

**ZOTEFOAMS plc**  
**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

The Board has resolved to establish a Committee of the Board known as the Audit Committee.

**1. Membership**

The Audit Committee will comprise the independent non-executive directors of the Company. The quorum for the Committee will be two members.

The Chairperson of the Committee will not be the same as the Chairperson of the Board itself. The Chairperson would normally be expected to have significant, recent and relevant financial experience.

The Committee shall appoint a Secretary of the Committee.

**2. Attendance at Meetings**

At the request of the Chairperson other directors and senior managers may attend Committee meetings or for selected agenda items and representatives of the external auditors may also be invited. The Finance Director and Managing Director and a senior representative of the external auditors will usually be expected to attend such meetings.

There should be at least one meeting a year, or part thereof where the Audit Committee have discussions with the external auditors without executive directors in attendance to ensure there are no unresolved issues of concern.

**3. Frequency of Meetings**

The Committee shall meet not less than twice a year (normally during the preparation of final accounts and interim statement).

The external auditors may request a meeting if they consider that one is necessary.

**4. Authority**

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made from the Committee. The Committee is authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

**5. Terms of Reference**

The Committee's responsibilities are:

1. to review significant financial reporting issues and judgements, and the clarity and completeness of disclosures made in connection with the preparation of the company's financial statements, going concern assumptions, interim reports, preliminary announcements and related formal statements including any matters which the external auditors may wish to raise (in the absence of management where necessary),
2. to review the external auditor's management letter and management's responses,
3. to review on behalf of the Board the integrity of the company's internal financial controls and, assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks and make recommendations to the Board,
4. to review the proposed statement on the director's review of the Group's system of internal control (including financial, operational compliance and risk management) prior to endorsement by the Board,
5. to review the arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ("the whistleblowing policy"). The objective of the Committee is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action,
6. to periodically assess the need for an internal audit function,
7. to recommend to the Board the appointment, re-appointment, remuneration and removal of the external auditors,
8. to assess the qualification, skills and resources, effectiveness and independence of the external auditors annually,
9. to assess the procedures in place to ensure the independence and objectivity of the external auditor annually and develop and recommend to the Board a policy in relation to the provision of non-audit services by the auditor,

10. to ensure at the start of each annual audit cycle that appropriate plans are in place for the audit,
11. to consider the major findings of internal investigations and management's response,
12. to consider other matters as defined by the Board.

The Committee should annually review its effectiveness and recommend any necessary changes to the Board.

## **6. Reporting**

Minutes of meetings of the Committee shall be circulated to all members of the Board.

The Audit Committee Chairperson, or in exceptional circumstances another member of the Committee (appointed by the Committee) when this is not possible, shall attend the AGM and shall answer questions, through the Chairperson of the Board, on the Audit Committee's activities and responsibilities.

If there are any disagreements between the Audit Committee and the Board which cannot be resolved the Audit Committee shall report the issue to shareholders in the Company's Annual Report.

March 2009