

Audit and Risk Management Committee Charter

May 2011



Introduction

This charter sets out the governance requirements for the Board Audit and Risk Management Committee including the roles and responsibilities, procedures, members' powers and reference to applicable legislation.

Role

The Audit and Risk Management Committee's ("the Committee") role is to:

- assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to oversight of:
 - the integrity of external financial reporting;
 - financial management;
 - internal control systems;
 - accounting policy and practice;
 - the risk management framework and monitoring compliance with that framework;
 - related party transactions; and
 - compliance with applicable laws, regulations and standards.
- improve the quality, credibility and objectivity of the accounting process, including financial reporting.
- oversee and monitor the performance of the internal and external auditors.
- assess the external auditor's independence and qualifications and ensure that the external auditor's independence is maintained.
- provide a structured reporting line for internal audit and ensure the objectivity of internal audit.
- provide oversight of the structure and outcome of remuneration incentive arrangements as they relate to key internal audit personnel.
- act as a formal forum for free and open communication between the Board, the internal and external auditors and management.

Composition

The Committee must have a minimum of three Directors. All Committee members

must be independent in accordance with the independence criteria set out in the Board Charter and the Sarbanes-Oxley Act of 2002 as appropriate, including the rules and regulations promulgated by the Securities and Exchange Commission. All Committee members must also be financially literate.

In accordance with Rule 10A-3 of the Securities Exchange Act of 1934 (attached as Appendix 1), other than in their capacity as members of the Board of Directors, the Audit and Risk Management Committee or any other Board Committee, Committee members must not:

- accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries;
- be an affiliated person of the Company or any of its subsidiaries.

The Committee must have one member who is a financial expert. However, where the current financial expert ceases to be a member of the Committee, it is acknowledged that the Committee may not have a financial expert for a short period while a replacement is found.

A financial expert is someone who has all of the following attributes:

- An understanding of generally accepted accounting principles and financial statements;
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- Experience preparing, auditing, analysing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;
- An understanding of internal controls over financial reporting;
- An understanding of audit committee functions.

A financial expert shall have acquired such attributes through:

- Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;

- Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- Other relevant experience.

The Board shall appoint the Chairperson of the Committee who shall not be the Chairperson of the Board. The appointment and removal of Committee members shall be the responsibility of the Board.

Procedure

The Committee should meet the internal and external auditors without management present as a standing agenda item at each quarterly meeting, and at other meetings if requested by either party.

Currently meetings to consider the approval of the semi-annual financial statements will be in February and August.

The Chairperson of the Committee shall be entitled to invite persons to attend Committee meetings as deemed necessary.

The external auditors and the Group Audit Manager are encouraged to meet as appropriate with the Committee Chairperson, independent of management. The Committee Chairperson will generally meet with management, the Group Audit Manager and the external auditors (either together or separately as the Chairperson deems appropriate) before each Committee meeting and at other times as required.

The agenda and Committee papers will be prepared and circulated to all Directors of the Company including the members of the Committee prior to Committee meetings.

The Chairperson will report back to the Board the recommendations of the Committee at the Board meeting immediately following the Committee meeting.

Responsibilities

“External financial reporting” in this section means the half-yearly and annual financial statements, Management Discussion and Analysis, and the reports of the external auditor on the findings of their external audits/reviews.

The Committee does not take action or make decisions on behalf of the Board unless specifically mandated. The Board has delegated certain of its functions to the Committee which is responsible for:

1. **External Financial Reporting**
 - reviewing and discussing the “external financial reporting” with management, including whether the reporting is consistent with the Committee members’ information and knowledge and whether it is adequate for shareholder needs.
 - considering, when conducting that review:
 - the underlying quality, not just acceptability, of the external financial reporting;
 - changes in accounting policy and practice;
 - any significant accounting estimates and judgements;
 - accounting implications of new and significant transactions;
 - management practices and any significant disagreements between management and the external auditors;
 - the propriety of related party transactions;
 - compliance with applicable New Zealand, Australian, United States and international accounting standards; New Zealand, Australian and New York Stock Exchange requirements; and legislative requirements including the Companies Act (NZ), Financial Reporting Act (NZ), Corporations Law (Australia) and Sarbanes-Oxley Act (USA); and
 - the annual certification by the Chief Executive Officer and the Chief Financial Officer to the Board that:
 - the Company’s financial reports represent a true and fair

view in all material respects of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and

- the above statement has been made based on a sound system of risk management and internal control and compliance which implements the policies adopted by the Board.
- meeting with the external and internal auditors to discuss the practices and issues surrounding the external financial reporting.
- reporting the results of the review to the Board and recommending, if appropriate, the Board adopt the external financial reporting.
- discussing in a general manner the content of MD&A, press releases and analyst presentations given in respect of any semi-annual financial reporting.

2. Financial Management

- reviewing and approving any Director certificates required pursuant to the Telebonds and EMTN Trust Deeds and Committed Standby Facility.
- executing any Director certificates required pursuant to the Telebonds and EMTN Trust Deeds and Committed Standby Facility on behalf of Telecom Corporation of New Zealand Limited, provided that two members carry out such execution.

3. Internal Controls

- considering the adequacy of internal controls after consultation with the external and internal auditors and management (who should report at least annually to the Committee).
- reviewing the six monthly fraud report prepared by internal audit and disclosing to the external auditor any fraud that involves employees who have a significant role in the Company's internal controls.
- from the effective date for foreign listed issuers to comply with the requirements of section 404 of the Sarbanes-Oxley Act, reviewing the report from the Chief Executive Officer and Chief Financial Officer concerning the processes that are used to reach the opinion for the Chief Executive Officer and Chief Financial Officer's certification of the 20F and the auditor's attest of that report. The report should include:

- an assessment of the effectiveness of the internal control structure and procedures for financial reporting, including:
 - details of all significant deficiencies in the design / operation of the internal controls which are designed to accurately record financial data;
 - details of any employee fraud which could affect internal controls; and
 - details of any significant changes in internal controls since the date of the Chief Executive Officer and Chief Financial Officer's evaluation.
- a statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting;
- reviewing the certification by the Chief Executive Officer and the Chief Financial Officer to the Board that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

4. Risk Management

- reviewing the principal risks contained in the risk profile of the company on an annual basis.
- ensuring that management has established a risk management framework which includes policies and procedures to effectively identify, treat and monitor principal business risks.
- at least annually assess the effectiveness of the implementation of the risk management system;
- monitoring compliance with the risk management framework.

5. External and Internal Audit Services

- recommending for shareholder approval candidates to act as the external auditor only if they are appropriately qualified and meet the independence criteria set out in the External Audit Independence Policy.
- appointing the external auditor, subject to shareholder approval annually confirming the appointment of the external auditor, and terminating the external auditor's appointment as appropriate.
- pre-approving all audit services (including all statutory and regulatory audits) provided by the external auditor.

- pre-approving all non-audit services provided by the external auditor in accordance with the External Audit Independence Policy.
- pre-approving all audit services provided by firms other than the external auditor in accordance with the External Audit Independence Policy.
- establishing the external auditor's fees, subject to shareholder approval.
- reviewing the external auditor's fees, terms of engagement, external audit work plan and annual independence statement.
- reviewing the external auditor's half-yearly statement of non-audit fees and monitoring the ratio of non-audit fees to audit fees.
- annually assessing and confirming to the Board the independence of the external auditor after consideration of the External Audit Independence Policy criteria including assessing whether the independence of the external audit process has been maintained in light of the performance of any non-audit services.
- ensuring that the lead audit engagement and concurring audit partners are rotated every five years.
- at least annually, reviewing a report from the external auditor which describes:
 - Telecom's internal quality-control procedures relating to external financial reporting;
 - issues from the most recent internal quality-control review/ peer review of the external auditor and any steps taken to deal with such issues;
 - issues from any inquiry or investigation by government or professional authorities within the preceding 5 years, into one or more independent audits carried out by the external auditor and any steps the external auditor has taken to deal with such issues;
 - all relationships between the external auditor and Telecom;
 - "critical accounting policies" used by Telecom;
 - alternative treatments of financial information within Generally Accepted Accounting Practice that have been discussed with management, the ramifications of these treatments and the treatment preferred by the external auditor;
 - material written communications between the external auditor and management;
 - the external auditor's policy on audit partner rotation, which should

include confirmation that audit partners are subject to five yearly rotation.

- reviewing the Group Audit Manager appointment.
- regularly monitoring and reviewing the internal audit work plan and any audit problems or difficulties (including management's responses).
- approving the hiring by the Company of any former partner or audit manager, of the external auditor, in accordance with the External Audit Independence Policy.

6. Audit Incentives

- approving the list of key internal audit and financial control personnel recommended by the Group General Counsel for the purpose of remuneration incentive governance.
- ensuring that remuneration incentive arrangements for key internal audit and financial control personnel are structured and operated in a manner which does not give rise to any perceived or actual compromise of the independence of those personnel.
- reviewing and approving the performance objectives and measures recommended by the Group General Counsel for key internal audit and financial control personnel.
- recommending the performance and incentive outcomes for key internal audit and financial personnel for each financial year to the Human Resources and Compensation Committee.

7. Disclosure

- ensuring that the Committee Charter appears on Telecom's website.

8. Reporting

- regularly reporting to the Board on key matters considered by the Committee and their resolution.
- considering other matters as directed by the Board from time-to-time.

9. Complaints

- ensuring the confidential and anonymous receipt, retention and treatment of complaints regarding accounting controls or auditing matters by use of

- the Financial Compliance Escalation Procedure.
 - investigating matters under its authority.
10. Compliance with Applicable Laws and Regulations
- annually review Telecom's compliance with applicable laws, regulations, and standards through Telecom's compliance frameworks.

Members' Powers and Authority

The Committee and each member of the Committee shall have the authority of the Board to:

- retain, terminate and consult with outside or other independent external advisers (including legal) at the Company's expense;
- secure the attendance at meetings of outsiders with relevant experience;
- have unrestricted access to and direct communication with management, the internal and external auditors; and
- where the Committee or a Committee member deems it necessary to carry out the functions of the Committee.

The Company will pay the ordinary administrative costs of the Committee.

Committee members are not employees of Telecom. Committee members (other than the financial expert) do not represent themselves to be experts in the fields of accounting or auditing. As such, it is not the responsibility of the Committee personally to conduct accounting or auditing reviews or procedures.

Committee members are entitled to rely on Telecom executives, on matters within their responsibility and on external professionals on matters within their area of expertise and may assume the accuracy of information provided by such persons, so long as the Committee member is not aware of any reasonable grounds upon which such reliance or assumption may be inappropriate.

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

Management is responsible for the preparation, presentation and integrity of the financial statements. Management is responsible for implementing and maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Internal audit is responsible for independent reviews of the integrity of financial data and of the risk control framework and compliance with policies and regulations.

The external auditors are responsible for planning and carrying out each audit and review, in accordance with applicable auditing and review standards. The external auditors are accountable to shareholders through the Committee.

Accountability to the Board

The Board annually reviews both this Charter and the Committee's performance against this Charter.

Appendix 1

Rule 10A-3 – Listing Standards Relating to Audit Committees

General Rules and Regulations Promulgated under the Securities Exchange Act of 1934

Independence Criteria

b. Required standards.

1. *Independence.*

- ii. Each member of the audit committee must be a member of the board of directors of the listed issuer, and must otherwise be independent; provided that, where a listed issuer is one of two dual holding companies, those companies may designate one audit committee for both companies so long as each member of the audit committee is a member of the board of directors of at least one of such dual holding companies.
- iii. *Independence requirements for non-investment company issuers.* In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is not an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:
 - A. Accept directly or **indirectly** any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or
 - B. Be an **affiliated** person of the issuer or any subsidiary thereof.

Definitions

e. Definitions. Unless the context otherwise requires, all terms used in this section have the same meaning as in the Act. In addition, unless the context otherwise requires, the following definitions apply for purposes of this section:

1. "Affiliate" or "Affiliated"

- i. The term *affiliate* of, or a person *affiliated* with, a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

- ii.
 - A. A person will be deemed not to be in control of a specified person for purposes of this section if the person:
 - ii. Is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the specified person; and
 - iii. Is not an executive officer of the specified person.
 - B. Paragraph (e)(1)(ii)(A) of this section only creates a safe harbour position that a person does not control a specified person. The existence of the safe harbour does not create a presumption in any way that a person exceeding the ownership requirement in paragraph (e)(1)(ii)(A)(1) of this section controls or is otherwise an affiliate of a specified person.
- iii. The following will be deemed to be affiliates:
 - A. An executive officer of an affiliate;
 - B. A director who also is an employee of an affiliate;
 - C. A general partner of an affiliate; and
 - D. A managing member of an affiliate.
- iv. For purposes of paragraph (e)(1)(i) of this section, dual holding companies will not be deemed to be affiliates of or persons affiliated with each other by virtue of their dual holding company arrangements with each other, including where directors of one dual holding company are also directors of the other dual holding company, or where directors of one or both dual holding companies are also directors of the businesses jointly controlled, directly or indirectly, by the dual holding companies (and, in each case, receive only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of the dual holding companies or any entity that is jointly controlled, directly or indirectly, by the dual holding companies).
- 4. The term *control* (including the terms *controlling*, *controlled by* and *under common control with*) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.
- 5. The term *dual holding companies* means two foreign private issuers that:
 - i. Are organized in different national jurisdictions;
 - ii. Collectively own and supervise the management of one or more businesses which are conducted as a single economic enterprise; and
 - iii. Do not conduct any business other than collectively owning and supervising such businesses and activities reasonably incidental thereto.
- 8. The term *indirect* acceptance by a member of an audit committee of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the member or by an entity in which such member is a partner, member, an

officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary of the issuer.

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