

## **EVE SLEEP PLC (the Company)**

### **TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

In these Terms of Reference:

**Board** means the board of directors of the Company;

**Chairman** means the chairman of the Board;

**Committee** means the Audit Committee;

**Group** means the Company and its subsidiary undertakings from time to time; and

**Nomination Committee** means the nomination committee appointed by the Board.

#### **1 Introduction**

These Terms of Reference have been produced to identify and formalise the roles, tasks and responsibilities of the Committee for compliance with the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies produced by the Quoted Companies Alliance (and for compliance with the Corporate Governance Code issued by the Financial Reporting Council in April 2016 in so far as it can be applied practically, given the size of the Group and the nature of its operations) and to assist the Committee in achieving best practice in corporate governance for the Group.

#### **2 Constitution**

The Committee was constituted at a full meeting of the Board held on 28 April 2017 in accordance with the articles of association of the Company.

#### **3 Membership and Attendance**

- 3.1 The Committee shall be appointed by the Board on the recommendation of the Company's Nomination Committee in consultation with the chairman of the Committee (other than in respect of the initial members of the Committee as set out in paragraph 3.2 below) and shall comprise at least three members. At least one member of the Committee shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies. The Chairman may be a member of the Committee but not chair the Committee provided (s)he was independent on appointment as Chairman.
- 3.2 At the date of formation of the Committee, it has been agreed that the members of the committee will be Paul Pindar and Thomas Enraght-Moony and the Committee shall be chaired by Peter Hepworth.
- 3.3 The Board shall appoint the Committee chairman. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present shall elect one of their number to chair any meeting of the Committee.
- 3.4 Only members of the Committee shall have the right to attend and vote at Committee meetings. However, the external auditor and the Company's Chief Financial Officer will be invited to attend meetings of the Committee on a regular basis and other individuals such as the Chairman (to the extent he/she is not a member), the Chief Executive Officer of the Company, other directors, the heads of risk management, compliance and internal audit, and representatives from the finance function of the Company may be invited to attend for all or part of any meeting as and when appropriate and necessary.

- 3.5 The Committee shall invite the external auditor to attend meetings of the Committee on a regular basis.
- 3.6 Members of the Committee shall be appointed by the Board for a period of up to three years. Such appointment may then be extended by no more than two additional periods of three years, provided the member continues to be independent.
- 3.7 The Committee has the delegated authority of the Board in respect of the functions and powers set out in these Terms of Reference.
- 3.8 The Committee may sub-delegate any or all of its powers and authority as it thinks fit, including, without limitation, the establishment of sub-committees which are to report back to the Committee.

#### **4 Secretary**

- 4.1 The Company secretary or his or her nominee shall act as the secretary of the Committee (**Secretary**) and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
- 4.2 The Secretary shall also act as a co-ordinating intermediary between the Board and the Committee.

#### **5 Quorum and voting arrangements**

- 5.1 The quorum necessary for the transaction of business shall be two members (including, wherever possible, at least one member with recent and relevant financial experience) present in person or by audio or video conference.
- 5.2 A duly convened Committee meeting 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.
- 5.3 Each Committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a Committee meeting (whether in person or by audio or video conference).
- 5.4 If a matter that is considered by the Committee is one where a Committee member, either directly or indirectly, has a personal interest, that member shall not be permitted to vote at the meeting.
- 5.5 Except where he has a personal interest, the Committee chairman shall have a casting vote.
- 5.6 The Committee chairman may ask any attendees of a Committee meeting to leave the meeting to allow discussions of matters relating to them.

#### **6 Frequency of Meetings**

- 6.1 The Committee shall meet at least three times a year at appropriate intervals in the reporting and auditing cycle and otherwise as required.
- 6.2 Outside of the formal meeting programme, the chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman, the Company's Chief Executive or Finance Director, the external audit lead partner and the head of internal audit.

## **7 Notice of Meetings and Proceedings at Meetings**

- 7.1 Meetings of the Committee shall be summoned by the Secretary at the request of any of its members or at the request of the Company's external audit lead partner or head of internal audit if they consider it necessary.
- 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 of the Committee, any other person required to attend and all other non-executive directors of the Company, no later than five working days prior to the date of the meeting but Committee papers may be forwarded at shorter notice with the approval of the Committee Chairman. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time. Papers required by the Committee may be provided electronically.
- 7.3 Meetings of the Committee may be conducted when the members are physically present or in the form of either video or audio conferences.
- 7.4 A resolution in writing and signed by all Committee members will be as effective as a resolution passed at a Committee meeting. Any written resolution shall be tabled and noted at the next meeting of the Committee.

## **8 Minutes of Meetings**

- 8.1 The Secretary shall minute the proceedings and decisions of all Committee meetings (including the names of those present and in attendance).
- 8.2 The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 8.3 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once approved, to all other members of the Board, unless it would be inappropriate to do so in the opinion of the chairman of the Committee.

## **9 Annual General Meeting**

The chairman of the Committee shall attend the Company's Annual General Meeting to, answer any shareholder questions on the Committee's activities and areas of responsibility and to deal with any questions relating to the resignation or dismissal of the external auditor.

## **10 Duties**

- 10.1 The Committee should carry out the duties below for the Company's parent company, major subsidiary undertakings and the group as a whole, as appropriate.
- 10.2 The Committee shall, in conducting all of its duties in accordance with these Terms of Reference, act in a way it considers in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, the Committee must have regard (among other matters) to:
- (a) the likely consequences of any decision in the long term;
  - (b) the interests of the Company's employees;
  - (c) the need to foster the Company's business relationships with suppliers, customers and others;
  - (d) the impact of the Company's operations on the community and the environment;

- (e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly as between the members of the Company.

### **Financial Reporting**

- 10.3 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary results announcement (if any), and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to the matter communicated to it by the auditor.
- 10.4 In particular, the Committee shall review and challenge where necessary:
- (a) the consistency, quality and appropriateness of, and any changes to, significant accounting policies both on a year on year basis and across the Group;
  - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (c) whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements taking into account the views of the external auditor;
  - (d) the clarity and completeness of disclosures in the Group's financial reports and any changes to these disclosures, and the context in which statements are made, including the review of any correspondence between the Company and the external auditor;
  - (e) all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and risk management;
  - (f) any proposed major discretionary accounting policy change in advance of its implementation;
  - (g) significant adjustments resulting from the external audit;
  - (h) the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and, if so determined by the Board, the longer term viability statement (including an assessment of the prospects of the Company and the Group looking forward over an appropriate and justified period).
- 10.5 The Committee shall monitor compliance with financial reporting standards and any recognised investment exchange and other financial and governance reporting requirements.
- 10.6 The Committee shall review all material information presented with the financial statements, such as the strategic report and the corporate governance statements, insofar as it relates to audit and risk management.
- 10.7 The Committee shall review the disclosures in the annual report concerning the Group's defined benefit pension funds if not reviewed by the Board as a whole.
- 10.8 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Group, it shall report its views to the Board.
- 10.9 The Committee shall monitor and review the tax strategy of the Group and any significant tax issues affecting it at least once a year.

- 10.10 The Committee shall evaluate, at least annually the risks to the quality and effectiveness of the financial reporting process and consider the need to include the risk of the withdrawal of the auditor from the market in that evaluation.

#### **Narrative reporting**

- 10.11 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, performance, business model and strategy.

#### **Internal Controls and Risk Management Systems**

- 10.12 The Committee shall assist the Board in preparing for the annual report an explanation of the basis on which the Company generates or preserves value over the longer term (the business model) and the strategy for delivering the Company's objectives.
- 10.13 The Committee shall review and monitor the Company's internal financial controls and its internal control and risk management systems and, where applicable, its internal audit. In doing so, the Committee shall assist the Board in monitoring the Company's risk management and internal control systems (including its financial, operational and compliance controls) and draw on the results of the on-going monitoring process to obtain sound, appropriately documented evidence to support the relevant statements and confirmations required from the Board in the annual report.
- 10.14 The Committee shall oversee and advise the Board on the Group's current risk exposure and future risk strategy and consider how the remuneration of executives shapes their view of risk.
- 10.15 *The Committee shall review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation.*
- 10.16 The Committee shall consider any necessary disclosure implications of the process that has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.
- 10.17 The Committee shall consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud or misconduct and management's response, and also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate.

#### **Compliance, whistleblowing and fraud**

- 10.18 The Committee shall review the adequacy and security of the Group's arrangements for its employees 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. The Committee shall also review the Group's procedures for detecting fraud, review the Group's systems and controls for the prevention of bribery, and receive reports on non-compliance.

#### **Internal Audit**

- 10.19 The Company does not currently have an internal audit function. The decision on whether or not to set up an internal audit function will be made by the Board, on the recommendation of the Committee (which shall consider annually whether there is a need for an internal audit), based on the growth of the Company, the scale, diversity and complexity of the Company's activities and the number of employees, as well as cost/benefit considerations. If the Board recommends the appointment of an internal audit function it shall do the following.

- 10.20 The Committee shall:
- (a) approve the appointment or termination of appointment of the head of the internal audit function;
  - (b) review and approve the charter of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
  - (c) ensure that the internal audit function has adequate standing and is free from management or other restrictions;
  - (d) ensure that the internal auditor has direct access to the Chairman and to the Committee chairman, and is accountable to the Committee;
  - (e) review and assess the annual internal audit work plan and be advised of the reasons for any change or delay in the plan and ensure co-ordination between the internal and external auditors;
  - (f) receive a report on the results of the internal auditor's work on a periodic basis;
  - (g) review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
  - (h) meet the head of internal audit at least once a year, without management being present; and
  - (i) monitor and review the effectiveness of the Company's internal audit function (if any) in the context of the Company's overall risk management system, and perform an independent review every five years.

#### **External Audit**

- 10.21 The Committee shall consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, as regards the appointment, re-appointment and removal of the Company's external auditor.
- 10.22 The Committee shall 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 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.
- 10.23 If an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.
- 10.24 The Committee shall 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 ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - (b) having a discussion with the external auditor, before the audit commences, as to the nature and scope of the audit and reviewing the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;

- (c) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (d) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- (e) 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;
- (f) agreeing with the Board a policy on the employment of former employees of the Company's external auditor and monitoring the implementation of that policy;
- (g) 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;
- (h) assessing annually 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, reviewing whether the auditor has met the agreed audit plan, understanding reasons for changes to the audit plan, considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions, obtaining feedback from key people on the conduct of the audit, and reviewing and monitoring the content of the external auditor's management letter and reporting to the Board on the effectiveness of the audit process;
- (i) seeking to ensure co-ordination with the activities of the internal audit function;
- (j) evaluating 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 the Company's present auditor from the market in that evaluation.

10.25 The Committee shall meet the external auditor regularly, 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 the external auditors' remit and any issues arising from the audit.

10.26 The Committee shall review and approve the annual audit plan and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.

10.27 The Committee shall review the findings of the audit with the external auditor. This shall include but not be limited to discussing any major issues which arose during the audit, key accounting and audit judgements and levels of errors identified during the audit. The Committee shall also review the effectiveness of the audit process.

10.28 The Committee shall consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the Company and the external auditor.

10.29 The Committee shall also review any representation letter(s) request by the external auditor before they are signed by management, and review the management letter and management's response to the external auditor's findings and recommendations.

- 10.30 The Committee shall develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter, and keep that policy under review.

## **11 Reporting Responsibilities**

- 11.1 The Committee chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and the minutes of all Committee meetings shall be included in the Board papers for a subsequent Board meeting. The Committee shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 10.3) and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process (required under paragraph 10.24(h)) and its recommendation on the appointment or reappointment of the external auditor; and
  - (c) 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 report to the Board on the outcome of the statutory audit and explain how the audit contributed to the integrity of the Company's financial reporting and the role of the Committee in that process.
- 11.4 The Committee shall compile a report on its activities to be included in the Company's annual report and accounts. The Committee's report shall include:
- (a) details of the membership of the Committee, the numbers of meetings held and attendance over the course of the year;
  - (b) the significant issues 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;
  - (c) an explanation of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted and advance notice of any retendering plans, and, any contractual provisions restricting the Committees choice of auditor and the amount of fees paid to the auditor for any of its services;
  - (d) an explanation of how auditor objectivity and independence is safeguarded if the external auditor provides non-audit services;
  - (e) confirmation that the Board has carried out a robust assessment of the principal risks facing the Company, a description of those risks and an explanation as to how they are being managed and mitigated;
  - (f) an explanation of how the Committee has addressed the effectiveness of the internal audit process; and
  - (g) any other issues on which the board has requested the Committee's opinion.
- 11.5 In compiling the reports referred to in paragraphs 11.1 and 11.4, the Committee should exercise judgment in deciding which of the issues it considers in relation to the financial statements are

significant, but should at least include 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.

11.6 The Committee shall make available to shareholders these Terms of Reference.

## **12 Other Matters**

12.1 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.

12.2 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.

12.3 The Committee shall give due consideration to relevant laws and regulations, the provisions of the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies, the Corporate Governance Code, the requirements of the London Stock Exchange's AIM Rules for Companies and any other applicable rules, as appropriate.

12.4 The Committee shall be responsible for co-ordination of the internal and external auditors.

12.5 The Committee shall oversee any investigation of activities which are within its terms of reference.

12.6 The Committee shall work and liaise as necessary with all other Board committees.

12.7 The Committee should arrange for periodic reviews of its own performance, and, at least annually, review its constitution and these Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

12.8 The Committee should consider such other matters as the Board may from time to time refer to it.

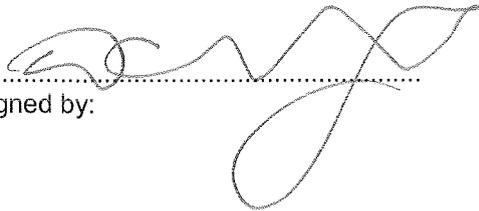
## **13 Authority**

13.1 The Committee is authorised to:

- (a) seek any information it requires from any employee of the Group in order to perform its duties;
- (b) call any employee to be questioned at a meeting of the Committee as and when required;
- (c) obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so and 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;
- (d) carry out all duties set out in these Terms of Reference, to have unrestricted access to the Company's documents and information and to obtain, at the Company's expense, appropriate professional advice on any matter within its Terms of Reference as it considers necessary;
- (e) secure the attendance of external advisers at its meetings if it considers this necessary, at the Company's expense; and
- (f) collectively and individually have direct access to the Group Finance Director, and the Company's external auditors.

**14 Procedure**

Subject to the constitutional documents of the Company, the Committee shall determine its own procedures.

  
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Signed by:

(Thomas Enright - Moony)

Dated: 28 April 2017