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Terms of Reference of the Audit Committee

Dated **7 March 2019**

Phoenix Spree Deutschland Limited

Terms of Reference of the Audit Committee (the "Committee")

1 Membership

- 1.1 The Committee shall be made up of at least two Members. The Committee shall include at least one Member of the Risk Committee. Members shall be appointed by the Board on the recommendation of the Nomination and Remuneration Committee or otherwise in consultation with the Chair.
- 1.2 All Members shall be independent non-executive Directors at least one of whom shall have recent and relevant financial experience and ideally holding a professional qualification from one of the professional accountancy bodies.
- 1.3 The chair of the Company may only be a Member provided that he or she was considered independent on appointment as chair of the Company.
- 1.4 All Members should have sufficient competence to understand, analyse and, when necessary, challenge the management accounts and draft public financial statements.
- 1.5 Only Members shall have the right to attend Committee meetings. However, other individuals, such as representatives of the Property Advisor, may be invited to attend all or part of any meeting as and when appropriate and necessary by the Committee.
- 1.6 The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.7 Membership of the Committee can be varied at any time by a majority resolution of the existing Members.
- 1.8 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided that the Members continue to be independent.

2 Chair

- 2.1 The Board shall appoint the Chair. The Chair has the responsibility of liaising with the Board.
- 2.2 The Company's chair shall not be the Chair.
- 2.3 The Chair shall chair the meetings of the Committee.
- 2.4 In the absence of the Chair, the remaining members present shall elect one of themselves to chair the meetings of the Committee.

3 Secretary

- 3.1 The Company Secretary (or his/her delegate) or such other person as the Board may determine from time to time shall be the secretary of the Committee.
- 3.2 The secretary of the Committee (or his/her delegate) will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

3.3 The secretary of the Committee or his/her delegate shall attend meetings of the Committee to take minutes.

3.4 In the absence of the secretary of the Committee, the Members present at a meeting of the Committee shall elect another person to act as the secretary for the purposes of that meeting.

4 Quorum

4.1 The quorum necessary for the transaction of business of the Committee shall be two members.

4.2 The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The relevant Member shall not be counted towards the quorum and he/she must abstain from voting on any resolution of the Committee in which he/she and/or his/her associates have a material interest.

4.3 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 Frequency of meetings

5.1 The Committee shall meet at least three times a year and at such other times as the Chair shall require.

5.2 Any Member or the external auditors may request a meeting if they consider that one is necessary.

5.3 Meetings of the Committee will be arranged to the extent reasonably possible to tie in with the publication of the Company's financial statements.

5.4 Outside of the formal meeting programme, the Chair, and to a lesser extent the other Members, will maintain dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the Property Advisor, the administrator and the external auditor.

6 Attendance at meetings

6.1 Members may attend meetings of the Committee either in person or through other telephonic and/or electronic means of communication.

6.2 Should any Member wish to attend a meeting through telephonic and/or electronic communications, prior arrangements shall be made with the secretary of the Committee.

6.3 The Property Advisor and a representative of the external auditors shall normally attend meetings along with the Members.

7 Notice of meetings

7.1 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any of its Members or at the request of the Chair.

- 7.2 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, and to any other person required to attend no later than five working days prior to the date of the meeting. Supporting papers shall be sent to Members and to other attendees as appropriate, at the same time.
- 7.3 Any Member shall be entitled, by notice to the secretary of the Committee, to include other matters relevant to the functions of the Committee in the agenda of a Committee meeting.

8 Minutes of meetings

- 8.1 The secretary of the Committee (or his/her delegate) in attendance at the meetings of the Committee shall minute in sufficient detail all proceedings and resolutions of all such meetings, including the names of those present and in attendance. The minutes should also include any concerns raised by any Member and/or dissenting views expressed.
- 8.2 Draft minutes of the Committee meetings shall be sent to all Members for their comments within a reasonable time after the meeting. Once they are approved, the secretary of the Committee shall circulate the final version of the minutes to all Members and to the Board, unless it is considered inappropriate to do so by the Chair.
- 8.3 Minutes of the Committee meetings shall be kept by the secretary of the Committee and shall be available for inspection by any Member or Director at any reasonable time on reasonable notice.

9 Annual general meeting

- 9.1 The Chair shall attend the annual general meeting of the Company and be prepared to respond to any Shareholder questions on the Committee's activities.
- 9.2 The Committee shall produce an annual report to be included in a separate section of the Directors' report to the annual report describing the Committee's role and detailing its activities and how independent oversight over external auditors has been exercised. The report should include:
- 9.2.1 the significant issues that the Committee considered in relation to the financial statements, and how these were addressed;
 - 9.2.2 an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;
 - 9.2.3 in the case of a Board not accepting the Committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the audit committee explaining its recommendation and the reasons why the Board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment);

- 9.2.4 where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit; and
- 9.2.5 if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

10 Duties

10.1 The Committee shall be responsible for performing the duties below for the Group.

10.1.1 Financial Reporting

- (a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements and any other formal announcement relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgments which those statements contain.
- (b) In particular, the Committee shall review and challenge where necessary:
- (i) the consistency of, and any changes to, significant accounting policies on a year on year basis;
 - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (iii) whether the Company has followed appropriate accounting policies and made appropriate estimates and judgments, taking into account the external auditor's views on the financial statements;
 - (iv) the clarity of disclosure in the Company's financial statements and the context in which statements are made; and
 - (v) all material information presented with the financial statements, such as the business review and the corporate governance statement (insofar as it relates to audit management).
- (c) The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.
- (d) 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.

10.1.2 **Narrative reporting**

- (a) Where requested by the Board, the Committee shall review and provide advice on whether the content of the annual report and accounts is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.
- (b) The Committee should provide advice to the Board for the purposes of including a statement in the annual and half-yearly financial statements as to whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties as to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.
- (c) Taking account of the Company's current position and principal risks, the Committee should prepare a statement for the Board to include in the annual report explaining how it has assessed the prospects of the Company, over what period it has done so and why it considers that period to be appropriate. The Committee should state whether it has 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 their assessment, drawing attention to any qualifications or assumptions as necessary.

10.1.3 **Internal controls**

- (a) The Committee shall review the adequacy and effectiveness of the Company's internal financial controls and review and approve the statements to be included in the annual report concerning internal financial controls.

10.1.4 **Internal audit**

- (a) The Committee shall consider at least once a year whether there is a need for an internal audit function. The reasons for an absence of such a function should be explained in the relevant section of the annual report.

10.1.5 **External audit**

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to the Shareholders for approval at an annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- (b) ensure that at least every ten years the audit services contract is put out to tender 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) in the event the external auditor resigns, investigate the issues leading to this decision and decide whether any action is required;
- (d) monitor and annually review the external auditor's independence and objectivity, taking into consideration relevant UK and Jersey law, the Ethical Standard and other relevant professional and regulatory requirements and the Group's relationship with the auditor as a whole, in order to satisfy itself that there are no relationships between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- (e) be responsible for approving the level of remuneration of the external auditors, including fees for audit and non-audit services, to ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
- (f) approve the terms of engagement of any external auditor, including any engagement letter issued at the start of each audit and the scope of the audit;
- (g) monitor the external auditor's compliance with the relevant ethical and professional guidance on the rotation of the audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- (h) annually assess the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (i) evaluate the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
- (j) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- (k) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - (i) discussing the major issues that arise during the audit;
 - (ii) the auditor's explanation of how the risks to audit quality were addressed;
 - (iii) the key accounting and audit judgments;

- (iv) the auditor's view of their interactions with senior management;
- (v) the levels of errors identified during the audit and the effectiveness of the audit process;
- (l) review any representation letters and/or responses from the management before being given to the external auditor;
- (m) meet regularly with the auditors (including once at the planning stage, where the nature and scope of the audit will be considered, and once post audit at the reporting stage to discuss any issues arising from the audit);
- (n) if the external auditor is providing non-audit services develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the external auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:
 - (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (ii) the nature of the non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (v) the criteria governing compensation.

11 Reporting responsibilities

- 11.1 The Chair shall report formally to the Board after each meeting, on all matters within its duties and responsibilities. This report shall include:
 - 11.1.1 the significant issues noted in the financial statements, annual and half-yearly reports, and how these issues were addressed;
 - 11.1.2 its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - 11.1.3 any other issues on which the Board has requested the Committee's opinion.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

- 11.3 The Committee shall compile a report on its activities to be included in the Company's annual report. Where the external auditor also provides non-audit services, an explanation of how auditor objectivity is safeguarded should also be included in this report.
- 11.4 In the compiling of the reports referred to in this paragraph 11, 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.

12 Other matters

- 12.1 The Committee shall have access to sufficient resources in order to carry out its functions and discharge its duties. In the event that the Committee determines that it has insufficient resources, it may make a request to the Board. The Board shall convene a Board meeting as soon as reasonably practicable to consider the request.
- 12.2 All Members shall have access to the advice and services of the secretary of the Committee with a view to ensuring that procedures of the Committee and all applicable rules and regulations are followed.
- 12.3 The Committee shall 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.
- 12.4 In the event that the Committee or any Member requires access to independent professional advice in connection with its/his/her duties, a request may be made to the Company. All such requests shall be processed in accordance with the Company's pre-defined procedures for seeking independent professional advice at the Company's expense.
- 12.5 The Committee shall oversee any investigation of activities which are within its terms of reference.
- 12.6 Every Member shall give sufficient time and attention to his/her duties as a Member. He/she shall give the Company the benefit of his skills and expertise through regular attendance and active participation.
- 12.7 The Committee shall, 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.
- 12.8 The Committee shall give due consideration to laws and regulations relevant to the Company, in particular the Companies (Jersey) Law 1991 (as amended), the provisions of the UK Corporate Governance Code (or such other relevant corporate governance code that the Company has resolved to comply with such as the AIC Code of Corporate Governance) and the Financial Conduct Authority's Listing Rules, Prospectus Rules, Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate.
- 12.9 The Committee shall work and liaise as necessary with all other Board committees.

13 Authority

The Committee is authorised to:

- 13.1 seek any information it reasonably requires from any Director in order to perform its duties and all Directors are directed to co-operate with any reasonable request made by the Committee; and
- 13.2 publish in the Company's Annual Report details of any issues that cannot be resolved between the Committee and the Board.

Definitions

In these Terms of Reference, unless the context requires otherwise, the following definitions shall apply:

"**Board**" means the board of Directors of the Company

"**Chair**" means the chair of the Committee from time to time

"**Company**" means Phoenix Spree Deutschland Limited

"**Company Secretary**" means the company secretary of the Company from time to time

"**Directors**" means the directors of the Company from time to time

"**Group**" means the Company and its subsidiaries from time to time

"**Member**" means a member of the Committee from time to time

"**Property Advisor**" means the property advisor to the Company from time to time

"**Shareholders**" means the shareholders of the Company