

25 AUGUST 2017

External Auditor Independence Policy



Introduction

1. This is a Board approved governance policy. The approach to corporate governance in Chorus Limited (**Chorus**) is set out in the Board and Board Committee Charters and related documents illustrated in Appendix A to the Chorus Board Charter.

Policy Statement

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

Background

3. Oversight of Chorus' external audit arrangements is the responsibility of Chorus' Audit and Risk Management Committee ("**ARMC**"). Ensuring that external audit independence is maintained is one of the key aspects in discharging this responsibility. This Policy has been adopted by the ARMC to meet this requirement.
4. This policy covers the following areas:
 - Approval of Chorus' external auditor;
 - Provision of audit, assurance and other services by Chorus' external auditors;
 - External auditor rotation;
 - The hiring of staff from the external audit firm; and
 - Relationships between the external auditor and Chorus.
5. In this Policy:
 - **Audit Services** means:
 - services provided in the audit or review of Chorus' financial statements (**Financial Statement Audit Services**); and

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- audit services provided in respect of Chorus' Information Disclosure obligations, Telecommunications Service Obligations (TSO) and Telecommunications Development Levy (TDL) (Regulatory Audit Services);
- **Other Services** means services other than Financial Statement and Regulatory Audit Services.

Approval of External Auditor

6. The ARMC shall only recommend a firm to be the external auditor if that firm:
 - 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 Chorus' Chief Executive Officer, Chief Financial Officer, or any member of Chorus' management who act in a financial oversight role; and
 - Does not allow the direct compensation of its audit partners for selling other services to Chorus.

Provision of Other Services by Chorus' External Auditors

7. The guidelines that follow are designed to ensure that Other Services provided by Chorus' external auditors are not perceived as conflicting with the independent role of the external auditor.
8. The general principles to be applied in assessing Other 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

9. The ARMC must pre-approve all Audit Services and all Other Services provided by the external auditor.
10. Aside from Audit Services, it is appropriate for Chorus' external auditors to provide the following Other Services, with prior approval from the ARMC:

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- Other assurance services excluding those covered by the internal audit function;
- Accounting policy advice (including opinions on compliance with New Zealand and International Accounting Practice);
- Listing advice;
- Accounting/technical training; and
- Tax compliance.

Services not permitted

11. It is not considered appropriate for Chorus' external auditors to provide:
 - Book keeping/other services related to accounting records or financial statements;
 - The design of financial information systems;
 - Appraisal/valuation services/opinions as to fairness;
 - Internal audit services;
 - Structured finance advice;
 - Due diligence services in relation to any potential merger and acquisition activities;
 - Legal services (these are services that could only be provided by a person who is qualified in law);
 - Tax planning and strategy services;
 - Regulatory assurance services (generally not permitted however may be permitted in certain circumstances with the prior approval of the ARMC);
 - 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;
 - Assistance in the recruitment of senior management; and
 - Tax services to employees of Chorus who act in a financial reporting oversight role.
12. These prohibitions apply to all offices of the firm of Chorus' external auditors, including overseas offices and affiliates.

Billing arrangements

13. The billing arrangements for services provided by Chorus' external auditors should not include any contingent fees (e.g. where a success fee is paid depending upon whether

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a transaction proceeds or not).

Other procedural requirements

14. Regardless of Chorus' policies, it is expected that Chorus' external auditors will rigorously comply with their own internal policies on independence and all relevant professional guidance (including independence rules and guidance issued by Chartered Accountants Australia and New Zealand, the Securities and Exchange Commission and other relevant overseas accounting bodies).
15. While this Policy does not prescribe any particular ratio of fees for Financial Statement Audit Services to all other fees, this ratio should be monitored by the ARMC. Accordingly, the nature of services provided by Chorus' external auditors and the level of fees incurred should be reported to the ARMC in detail on a six monthly basis to enable the ARMC to perform its oversight role.
16. Development of local and overseas practice with regard to related Other Services shall be monitored on an ongoing basis to ensure that Chorus' Policies remain compliant with best practice.
17. The following employees are deemed to perform a financial reporting oversight role: Chief Executive Officer, Chief Financial Officer, and Financial Controller.

External Auditor Rotation

18. The continued appointment of Chorus' external auditors is to be confirmed annually by the ARMC. A policy of regular rotation of audit firm is not mandated.
19. Rotation of Chorus' client service partner and lead/engagement partner will be required every five years. Those partners will be subject to a five year cooling-off period following rotation.
20. 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 external auditors. Compliance with this requirement shall be reported to the ARMC annually.

Hiring of Staff from the External Audit Firm

21. The hiring by Chorus of any former audit partner or audit manager must first be approved by the ARMC Chairman. 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

22. The ARMC must pre-approve all audit and related assurance services by firms other than the external auditor. Any firm providing such services must meet the

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requirements of section 6 of this Policy, subject to any waivers from the requirements of that section approved by the ARMC.

Accountabilities

23. The ARMC Chairman and the Chorus Chief Financial Officer have overall responsibility for meeting the requirements of this Policy.

Ownership and Review

Approver:	Chorus Board
Reviewer:	Audit and Risk Management Committee
Ownership:	Chief Financial Officer
Review:	At least every 2 years.