



Board Charter

Adopted 6/4/2005

(as amended by resolutions of the Board 9/6/2005, 14/11/2005 and 22/5/2006)

Table of Contents

1	Board Charter	3
2	Role of the Board	3
2.1	Responsibilities and Duties	3
2.2	Chairperson	4
2.3	Senior Independent Director	4
3	Board – Management Relationship	4
3.1	Delegation of Authority to the Chief Executive Officer	4
3.2	Evaluation of the Chief Executive Officer	5
4	Board Composition	5
4.1	Board Composition and Mix	5
4.2	Independence	5
4.3	Rotation	6
4.4	Nomination	6
4.5	Board Committees	6
5	Board Procedures	6
5.1	Appointment Process	6
5.2	Continuous Education	7
5.3	Board Meetings	7
5.4	Board Agendas	7
5.5	Board Materials and Presentations	8
5.6	Independent Advice	8
5.7	Conflicts of Interest	8
5.8	Evaluation of Performance	8
5.9	Indemnities and Insurance	9
5.10	Company Secretary	9
6	Remuneration	9
6.1	Fees	9
6.2	Reimbursement of Directors' Expenses	9
6.3	Remuneration of Chief Executive Officer, other Executive Directors and Company Secretary	10
7	Shareholding by Directors in Endace	10
	Schedule 1 - Matters reserved to the Board	11
	Schedule 2 – Audit Committee Terms of Reference	14
	Schedule 3 – Remuneration Committee Terms of Reference	19
	Schedule 4 – Nominations Committee Terms of Reference	22
	Schedule 4 – Letter of appointment – Non-executive directors	25

1 Board Charter

The role of the Board is to effectively represent, and promote the interests of, the shareholders of Endace, with a view to adding long-term value to Endace's shares.

This requires Endace, its directors and all of Endace's management to be committed to high standards of corporate governance and good business practice, which includes the following principles:

- To observe high standards of ethical and moral behaviour
- To promote ethical and responsible decision-making.
- To act in the best interests of shareholders
- To recognise the legitimate interests of all stakeholders
- To encourage excellent performance.
- To recognise and manage risk
- To remunerate fairly and responsibly

Endace has prepared this Charter to describe how these principles are to be applied in practice within Endace and its subsidiaries (which are referred to together with Endace as the "Group"). The Charter sets out matters reserved to the Board, the areas of responsibility allocated to the Chairperson and Executive Directors, and the role of the Board Committees.

The Charter intended to supplement Endace's constitution. This Charter was approved on 6 April 2005 by the Board of Endace Ltd ("Endace") and applies to Endace and all Group companies.

Where the guidelines of any subsidiary of Endace conflict with this Charter this Charter will prevail.

The Board will review this charter annually and as required to ensure it remains consistent with the Board's objectives and responsibilities.

2 Role of the Board

2.1 *Responsibilities and Duties*

The primary responsibility of the directors is to exercise their business judgment to act in what they believe to be the best interests of Endace and its shareholders. The Board as a whole is collectively responsible for the success of the Company.

The Board will meet regularly to perform its function of leading and controlling Endace.

Matters reserved to the Board are set out in Schedule 1.

The Chief Executive Officer and others (including subsidiary company boards) are charged with the day-to-day leadership and management of Endace. The Chief Executive Officer also has a special

responsibility to manage and oversee the interfaces between Endace and the public and to act as the principal representative of Endace.

2.2 Chairperson

The roles of Chairperson and Chief Executive Officer are separate.

The Chairperson's role is to:

- manage the Board effectively and provide leadership to the Board;
- foster a effective governance culture and apply appropriate governance principles among directors and with management;
- make sure the Board is well informed and effective and that the members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the Board and Endace;
- ensure there are processes and procedures in place to evaluate the performance of the Board, its committees and individual directors;
- ensure effective communication with shareholders;
- act as a mentor or counsel for the Chief Executive Office; and
- act as the link between the Board and the Chief Executive Officer on a day to day basis.

An independent Chairperson will be appointed to take office immediately following Endace's admission to AIM.

The Chairperson must, prior to appointment, advise the board of his or her other significant commitments, and changes to these commitments must be report as they arise.

2.3 Senior Independent Director

One of the independent non-executive Directors will be appointed as senior independent director, whose role is to be available to shareholders to discuss concerns that they are unable to resolve through the normal channels of contact with the Chairperson, CEO or finance director. The senior independent director will also chair meetings of non-executive directors when the Chairperson is not present.

3 Board – Management Relationship

3.1 Delegation of Authority to the Chief Executive Officer

The conduct of the day to day affairs of Endace and the formulation and implementation of policies and reporting procedures for management, other than as referred to in Schedule 1, has been delegated to the Chief Executive Officer and certain subsidiary companies. The Chief Executive Officer is, in turn, expected to delegate some of those powers to management. The Board is responsible for monitoring those delegations.

3.2 Evaluation of the Chief Executive Officer

The Remuneration Committee evaluates the performance of the Chief Executive Officer and oversees the Chief Executive Officer's evaluation of her direct reports. The evaluation is based on criteria which include the performance of the business, the accomplishment of long-term strategic objectives and other non-quantitative objectives agreed at the beginning of each year.

The Remuneration Committee meets with the Board and the Chairperson to discuss the Chief Executive Officer's performance and remuneration. The Chairperson then meets with the Chief Executive Officer to discuss the Chief Executive Officer's performance and to provide counsel to the Chief Executive Officer.

4 Board Composition

4.1 Board Composition and Mix

The Constitution requires that the Board comprise between five and seven members.

The Board's long term objective is to ensure that a majority of Directors meet the independence requirements described below, and in the 12-24 month period following adoption of this Charter the Nomination Committee will actively seek to appoint Directors to meet this objective.

In the interim period, at least two Directors must meet the independence requirements described below.

4.2 Independence

Independent Directors must be independent in both character and judgement. In determining whether a director is independent, the Board must consider whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. Factors of particular relevance are whether the director:

- has been an employee of Endace or Group within the last five years;
- has, or has had within the last three years, a material business relationship with Endace either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with Endace;
- has received or receives additional remuneration from Endace apart from director's fees, participates in Endace's share option or a performance-related pay scheme, or is a member of Endace's pension scheme;
- has close family ties with any of Endace's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder (with a significant shareholding being defined as an interest equal to or more than 3 per cent of the nominal value of Endace's share capital); or
- has served on the board for more than nine years from the date of their first election.

4.3 Rotation

All Directors appointed by way of casual vacancy are required by Endace's Constitution to be elected by the shareholders at the first annual meeting after their appointment.

One third of all Directors stand for election every year. In each year the Directors who retire are those who have been longest in office since their last election.

There is no maximum term for which a person can remain a Director.

4.4 Nomination

The Nominations Committee recommends to the Board candidates to be appointed to act as Director. To be eligible for selection candidates must possess appropriate skills, knowledge and experience, be able to exercise an independent and informed judgment on matters with come to the Board, and be free of any business or other relationship that may interfere with the exercise of that individual judgment.

4.5 Board Committees

Committees established by the Board review and analyse policies and strategies, usually developed by management, which are within their terms of reference. They examine proposals and where appropriate make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

The current Committees of the Board are Audit, Remuneration and Nominations. Terms of Reference for each of these Committees are set out in Schedules 2 to 4.

From time-to-time the Board may create ad hoc or other committees to examine or have the delegated authority to deal with specific issues on behalf of the Board.

Committee Chairpersons and members are appointed by the Board.

The Board reviews annually the performance of each Committee, to ensure that each Committee is operating consistently with its Charter.

5 Board Procedures

5.1 Appointment Process

Independent Directors are appointed through a letter of appointment, as attached in Schedule 5. Executive Directors are engaged as employees and have an employment agreement with Endace or relevant subsidiary.

Before accepting appointment, all potential Directors are encouraged to carry out a "due diligence" exercise, both to ensure that they have adequate knowledge of the Company and its management and to ascertain their own ability to properly fulfil the duties that the position entails.

Endace's Director induction programme is designed to ensure that new Directors have the information required to enable them to become effective in their new role as soon as possible. The induction programme includes ensuring that new Directors are appropriately introduced to management and the business, that all Directors are acquainted with relevant industry knowledge

and economics. Directors also receive a copy of this Charter, the Terms of Reference of all Committees, recent Board and Committee papers, recent Board minutes and relevant Company policies.

The Chairperson is responsible for ensuring that induction for new Directors is properly carried out, and the Company Secretary is responsible for coordinating both due diligence and induction.

5.2 Continuous Education

It is expected that all Directors continuously educate themselves to ensure that they may appropriately and effectively perform their duties.

In addition, visits to specific Company operations when appropriate and briefings from key executives and industry experts will be arranged.

5.3 Board Meetings

The Board shall meet at least eight times a year and otherwise as required.

Directors will use their best endeavours to attend Board meetings and to prepare thoroughly. Directors are expected to participate fully, frankly and constructively in Board discussion and other activities and to bring the benefit of their particular knowledge, skills and abilities to the Board table. Directors unable to attend a meeting must advise the Chairperson and/or Company Secretary at as early a date as possible.

Board discussion will be open and constructive, recognising that genuinely-held differences of opinions can, in such circumstances, bring greater clarity and lease to better decisions. The Chairperson will, nevertheless, seek a consensus in the Board but may, where considered necessary, call for a vote.

All discussion will remain confidential unless there is a specific direction from the Board or disclosure is required by law. Directors should however ensure that, where they have concerns about the running of Endace or a proposed action that cannot be resolved, those concerns are recorded in the board minutes. Where a non-executive Director resigns, if they have any such concerns they should provide a written statement to the Chairperson, for circulation to the Board.

Executive Directors attend Board meetings to discharge their Board responsibilities. At Board meetings, Board responsibilities supercede all executive responsibilities.

5.4 Board Agendas

The Chairperson, in consultation with the Chief Executive Officer and Company Secretary, will set the agenda for each Board Meeting. Each Committee or Director is able to suggest agenda items.

Standing agenda items will include:

- Chief Executive Officer's report
- financial report
- Chief Scientist's report
- Chief Technology Officer's report;

- directors' interests and changes to Endace's statutory registers

The items set out in Schedule 1 will be included on the Board agenda at least once a year, at the appropriate time.

5.5 Board Materials and Presentations

To enable appropriate review of Board materials, Directors should receive materials approximately seven days in advance of meetings for items to be acted upon, except in the case of special meetings for which the time period may be shorter due to the urgency of the matter to be considered.

The Board encourages the Chief Executive Officer to bring employees to Board meetings who can provide additional insight into the items being discussed because of personal involvement in those matters. All Directors have access to employees to discuss issues or obtain further information on specific areas, as they think appropriate.

The Board of Directors meets regularly on an "in camera" basis without management present.

Directors must strictly observe relevant law regarding the confidentiality and use of Company information.

5.6 Independent Advice

A Committee or individual Director may retain and consult with external advisers (including legal) at Endace's expense where the Committee or individual deems it necessary to carry out its, his or her functions, with the approval of the Chairperson of the Board.

Non-executive Directors are not full time employees of Endace. Non-executive Directors are entitled to rely on Company executives in relation to matters within their responsibility and area of expertise and may assume the accuracy of information provided by such persons, so long as the Director is not aware of any reasonable grounds upon which such reliance or assumption may be inappropriate.

The Board may rely upon information provided by Board Committees and their members in relation to matters within those Board Committee's responsibility provided that it has evaluated the information and is not aware of any reasonable basis upon which to question its accuracy.

5.7 Conflicts of Interest

Directors must minimise the possibility of conflict of interest in their involvement with Endace by restricting their involvement in businesses that could lead to a conflict of interest. Where conflicts of interest do exist then Directors must follow Endace's Policy on Conflicts of Interest. This includes the maintenance of a register of actual and potential conflicts, and processes to ensure that management are aware of potential conflicts and take appropriate steps when conflicts issues arise.

5.8 Evaluation of Performance

Directors' individual performance is evaluated in accordance with Endace's Policy on Evaluation of Directors. The non-executive directors, led by the senior independent director, are responsible for performance evaluation of the Chairperson, taking into account the views of the executive directors.

The Remuneration Committee will review the remuneration of individual Directors based on criteria developed by that Committee.

The Board reviews its performance as a whole on an annual basis.

5.9 Indemnities and Insurance

Endace will provide Directors with, and will pay the premiums for, indemnity and insurance cover while acting in their capacities as Directors, to the extent permitted by law and in accordance with Endace's Policies on Indemnity and Insurance.

5.10 Company Secretary

Under New Zealand company law there is no requirement for companies to appoint a Company Secretary. Endace however recognises the key contribution that a Company Secretary can make in ensuring an effective Board and sound corporate governance across the Group, and as a result will keep a Company Secretary appointed at all times. The Company Secretary must be either a chartered accountant, barrister and/or solicitor, chartered secretary, or be a person who appears to the Board to be capable of carrying out the functions of company secretary because he or she holds equivalent qualifications or experience.

Endace's Company Secretary plays a proactive and central role in the governance of the Group, and must act with integrity and independence to protect the interests of the company, shareholders, stakeholders and employees. Among other duties, the Company Secretary is responsible for ensuring that Board procedures are followed, that the applicable rules and regulations for the conduct of the affairs of the Board are complied with, and acting as a channel of communication and information for non-executive directors.

All Directors have access to the advice and services of the Company Secretary for the purposes of the Board's affairs.

6 Remuneration

6.1 Fees

Non-executive Directors' remuneration is paid in the form of Directors' fees. Additional fees are paid in respect of the Chairperson and Committee Chairpersons to reflect the additional responsibilities of these positions. The Board may determine that additional allowances be paid as appropriate.

Non-executive Directors are not permitted to participate in Endace's employee share scheme No 1.

6.2 Reimbursement of Directors' Expenses

Endace meets the cost of:

- all Directors' travel directly associated with attendance at Board and Committee meetings, Board trips and Board business;
- any costs associated with a Director's attendance at functions where the Director is representing Endace;

- any travel costs directly associated with a Director's spouse's/partner's attendance at functions where their attendance is considered appropriate; and
- any costs directly associated with the Director's performance of his or her role.

All Directors' expenses are approved by the Chairperson. The Chairperson's expenses are approved by the Chairperson of the Audit Committee.

6.3 Remuneration of Chief Executive Officer, other Executive Directors and Company Secretary

The Chief Executive Officer's, Finance Director's and Chief Scientist's remuneration is paid in the form of a salary and they are also entitled to participate in various incentive schemes, subject to any necessary shareholder approval requirements. They do not receive director's fees.

The Remuneration Committee recommends the annual remuneration of the Chief Executive Officer to the Board for approval.

The Chief Executive Officer recommends the annual remuneration of the Finance Director, Chief Scientist and Company Secretary to the Remuneration Committee for approval.

7 Shareholding by Directors in Endace

Directors are encouraged to hold share in Endace, recognising that this has the capacity, in many cases, to increase the focus of Directors on Company performance and share value and therefore be in the interests of all shareholders.

Directors are subject to limitations on their ability to buy and sell Endace's shares under the Company's share dealing code, New Zealand law and the AIM Listing Rules. These limitations include a prohibition on Directors buying or selling Endace's shares during the two month period prior to;

- (a) the publication of Endace's annual results, or
- (b) the announcement of its half-yearly results,

or, if shorter, the period from the relevant financial period end to the time of any such publication

All changes in the shareholdings of Directors are reported to the Board and the Company Secretary for disclosure to the stock exchanges on which Endace is listed, and recording in Endace's interest register.

Schedule 1 - Matters reserved to the Board

1. Approval of the Group's corporate strategy and the annual operating budget.
 - (a) The Board will set the broad direction of the Group by:
 - (i) determining the vision and mission for the Group to guide and set the pace for its operations and development;
 - (ii) determining the values and aspirations to be promoted through the Group's operations and development;
 - (iii) determining and reviewing Group objectives designed to match mission and values and to form the basis of corporate strategy; and
 - (iv) determining and reviewing Group policies and ensuring their enforcement, and the availability of resources for their implementation.
 - (b) The Board will direct the Group's strategy and structure to ensure its continuance and prosperity and to stimulate its renewal, regeneration and growth by:
 - (i) reviewing and evaluating present and future opportunities, threats and risks in the external environment and current and future strengths, weaknesses and risks in the people, products, services and other assets of the Group;
 - (ii) determining corporate and financial strategic options, selecting those to be pursued and deciding the allocation of resources, contingency plans and means of generating support;
 - (iii) approving and reviewing the business strategies and plans to implement the corporate or commercial strategy and approving "milestone" targets and ensuring fit between business plans, resource availability and Group structure;
 - (iv) reviewing and confirming the suitability and effectiveness of corporate and business strategies to achieve Group objectives;
 - (v) monitoring and supporting the Group's Senior Management's competence to identify strategic implications of unexpected change; and
 - (vi) identifying major organisation factors likely to affect implementation of strategy and determining the group's organisation structure.
 - (c) The Board will agree, monitor and control implementation of strategy, policies and plans, and legal and fiduciary obligations by:
 - (i) determining performance measures and systems with which the Board will monitor implementation of strategy, policies, plans and legal and fiduciary obligations;
 - (ii) confirming and reviewing internal control arrangements and procedures to ensure appropriate quality standards of monitoring information;

- (iii) monitoring and controlling the implementation of policies, strategies and operating plans by Endace, the Group and management;
 - (iv) monitoring compliance with policies, strategies and operating plans by the Group and its management; and
 - (v) communicating with the Group's senior management on their successes and failures and ensuring appropriate rewards and sanctions are implemented.
2. Changes relating to the capital structure of any member of the Group or Endace's status as an AIM company.
3. Consideration and approval of all:
 - (a) major investments (determined in relation to the size of each individual company) by Endace or any subsidiary including the acquisition or disposal of interests of more than 5% in the voting shares of any company or the making of any take-over bid.
 - (b) proposed joint ventures and mergers, and all acquisitions and disposals of businesses;
 - (c) expenditure in respect of schemes, projects or contracts not included in annual plans in excess of NZ\$0.5million including bank borrowing and acquisition or disposal of fixed assets; and
 - (d) all potential or actual expenditure in excess of 10% or NZ\$0.5million, whichever is the lesser, over the sum provided in annual plans for schemes, projects or contracts.
 - (e) contracts of the Group which are not in the ordinary course of business including loans and repayments in excess of NZ\$0.5 million; foreign currency transactions in excess of NZ\$0.5 million.
4. Approval of interim and final financial statements.
5. Approval of any interim dividend(s) and recommendation of the final dividend.
6. Remuneration of auditors (when such power has been delegated to the Board by the shareholders) and recommendations for appointment or removal of auditors.*
7. Prosecution, defence or settlement of litigation when the gross sum involved is in excess of NZ\$0.5 million or being otherwise material to the interests of the Group.
8. Approval of any significant change in accounting policies or practices.*
9. Treasury policies including foreign exchange exposures.
10. Directors' and officers' indemnities and liability insurance.
11. Terms of reference of Chairperson, Chief Executive Officer and other Executive Directors.*
12. Terms and conditions of employment of Chief Executive Officer and other Executive Directors.*
13. Terms of reference and membership of Board committees.*

14. Appointment and removal of Directors of Endace or Company Secretary.*
15. Nominations for appointment to Boards of subsidiary companies and terms of engagement to be determined in accordance with specific delegations to each subsidiary company.
16. Major changes in the rules of pension schemes, or changes of trustees or, when subject to the approval of Endace, changes in the fund management arrangements.
17. Risk management strategy.
18. Approval of Endace's Code of Business Practice and Policy on Conflicts of Interest.
19. The matters set out in the Second Schedule of the Companies Act 1993 (which include the powers relating to the issue of shares, redemption of shares, the provision of financial assistance by Endace in the purchase of its own shares and a number of other matters).

Some or all of the items above may be delegated to the Audit, Nomination or Remuneration Committees, or to other special-purpose committees. Matters which cannot be delegated to a committee other than the Audit, Nomination or Remuneration Committees are marked with an asterisk *. The matters set out in item 19 above may not be delegated.

Schedule 2 – Audit Committee Terms of Reference

1 Membership

Members of the Committee shall be two independent non-executive director members (at least one of whom shall have recent and relevant financial experience) appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chairperson of the Audit Committee.

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairperson of the Board, Chief Executive, the Finance Director, other directors, and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.

The external auditors will be invited to attend meetings of the Committee on a regular basis.

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 the director remains independent.

The Board shall appoint the Committee Chairperson. In the absence of the Committee Chairperson and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2 Secretary

Endace Secretary or their nominee shall act as the Secretary of the Committee.

3 Quorum

The quorum necessary for the transaction of business shall be 2 members. 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.

4 Frequency of Meetings

The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

5 Notice of Meetings

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 external or internal auditors if they consider it necessary.

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, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

6 Minutes of Meetings

The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

7 Annual General Meeting

The Chairperson of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

8 Duties

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

8.1 Financial Reporting

The Committee shall monitor the integrity of the financial statements of Endace, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

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 Endace/group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether Endace has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity of disclosure in Endace's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);

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

8.2 Internal Controls and Risk Management Systems

The Committee shall:

- (a) keep under review the effectiveness of Endace's internal controls and risk management systems; and

- (b) review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

8.3 Whistleblowing

The Committee shall review Endace's arrangements for its employees 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.

8.4 Internal Audit

- (a) If there is an internal audit function, the Committee shall:
 - (i) monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system;
 - (ii) approve the appointment and removal of the head of the internal audit function;
 - (iii) consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
 - (iv) review and assess the annual internal audit plan;
 - (v) review promptly all reports on the company from the internal auditors;
 - (vi) review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
 - (vii) meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.
- (b) If there is no internal audit function, the Committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the board, and produce report setting out the reasons for the absence of such a function for inclusion in Endace's Annual Report.

8.5 External Audit

The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of Endace's external 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) oversee the relationship with the external auditor including (but not limited to):

- (i) approval of their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate 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 Endace (other than in the ordinary course of business);
 - (v) agreeing with the Board a policy on the employment of former employees of Endace's 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 Endace compared to the overall fee income of the firm, office and partner and other related requirements;
 - (vii) developing and implementing policy on the engagement of the external auditor to supply non-audit services (including policies designed to ensure that auditor objectivity and independence is safeguarded) , taking into account relevant ethical guidance regarding the provision of non-audit services; and to report to the board, identifying and matters in respect of which it consider that action or improvement is needed and making recommendation as to the steps to be taken; and
 - (viii) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- (c) meet regularly with the external auditor, 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 their remit and any issues arising from the audit;
- (d) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- (e) review the findings of the audit with the external 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, and
 - (iii) levels of errors identified during the audit.

The Committee shall also review the effectiveness of the audit.

- (f) review any representation letter(s) requested by the external auditor before they are signed by management;

- (g) review the management letter and management's response to the auditor's findings and recommendations; and
- (h) develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

9 Reporting Responsibilities

The Committee Chairperson shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee shall compile a report to shareholders on its activities to be included in Endace's Annual Report.

10 Other Matters

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to Endace 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, the provisions of the UK Combined Code and the requirements of the applicable Listing Rules as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and
- (f) 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.

11 Authority

The Committee is authorised:

- (a) to seek any information it requires from any employee of Endace in order to perform its duties;
- (b) to obtain, at Endace's expense, outside legal or other professional advice on any matter within its terms of reference; and
- (c) to call any employee to be questioned at a meeting of the Committee as and when required.

Schedule 3 – Remuneration Committee Terms of Reference

1 Membership

Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairperson of the Remuneration Committee. The Committee shall be made up of at least 2 members, all of whom are independent non-executive directors.

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, the head of human resources and external advisers may be invited to attend for all or part of any meeting as and when appropriate.

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 the director remains independent.

The Board shall appoint the Committee Chairperson who shall be an independent non-executive director. In the absence of the Committee Chairperson and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairperson of the Board shall not be Chairperson of the Committee.

2 Secretary

Endace Secretary or their nominee shall act as the Secretary of the Committee.

3 Quorum

The quorum necessary for the transaction of business shall be 2. 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.

4 Meetings

The Committee shall meet at least twice a year and at such other times as the Chairperson of the Committee shall require.

5 Notice of Meetings

Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.

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, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

6 Minutes of Meetings

The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

7 Annual General Meeting

The Chairperson of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

8 Duties

The Committee shall:

- (a) determine and agree with the Board the framework or broad policy for the remuneration of Endace's Chief Executive, Chairperson, the executive directors, the Company Secretary and such other members of the executive management as it is designated to consider. The remuneration of non-executive directors shall be a matter for the Chairperson and the executive members of the Board. No director or manager shall be involved in any decisions as to their own remuneration;
- (b) in determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to attract, retain and motivate directors of the quality required to run the company successfully, but without paying more than is necessary. Compensation commitments in the event of early termination should be structured to avoid rewarding poor performance.
- (c) review the ongoing appropriateness and relevance of the remuneration policy;
- (d) approve the design of, and determine targets for, any performance related pay schemes operated by Endace and approve the total annual payments made under such schemes;
- (e) review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;
- (f) determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- (g) ensure that contractual terms on termination, and any payments made, are fair to the individual, and Endace, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- (h) within the terms of the agreed policy and in consultation with the Chairperson and/or Chief Executive as appropriate, determine the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards;
- (i) in determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the UK Combined Code, the applicable Listing Rules and associated guidance;
- (j) review and note annually the remuneration trends across Endace or group;
- (k) oversee any major changes in employee benefits structures throughout Endace or group;

- (l) ensure that all laws and regulations, the provisions of the UK Combined Code and the requirements of applicable Listing Rules regarding disclosure of remuneration including pensions are fulfilled; and
- (m) be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee: and to obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

9 Design of performance-related remuneration

When designing performance-related remuneration, the Remuneration Committee shall have regard to Schedule A of the UK Combined Code.

10 Reporting Responsibilities

The Committee Chairperson shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee shall produce an annual report of Endace's remuneration policy and practices which will form part of Endace's Annual Report and ensure each year that it is put to shareholders for approval at the AGM.

11 Other

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 Authority

The Committee is authorised by the Board to seek any information it requires from any employee of Endace in order to perform its duties.

In connection with its duties the Committee is authorised by the Board to obtain, at Endace's expense, any outside legal or other professional advice.

Schedule 4 – Nominations Committee Terms of Reference

1 Membership

Members of the Committee shall be the Chairperson and at least one other independent non-executive director appointed by the Board.

Only members of the Committee have the right to attend Committee meetings. However, other individuals may be invited to attend for all or part of any meeting, as and when appropriate.

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 majority of the Committee members remain independent.

The Board shall appoint the Committee Chairperson who should be either the Chairperson of the Board or an independent non-executive director. In the absence of the Committee Chairperson and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting. The Chairperson of the Board shall not chair the Committee when it is dealing with the matter of succession to the chairpersonship.

2 Secretary

Endace Secretary or their nominee shall act as the Secretary of the Committee.

3 Quorum

The quorum necessary for the transaction of business shall be 2 one of whom must be an independent non-executive directors. 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.

4 Frequency of Meetings

The Committee shall meet at least twice a year and at such other times as the Chairperson of the Committee shall require.

5 Notice of Meetings

Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairperson of the Committee.

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, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

6 Minutes of Meetings

The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

Minutes of Committee meetings shall be circulated promptly to all members of the Committee and the Chairperson of the Board and, once agreed, to all other members of the Board, unless a conflict of interest exists.

7 Annual General Meeting

The Chairperson of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

8 Duties

The Committee shall:

- (a) regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- (b) give full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing Endace, and what skills and expertise are therefore needed on the Board in the future;
- (c) be responsible for identifying and nominating for the approval of the Board, candidates to fill board vacancies as and when they arise;
- (d) before any appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:
 - (i) use open advertising or the services of external advisers to facilitate the search;
 - (ii) consider candidates from a wide range of backgrounds; and
 - (iii) consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position;
- (e) keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- (f) keep up to date and fully informed about strategic issues and commercial changes affecting Endace and the market in which it operates;
- (g) review annually the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties; and
- (h) ensure that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside board meetings.

The Committee shall also make recommendations to the Board concerning:

- (i) formulating plans for succession for both executive and non-executive directors and in particular for the key roles of Chairperson and Chief Executive (but see (p) below);
- (j) suitable candidates for the role of senior independent director;
- (k) membership of the Audit and Remuneration Committees, in consultation with the chairmen of those committees;
- (l) the re-appointment of any non-executive director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- (m) the continuation (or not) in service of any director who has reached the age of 70;
- (n) the re-election by shareholders of any director under the 'retirement by rotation' provisions in Endace's articles of association having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- (o) any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of Endace subject to the provisions of the law and their service contract; and
- (p) the appointment of any director to executive or other office other than to the positions of Chairperson and Chief Executive, the recommendation for which would be considered at a meeting of the full board.

9 Reporting Responsibilities

The Committee Chairperson shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

The Committee shall make a statement in the annual report about its activities, the process used to make appointments and explain if external advice or open advertising has not been used.

10 Other

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.

11 Authority

The Committee is authorised to seek any information it requires from any employee of Endace in order to perform its duties.

The Committee is authorised to obtain, at Endace's expense, outside legal or other professional advice on any matters within its terms of reference.

Schedule 4 – Letter of appointment – Non-executive directors

[insert name and address]

Dear •

Endace Limited (“Endace”)

I am pleased to confirm that the board of Endace, on the recommendation of its nominations committee, has appointed you as *[a non-executive director / the Senior Independent Director]*. I am writing to set out the terms of the appointment. Please note that this is a contract for services and is not a contract of employment.

Duration of Appointment

The appointment is for an initial term of three years commencing on *[insert date]*, contingent on your re-election at forthcoming annual meetings and on the appointment not otherwise terminating in accordance with Endace’s constitution or by law.

Non-executive directors are typically expected to serve two three year terms, although the board may invite you to continue on as a director for an additional period thereafter.

You may resign as a director by notice in writing delivered to the registered office of Endace.

Role of the Board

The role of the Board is to effectively represent, and promote the interests of, the shareholders of Endace, with a view to adding long-term value to Endace’s shares.

All directors are expected to make decisions objectively in the best interests of Endace and its shareholders. The Board as a whole is collectively responsible for the success of the Company. All directors, whether executive or non-executive, have the same general legal responsibilities. You are required therefore to comply with:

- the Act;
- the Constitution;
- the AIM Rules of the London Stock Exchange; and
- the Combined Code on Corporate Governance annexed to the Listing Rules of the UK Listing Authority;
- the New Zealand Takeovers Code; and
- any other laws affecting companies or directors which are in force from time to time.

Further details on the role of the Board, the Senior Independent Director and the committees are set out in the Board Charter, which will be provided to you as part of your induction materials.

Timing and Location of Board Meetings, and Time Commitment

The board normally meets ten times a year and holds additional meetings as required. Meetings are usually scheduled on the first Wednesday of a month excluding January. The Board will meet in New Zealand, the UK and elsewhere from time to time.

In addition to routine board meetings you should allow time for committee meetings, preparatory work and travel, and ensure you are in a position to make the necessary overall time commitment.

Overall, we believe that your duties will involve a time commitment of about • days per month. Your acceptance of this appointment shall be confirmation that you are able to devote sufficient time to your duties.

Remuneration

Directors' fees will be payable to you as determined by the Board from time to time. These are currently at the rate of *[insert amount]* gross per annum paid quarterly in arrears but are subject to annual review.

Membership and the chairmanship of board committees and (subject to board approval on a case by case basis) particular situations or events clearly outside the scope of director's usual responsibilities, attract supplementary fees.

You will also be reimbursed for all direct and indirect expenses such as toll calls, accommodation and travelling expenses, reasonably and properly incurred and documented.

Committee Involvement

The board's standing committees are audit, remuneration, and nomination committees. Additional board committees may be formed when necessary to facilitate effective decision-making.

In the event you are asked to serve on one or more board committees this will be addressed by a separate process setting out any supplemental fees payable, and ensuring that you are aware of the committee's terms of reference and the responsibilities involved.

Evaluation Processes

The performances of the board as a whole, its committees and individual directors are evaluated annually. If, in the meantime, there are any matters with cause you concern about your role you should discuss them with the Chairperson of the board as soon as appropriate (or, if this is not appropriate, with the Company Secretary).

Outside Interests

It is accepted and acknowledged that you may have business interests other than those of the company. Please contact the Company Secretary as soon as possible to arrange for your interests as a shareholder, director, officer or trustee of other companies or entities to be entered in the company's interests register. The interests register is tabled at each director's meeting. Please ensure that the Company Secretary is kept informed of any changes to your interests so that the interests register can be maintained up to date.

Please also, prior to appointment, advise the Company Secretary of any significant time commitments you may have, and update the Company Secretary with changes to these commitments as they arise.

Where conflicts issues arise, Endace's Policy on Conflicts of Interest must be followed. This will be provided to you with your induction materials.

The agreement of the Chairperson should be obtained before you accept any additional commitment that might impact on the time you are able to devote to your duties.

Access to Independent Legal Advice

All directors are entitled to obtain independent professional advice relating to the affairs of the Company or to their responsibilities as directors. If you consider that such advice is necessary in your own case, you should first discuss it with the Chairperson. Subject to the prior approval of the Chairperson, the cost of the advice will be reimbursed by the Company, but you should ensure, so far as practicable, that the cost is reasonable.

Indemnities and Insurance

Endace indemnifies and insures its directors against liability incurred in relation to directorships of Endace, as set out in its Policies on Indemnities and Insurance. Copies of these will be provided with your induction materials, together with a copy of the insurance policy. You are strongly urged to review these documents carefully to satisfy yourself as to the suitability and extent of the protection provided.

Confidentiality

All information acquired during your appointment is confidential to the company and should not be disclosed either during or subsequent to your appointment, except as permitted by law and with prior clearance from the Chairman.

Contacts

If you wish to raise for discussion any matter concerning Endace you are welcome to do so with me in the first instance, or with the Company Secretary. You may also raise any matter with the Company Secretary for inclusion on the agenda of the next board meeting at any time.

Please would you confirm your acceptance of the above terms by signing and returning the attached copy of this letter.

We look forward to your involvement with us.

Yours sincerely

[insert name]

Chairperson

For and on behalf of Endace Limited

I hereby accept and confirm my agreement to the terms of my appointment as set out in this letter.

.....
[insert name of non-executive director]

.....
Date