



External Auditor Independence Policy

Policy Statement

The objective of this policy is to ensure that audit independence is maintained, both in fact and appearance, such that Telecom's external financial reporting is viewed as being highly reliable and credible.

Background

Oversight of Telecom's external audit arrangements is the responsibility of Telecom's Audit and Risk Management Committee. Ensuring that external audit independence is maintained is one of the key aspects in discharging this responsibility. This formal policy on external audit independence has been adopted by the Committee to meet this requirement.

This policy covers the following areas:

- provision of related assurance services by Telecom's external auditors;
- external auditor rotation;
- the hiring of staff from the external audit firm; and
- relationships between the external auditor and Telecom.

Approval of External Auditor

The Audit and Risk Management Committee shall only approve a firm to be external auditor if that firm:

- is a member of the Public Company Accounting Oversight Board;
- would be regarded by a reasonable investor with full knowledge of all relevant facts and circumstances as capable of exercising objective and impartial judgement on all issues encompassed within the external auditor's engagement;
- has not, within two years prior to the commencement of the external audit, had as a member of its audit engagement team Telecom's Chief Executive Officer, Chief Financial Officer, Group Controller or any member of Telecom's management who act in a financial oversight role.
- does not allow the direct compensation of its audit partners for selling non-audit services to Telecom.



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Provision of Non-Audit Services by Telecom's External Auditors

The guidelines that follow are designed to ensure that related assurance services provided by Telecom's external auditors are not perceived as conflicting with the independent role of the external auditor.

The general principles to be applied in assessing related assurance services are as follows:

- the external auditor should not have any involvement in the production of financial information or preparation of financial statements such that they might be perceived as auditing their own work. This includes the provision of valuation services where such valuation forms an input into audited financial information;
- the external auditor should not perform any function of management, or be responsible for making management decisions;
- the external auditor should not be responsible for the design or implementation of financial information systems; and
- the separation between internal and external audit should be

maintained.

Services permitted to be performed

The Audit and Risk Management Committee must pre-approve all statutory and regulatory audit and related assurance services provided by the external auditor.

Aside from core audit services relating to the statutory and regulatory audits, it is appropriate for Telecom's external auditors to provide the following services, with prior approval from the Audit and Risk Management Committee:

- other assurance services (e.g. Telecommunications Service Obligation certification, trust deed reporting);
- accounting policy advice (including opinions on compliance with New Zealand, international and United States Generally Accepted Accounting Practice);
- listing advice; and
- accounting/technical training.

Services not permitted

It is not considered appropriate for Telecom's external auditors to provide:

- book keeping/other services related to accounting records or financial statements;



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- the design of financial information systems;
- appraisal / valuation services / opinions as to fairness;
- internal audit services;
- structured finance advice;
- due diligence services;
- legal services (these are services that could *only* be provided by a person who is qualified in law);
- tax planning, strategy and compliance services;
- management functions;
- broker / dealer / investment adviser / investment banking services;
- services of an expert as an advocate;
- actuarial services;
- provision of temporary staff for appropriate assignments; and
- assistance in the recruitment of senior management.
- Tax services to employees of Telecom who act in a financial reporting oversight role¹.

These prohibitions apply to all offices of the firm of Telecom's external auditors,

¹ For the purposes of this exclusion, the following employees are deemed to perform a financial reporting oversight role: Chief Executive Officer, Chief Financial Officer, Group Controller, the heads of finance for the New Zealand and Australian business units and the heads of finance within the Group function

including overseas offices and affiliates.

Billing arrangements

The billing arrangements for services provided by Telecom's external auditors should not include any contingent fees (e.g. where a success fee is paid depending upon whether a transaction proceeds or not).

Other procedural requirements

Regardless of Telecom's policies, it is expected that Telecom's external auditors will rigorously comply with their own internal policies on independence and all relevant professional guidance (including independence rules and guidance issued by the Institute of Chartered Accountants of New Zealand, the Securities and Exchange Commission and other relevant overseas accounting bodies).

While this policy does not prescribe any particular ratio of "other" service fees to audit fees, this ratio should be monitored by the Audit and Risk Management Committee. Accordingly, the nature of services provided by Telecom's external auditors and the level of fees incurred should be reported to the Audit and Risk Management Committee in detail on a



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quarterly basis to enable the Committee to perform its oversight role.

Development of local and overseas practice with regard to related assurance services shall be monitored on an ongoing basis to ensure that Telecom's policies remain compliant with best practice.

External Auditor Rotation

The continued appointment of Telecom's external auditors is to be confirmed annually by the Audit and Risk Management Committee. A policy of regular rotation of audit firm is not mandated.

Rotation of Telecom's client service partner, and the lead and concurring audit partners of Telecom and its subsidiaries will be required every five years. Those partners will be subject to a five year cooling off period following rotation.

All other audit partners will be required to rotate every seven years and will be subject to a two year cooling-off period. Accordingly it is expected that such a policy will be adopted by Telecom's external auditors. Compliance with this

requirement shall be reported to the Audit and Risk Management Committee annually.

Hiring of Staff from the External Audit Firm

The hiring by Telecom of any former audit partner or audit manager must first be approved by the Chairman of the Audit and Risk Management Committee.

There are no other restrictions on the hiring of other staff from the audit firm.

External audit services provided by firms other than the external auditor

The Audit and Risk Management Committee must pre-approve all audit and related assurance services by firms other than the external auditor. Any firm providing such services must meet the requirements of section 3 of this policy. Any waivers from the requirements of Approval of External Auditor section must be agreed with the Chairman of the Audit and Risk Management Committee.



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Ownership

This is a Board Policy that is owned by the Audit and Risk Management Committee. It will be updated twice yearly or as otherwise required or necessary.

Review Date

November 2009



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