditors without management being present.
- 3.2 The Committee may request the Chairman of the Company, Chief Executive, Finance Director and any relevant senior management to attend meetings of the

Committee, either regularly or by invitation, but such invitees have no right of attendance.

4. FREQUENCY OF MEETINGS, AND PROCEEDINGS

4.1 The Committee will meet as frequently as the Chairman of the Committee shall consider necessary in order to discharge its functions, having regard to the Company's financial reporting cycle, and in any case not less than twice in each financial year.

4.2 Meetings of the Committee will be arranged to tie in with the publication of the Company's financial statements. Meetings should be held at least five working days prior to any board meeting at which accounts or financial statements are to be approved, unless all the members of the Committee agree otherwise.

4.3 The external auditors may (through the Chairman of the Committee) request a meeting of the Committee if they consider that one is necessary.

4.4 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any member.

4.5 Unless otherwise agreed by all members of the Committee, notice of meetings, confirming the venue, time and date together with an agenda and all relevant papers, should normally be circulated to each member of the Committee, to any other person required to attend, and to all other non-executive directors, at least five working days prior to the date of the meeting. Notice of meetings may be effected by means of electronic communication where members of the Committee have provided the necessary address details.

4.6 The quorum for meetings of the Committee shall be two members.

4.7 Decisions of the Committee will be made by majority vote. In the event of an equality of votes, the Chairman of the Committee will have a second or casting vote.

5. REPORTING

5.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to all members of the Board.

5.2 The Committee or its Chairman shall meet formally with the Board of the Company at least once each year to discuss such matters as the Annual Report and the relationship with the external auditors.

5.3 The Committee shall make whatever recommendations to the Board that it deems appropriate in the context of the scope of its responsibilities.

5.4 The Committee shall prepare a report each year to be included in the Company's annual report and accounts.

5.5 The chairman of the Committee should be present at the Company's annual general meeting to respond to questions on matters within the responsibility of the Committee.

6. **DUTIES**

6.1 The duties of the Committee are:

Financial Statements

6.1.1 review the financial statements prior to approval, including annual and interim reports, preliminary results' announcements and other formal announcement relating to financial performance, focusing on significant financial reporting issues, major judgemental areas, significant audit adjustments, going concern and compliance with accounting standards, Stock Exchange and regulatory requirements;

6.1.2 monitor, and challenge where necessary, the consistency of and any changes to accounting policies, the selection of accounting methodology for significant transactions, the application of appropriate accounting standards and the clarity of disclosure in the Group's financial reports including all material supporting information;

Internal Control and Risk Assessment Systems

6.1.3 keep under review the effectiveness of the Company's internal controls and risk management systems, considering reports from the auditors and approving statements to be included in the annual report concerning internal controls and risk management;

6.1.4 review the internal procedures by which members of staff may raise concerns about possible improprieties in matters of financial reporting and other matters, to ensure that arrangements are in place for the investigation of such matters and appropriate follow-up action;

External Audit

6.1.5 monitor the independence and objectivity of the auditors and make recommendations to the Board, to be put to members for approval at the AGM, in relation to the appointment, re-appointment and removal of the auditors and their remuneration and overseeing the selection process for new auditors as necessary;

- 6.1.6 oversee the relationship with the auditors including agreeing terms of engagement, meeting with the auditors at the audit planning stage to consider the scope of the audit and quality assurance processes, considering issues arising from the audit and any matters the auditors wish to raise;
- 6.1.7 review the effectiveness of the audit, including the auditors' management letter and the response of management to its findings and recommendations;
- 6.1.8 develop and implement policy on the engagement of the external auditor to supply non-audit services;

Other matters

- 6.1.9 to oversee any investigation of activities which are within its terms of reference, and to act as a court of last resort.
- 6.1.10 review the Committee's own performance, constitution and terms of reference, making recommendations to the Board as necessary, to ensure that the Committee continues to operate at maximum effectiveness.

7. AUTHORITY

- 7.1 The Committee is authorised by the Board to investigate any activity or state of affairs within its terms of reference.
- 7.2 The Committee is authorised to seek any information it requires from any employees or officers and to call any member of staff to be questioned at a meeting of the Committee as and when required.
- 7.3 The Committee is authorised by the Board, at the Company's expense, to obtain expert advice from the Company's auditors, professional advisers or otherwise, and to take independent professional advice and to require the attendance of outsiders with relevant experience and expertise if it considers it necessary.

These terms of reference were adopted by resolution of the Board passed on 11 April 2007.