

CRANEWARE PLC
(the “Company”)

Audit Committee
Terms of Reference

1 DEFINITIONS

In these terms of reference:-

"**Auditor**" means the external auditors of the Company; and

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

"**Committee**" means the audit committee of the Board; and

"**Group**" means the Company and its subsidiary undertakings.

2 CONSTITUTION

The Audit Committee has been established as a committee of the Board by resolution of the Board.

3 GENERAL AIMS

Without prejudice to the specific duties of the Committee detailed below, the general aims of the Committee shall be to:

- (a) increase shareholder confidence and the credibility and objectivity of published financial information;
- (b) ensure the financial performance, position and prospects of the Company are properly monitored and reported on;
- (c) assist the Board in meeting its financial reporting responsibilities and ensure that the Company's published financial statements comply with all applicable statutory requirements and accounting standards;
- (d) strengthen the independent position of the Auditor by providing channels of communication between them and the non-executive directors; and
- (e) review the performance of the Auditor.

4 SPECIFIC DUTIES

The Committee shall perform the following duties for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

4.1 **Financial Reporting**

4.1.1 The Committee shall monitor the integrity of the financial statements of the Company and the Group, including its:

- (a) annual and interim reports and accounts;
- (b) announcements of preliminary results; and
- (c) any other formal announcement relating to its financial performance;

reviewing (and report to the Board on) all significant financial reporting issues and all judgements which they contain, having regard to matters communicated to it by the Auditor.

4.1.2 The Committee shall review:

- (a) summary financial statements;
- (b) significant financial returns to regulators; and
- (c) any financial information contained in other documents, such as announcements of a price sensitive nature.

4.1.3 The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and the Group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the Auditor;
- (d) the clarity of disclosure in the Company's financial and narrative statements including any strategic reports and corporate governance statements relating to the audit and risk management, internal control, the going concern basis of accounting and longer term viability. Such review should take into consideration the context in which these statements are made; and
- (e) all material information presented with the financial statements, such as the strategic report including the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

4.1.4 When the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

4.1.5 The Committee shall review the annual financial statements of any pension funds where not reviewed by the Board as a whole.

4.2 **Narrative reporting**

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 and the Group's performance, business model and strategy.

4.3 **Internal Controls and risk management systems**

The Committee shall:

- (a) keep under review the effectiveness of the Company's internal controls and risk management systems; and
- (b) review and approve any statements to be included in the Group's annual report and accounts concerning internal controls and risk management.

4.4 **Whistleblowing and Fraud**

The Committee shall:

- 4.4.1 routinely review the adequacy and security of the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure where appropriate that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action;
- 4.4.2 review the Company's procedures for detecting fraud; and
- 4.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

4.5 **Internal Audit**

The Committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the Board accordingly. Where it concludes that there is no need for a separate internal audit function, the reasons for the absence of such a function should be explained in the relevant section of the Company's annual report. In the event that an internal audit function is introduced, the Board shall extend as appropriate the terms of reference to include, inter alia: monitoring and reviewing the effectiveness of the internal audit function in the context of the Group's overall risk management system; senior appointments and removals in respect of that function; resourcing of that function; reviewing and assessing the annual internal audit work plan; meetings with the internal auditors and reviewing executive management's responsiveness to findings and recommendations of the internal audit function.

4.6 **External Audit**

4.6.1 The Committee shall:

- (a) 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 or removal of the 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;
- (b) develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.
- (c) oversee the relationship with the Auditor including (but not limited to):

- (i) approval of their remuneration, whether fees for audit or non-audit services and ensuring that the level of fees is appropriate to enable an adequate, high quality audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services;
 - (iv) 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) which could adversely affect the Auditor's independence and objectivity;
 - (v) agreeing with the Board, where relevant, a policy on the employment of former employees of the Auditor, then monitoring the implementation of this policy;
 - (vi) monitoring the 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;
 - (vii) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the Auditor on their own internal quality procedures; and
 - (viii) 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 Auditor from the market in that evaluation
- (d) meet regularly with the Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the Auditor at least once a year, without executive management being present, to discuss their remit and any issues arising from the audit;
- (e) review and approve the annual external 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;
- (f) review the findings of the audit with the Auditor. This shall include but not be limited to, the following:
- (i) a discussion of any major issues which arose during the audit;
 - (ii) any accounting and audit judgements;
 - (iii) the Auditor's explanation of how the risks to the audit quality were addressed;
 - (iv) the Auditor's view of their interactions with senior management; and
 - (v) levels of errors identified during the audit.

- (g) review the effectiveness of the audit;
- (h) review any representation letter(s) requested by the Auditor before they are signed by the executive management;
- (i) review the executive management letter and executive management's response to the Auditor's findings and recommendations; and
- (j) develop and implement a policy on the supply of non-audit services by the Auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter. The policy should include consideration of the following matters:
 - 1) threats to independence and objectivity of the external auditor and any safeguards in place;
 - 2) the nature of the non-audit services;
 - 3) whether the external audit firm is the most suitable supplier of the non-audit service;
 - 4) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - 5) the criteria governing compensation.

4.7 **Other Matters**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- (b) 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;
- (c) give due consideration to laws and regulations and, having regard to the size and nature of the Company, the provisions of the UK Corporate Governance Code and the requirements of the AIM Rules for Companies and any other applicable rules, as appropriate;
- (d) oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort;
- (e) be responsible for co-ordination, if relevant, of the internal and external auditors; and
- (f) work and liaise, as necessary, with all other Board committees.

5 **REPORTING AND AGM DUTIES**

- 5.1 The chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall 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 and how these were addressed;
 - (b) its assessment of the effectiveness of the external audit process 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.
- 5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any matter within its remit where action or improvement is needed.
- 5.3 The Committee shall, compile an annual report to shareholders on its activities to be included in the Company and Group's annual report. The report shall include: an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the UK Corporate Governance Code.
- 5.4 The chairman of the Committee shall ensure that at least one member of the Committee shall attend the Annual General Meeting of the Company prepared to respond to any shareholder questions on the Committee's activities and responsibilities.

6 **REGULATORY DUTIES**

In carrying out its duties the Committee shall:

- (a) give due regard to:
 - (i) all relevant legal and regulatory requirements;
 - (ii) the rules of the AIM Market operated by the London Stock Exchange plc;
 - (iii) the provisions and recommendations of the UK Corporate Governance Code issued by the Financial Reporting Council (having regard also to the size and nature of the Company); and
 - (iv) if appropriate, the corporate governance guidelines for AIM companies issued by the Quoted Companies Alliance (having regard also to the size and nature of the Company);
- (b) ensure that it has such information, as it considers necessary or desirable to fulfil its duties as set out in these terms of reference.

7 **MEMBERSHIP**

- 7.1 Members of the Committee shall be appointed from time to time by the Board, in consultation with the chairman of the Committee.
- 7.2 The Committee shall be made up of at least three members.
- 7.3 All of the members of the Committee shall be independent non-executive directors of the Company, and at least one member shall have recent and relevant financial experience. The chairman of the Board shall not be a member of the Committee if he is an executive director.

- 7.4 Appointments to the Committee shall be for a period of up to three years, which may be extended, provided that the relevant member of the Committee remains independent.
- 7.5 The Board shall appoint the chairman of the Committee who shall be an independent non-executive director of the Company. In the absence of the Chairman, the remaining members of the Committee present at a fully convened Committee meeting may elect one of their number to chair the meeting. The Board shall determine the period for which the chairman of the Committee holds office.
- 7.6 The Board may from time to time remove members from the Committee.
- 7.7 The membership of the Committee shall be set out in the annual report of the Company.

8 **SECRETARY**

The company secretary (or his or her nominee) shall be the secretary of the Committee 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. 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.

9 **MEETINGS**

- 9.1 The Committee shall meet at least three times in each year at appropriate times in the reporting and audit cycle and at such other times as the chairman of the Committee shall require.
- 9.2 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any member of the Committee or at the request of the Auditor or any internal auditor if they consider it necessary.
- 9.3 Unless otherwise agreed, at least 5 working days notice shall be given of each meeting of the Committee.
- 9.4 Unless otherwise agreed, notice of each meeting of the Committee shall:
- (a) confirm the venue, time and date of the meeting;
 - (b) include an agenda of items to be discussed at the meeting; and
 - (c) be sent to each member of the Committee, the secretary, any other person required, invited or entitled to attend the meeting and all other non-executive directors of the Company.
- 9.5 Supporting papers shall be sent to members of the Committee and to other attendees, as appropriate, at the same time as the relevant notice or as soon as possible thereafter.
- 9.6 The quorum necessary for the transaction of business by the Committee shall be two members of the Committee and 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.
- 9.7 Only members of the Committee shall have the right to attend meetings of the Committee. However, other individuals (such as the other directors, representatives from the finance function of the Company, the Auditor and external advisers) may be invited to attend and speak at (but not vote at) a meeting of the Committee as and when appropriate.

- 9.8 The Auditor shall be invited to attend and speak at meetings of the Committee on a regular basis but shall not be entitled to vote at such meetings.
- 9.9 Meetings of the Committee may be held by conference telephone or similar communications equipment whereby all members participating in the meeting can hear each other; provided always however that at least once per annum a direct meeting shall be held between the Committee and the Auditor where a quorum of the members of the Committee and the Auditor are present in person at the same location.
- 9.10 Matters for decision by the Committee shall be decided by a majority decision of the members. In the event of an equality of votes, the chairman of the Committee shall have a second or casting vote.
- 9.11 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 of the Board, the Chief Executive Officer, the Chief Financial Officer, the lead partner of the Auditor and, if applicable, the head of internal audit.

10 **MINUTES**

- 10.1 The secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings and record the names of those present and in attendance.
- 10.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.
- 10.3 Following each meeting of the Committee, the secretary shall promptly circulate, for comment, draft minutes to each member who was present at the meeting.
- 10.4 After approval and signing of the minutes by the chairman of the Committee meeting, the secretary shall circulate copies of the minutes to all members of the Board, (unless a conflict of interest exists).

11 **AUTHORITY**

- 11.1 The Committee is a committee of the Board and as such exercises such powers of the Board as have been delegated to it.
- 11.2 The Committee is authorised by the Board to investigate any activity within its terms of reference.
- 11.3 The Committee is authorised to 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.
- 11.4 The Committee is authorised to:
- (a) seek any information it requires (including from any employee of the Company) in order to perform its duties;
 - (b) obtain outside legal or other professional advice (on any matters within its terms of reference, including, without limitation, any legal matters which could have a significant effect on the Company's financial position);
 - (c) to commission any reports or surveys, which it deems necessary, to help it fulfil its obligations;

- (d) to secure the attendance of external advisors at its meetings (if it considers it necessary); and
- (e) to call any employee to be questioned at a meeting of the Committee as and when required,

all at the Company's expense.

12 **OWN PERFORMANCE**

At least once a year, the Committee shall 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.