

Being accountable - our Corporate Responsibility Report - 2010

Each year Vodafone New Zealand publishes a Corporate Responsibility Report, accounting for our environmental, social and economic impacts. This report, published online, is our seventh annual report, covering the year ended 31 March 2010.

This report, and the content within these sections, has been [independently assured](#) as a full, balanced and accurate account of our performance by an independent auditor.

Vodafone Group, our parent company, also publishes an annual Corporate Responsibility Report. This report, along with copies of previous local and Group reports, is available [here](#).



Our approach

How does Vodafone operate in an open and accountable manner?

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Environment

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Social

What impacts does Vodafone have on communities in New Zealand?

- [Social impacts](#)
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Economic

What is Vodafone doing for the New Zealand economy?

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Vodafone Profile

Vodafone launched in New Zealand in 1998 with the purchase of Bell South New Zealand. At the time the company had 138,000 customers served by a small GSM network which covered only limited urban areas.

Today Vodafone has over two million customers. Our 2G and 3G mobile networks cover 97 percent of where New Zealanders live, work and play.

With the 2006 purchase of ihug, Vodafone became a full-service telecommunications provider, offering fixed-line services such as home phone lines and broadband. Many of these services are provided through our own fixed-line 'Red Network'. This is part of our global total communications strategy, which will see us driving innovation and fixed/mobile convergence as we aim to meet the full voice and data communications needs of our customers.

Although we are the leader in mobile, our share of the overall telecommunications market is smaller. We hope to increase competition across the whole telecommunications industry, and push to grow our share of the broader telecommunications market. Our current position puts us as the number one challenger in the New Zealand market.

Vodafone NZ Fact box

	2010	2009
Turnover (\$million)	1,594.9	1,603.4
Profit (after tax) (\$million)	121.6	177.7
Customers (million)	2.5	2.5
No. of Employees	1,367	1,390*
No. of Mobile Phone Sites	1,369	1,326

* Restated from previous report to ensure consistency in reporting methodology

[Vodafone Global Profile](#)

CR Management

Our approach to Corporate Responsibility (CR) is to:

- Engage with stakeholders to understand their expectations
- Respond to stakeholders with our evolving CR targets and programmes
- Report progress back to our stakeholders.

The Corporate Responsibility team has specific oversight over our impacts on the environment and local New Zealand communities. The CR team is also responsible for engaging with stakeholders with an interest in, or who are impacted by, our social and environmental footprint. The CR team produces the annual Corporate Responsibility Report. An independent third party audits the contents of the report to ensure it represents an accurate and fair account of our performance.

New Zealand Corporate Responsibility Governance

Members of the Vodafone New Zealand executive team have responsibility for the Corporate Responsibility programmes which fall within their business unit's operations. Tom Chignell, the General Manager of Corporate Affairs, is the member of the executive team with responsibility for Corporate Responsibility. Ultimate responsibility for CR rests with Vodafone New Zealand's Chief Executive Officer, Russell Stanners.

Global Corporate Responsibility Management

Vodafone operates a global Corporate Responsibility management system. Vodafone New Zealand, along with all other Vodafone operating companies, reports against 49 KPIs on a bi-annual basis. These KPIs include performance against quantitative targets for energy efficiency, mobile recycling, responsible marketing and network waste management, along with qualitative measures of compliance against Vodafone Group policy requirements. These include requirements to publish an audited annual CR report, integrate CR issues into the job descriptions of relevant employees and report regularly to the local Management Board.

Each year this information is aggregated to form a full picture of Vodafone's global footprint and performance. Vodafone publishes an online [Global Corporate Responsibility report](#). This report is accompanied by other local operating company reports such as this one, which focus on the specific impacts within the local country.

The Vodafone Business Principles

The [Vodafone Business Principles](#) represent the commitments Vodafone makes to its stakeholders around the world across all legislative environments. The Principles cover our interactions with customers, employees, suppliers, communities, the environment, government and business partners and competitors.

In our previous reports we identified that many of our employees required additional training to refresh their understanding of the Business Principles. The Business Principles are set within a newly revised Vodafone Code of Conduct for employees. We rolled out a training programme for

all employees to update them on the Code of Conduct and test their compliance in August 2010, after the close of the financial year.

Supply Chain

Vodafone is a global business. Each year we spend billions of dollars with a global portfolio of over 45,000 suppliers. This scale gives us the power and responsibility to specify social and environmental expectations for our suppliers to meet. It also allows us to influence other companies in our sector to work together to build consistent standards for ethical supply chain management.

Vodafone does not manufacture anything itself. We source all of our equipment for our networks and the handsets we sell from third-party manufacturers. These suppliers are mainly large, well known multi-nationals, who themselves source components and assembled products from other suppliers. Vodafone's supply chain operates as a global function, ensuring greater efficiency in its spend and consistent standards across all countries.

[Global supply chain management](#)

Our approach to supply chain management

Our Code of Ethical Purchasing (CEP) sets out Vodafone's expectations of suppliers. CEP requirements are integrated into our supplier qualification process, to ensure that all new suppliers are aware of our expectations at the first point of contact. Vodafone's strategy is to engage directly with our first-tier suppliers and assess their compliance with the CEP. We emphasise the need for our global strategic suppliers to engage with their own suppliers in a similar way.

All New Zealand suppliers are subject to a qualification and approval process. This includes acceptance of the CEP and management of CR (Corporate Responsibility) issues in their own supply chain. Should a local risk assessment show any cause for concern, the supplier is required to go through the global qualification process, which involves completing a detailed self assessment before they can progress to the next stage of qualification. In line with our global process, should a supplier be identified as medium or high-risk they will be referred for an audit. In some cases a site assessment may also be necessary. The supplier will only qualify as a Vodafone supplier after all of these requirements have been met.

Vodafone's accounting systems mean that no purchase orders can be raised, or any payments made, to suppliers who have not completed the qualification and approval process. Purchases made using company credit cards do not require supplier approval, but are typically for low-value and low-risk services such as accommodation and meals.

Supplier Performance Management

As standard practice we regularly monitor the performance of strategic suppliers. As one of the six pillars of Vodafone's supplier performance management, part of this monitoring includes assessment of CR performance and risk management, which accounts for 10% of the overall evaluation score. The scorecard evaluates:

- acceptance of the CEP
- management systems for employee welfare
- management systems for environmental management

- management of CR in the supplier's own supply chain
- CR reporting activities and stakeholder transparency
- proactive approach to CR with Vodafone

In New Zealand we assessed 14 local suppliers last year. These were Nokia Siemens Networks, HP, Alcatel Lucent, Unisys, Huawei, EMC, 724 Solutions, Carson Wagonlit, Downer, NCR Teradata, SKYComms, Infratel, Starent and SIAE.

Stakeholder Engagement

Vodafone New Zealand has an impact on a wide range of stakeholders. Our products, services and operations have an effect on our employees, our customers, our shareholders and broad cross-section of the community. These stakeholders are at the heart of our business and to operate responsibly we must ensure we understand their expectations of our behaviour and the impacts we are having on them.

We must also ensure we're effectively engaging all our stakeholders, including those who do not have a direct impact on our operations or those whose voices might otherwise not be heard. These stakeholders typically include organisations and individuals with an interest in the social and environmental impacts of our business.

Stakeholder Engagement Strategy

We have many engagement channels for our stakeholders. We regularly survey customers and employees on their satisfaction with our performance. We have discussions with the Government on industry matters and briefings with investors on our financial performance.

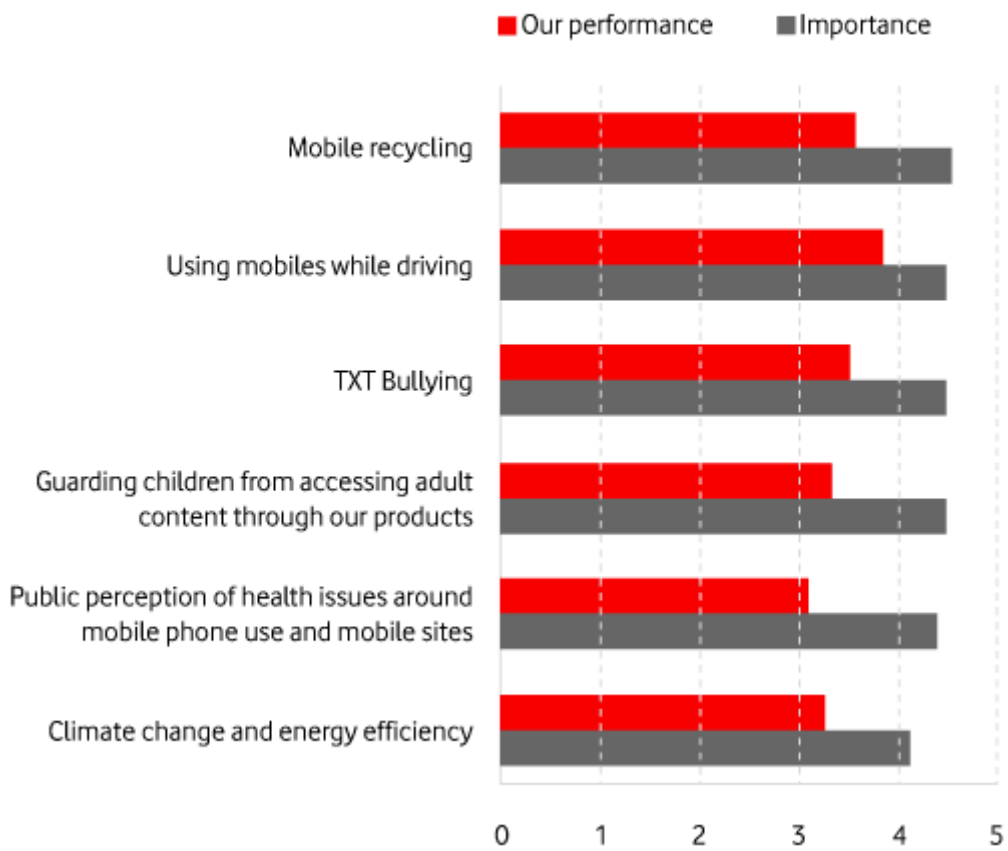
Our Corporate Responsibility stakeholder engagement strategy is designed to complement these activities and provide a platform to engage those stakeholders omitted in the traditional engagement channels. We base our strategy on two principles:

- That our stakeholders have the right to be heard
- That our stakeholders have a right to be informed about our performance across our social and environmental impacts

Employee Corporate Responsibility Survey

Each year we conduct an online CR survey of our employees. Employees ranked a range of key issues on a 1-5 ascending scale in terms of importance and also how well they thought we were managing these issues. The employees said that our performance was weakest in managing public perception of health issues around mobile phone use and mobile phone sites. Our employees ranked us highest in our most visible programmes, TXT bullying, mobile recycling and mobiles and driving.

Our employees' key issues – average score on 1-5 scale



Corporate Responsibility Report Assurance Statement

ERM Independent Assurance Report to Vodafone New Zealand Limited



ERM New Zealand Limited (ERM) was engaged by Vodafone New Zealand Limited (Vodafone NZ) to provide independent assurance of its 2010 Corporate Responsibility Report (2010 CR Report), to the scope of work outlined below.

Scope of Work

This assurance statement is intended for Vodafone NZ's stakeholders. The 2010 CR Report covers Vodafone NZ's operations for the 12 months to 31 March 2010, unless stated otherwise in the text. This work was performed in accordance with ERM's assurance methodology, which is based on the international standards ISAE 3000, AA1000 Assurance Standard (2008) and ISO 19011. ERM reviewed Vodafone NZ's performance reporting for the subject matter specified below. To achieve this, we interviewed a number of personnel and reviewed relevant documentation at Vodafone NZ's operations in Auckland.

The subject matter for this assurance process consisted of a representative sample of data and statements for the following material data streams and therefore the related pages of the Online Vodafone 2010 CR Report: CR management; supply chain; social impact; stakeholder engagement; environment; network deployment; Vodafone NZ profile; health and technology; economic impacts; employees and Vodafone Foundation. The scope excluded data and statements relating to financial information as well as data that had been assured in 2009 and not changed for the 2010 CR Report. In addition, Vodafone NZ's 2010 CR Report has been published online, and includes non-assured data which falls outside the above scope of work.

ERM's Independence

Vodafone NZ was responsible for preparing the 2010 CR Report. The ERM team, led by Jo Cain, Partner, Australia & New Zealand, was responsible for expressing assurance conclusions in line with the scope of work agreed with Vodafone NZ. During 2009/10, ERM did not work with Vodafone NZ on other consulting engagements.

Our Conclusion

On the basis of its scope of work, and in consideration of the limitations of the assurance engagement presented above, ERM concludes that, for the specified subject matter, Vodafone NZ's 2010 CR Report appropriately reports CR performance for the 12 months to 31 March 2010.

Key Findings

Based on the scope of work, and without affecting our assurance conclusion, ERM identified the following key findings:

Good Practice

- Continued support for programs to improve the health and wellbeing of young New Zealanders, a major market demographic for Vodafone NZ, including collaboration with Parents Inc.
- Actively addressing issues such as text bullying and cyber-safety through the implementation of technological solutions, including content filters and text blocking.
- Support for national capacity building developments, such as the Rural Broadband Initiative and the Ultra-Fast Broadband Initiative, as well as continued support for market diversification through Mobile Virtual Network Operators (MVNOs) and a national roaming agreement with 2degrees. These initiatives provide wider socio-economic benefit for New Zealand through increased access to telecommunications services and access to a broader range of service providers.
- Implementing staff recognition and reward programs and opportunities to participate in wider CR initiatives to create a more motivated and engaged workforce in an effort to improve customer experiences.

Areas for Improvement

- Stakeholder engagement workshops were not undertaken in the 2009-2010 reporting period. These have provided an effective mechanism in the past for engagement and the identification of material issues for coverage in the CR Report.
- Executive interviewees highlighted the changing nature of social interactions due to electronic communication methods as a material issue. Discussion of related Vodafone NZ issues and initiatives would add context to future CR Reports.
- Vodafone NZ's direct carbon dioxide (CO₂) emissions increased during the reporting period. Whilst this is attributed to an increase in network capacity and energy efficiency initiatives are identified, there is potential for improvement.
- Community investment could be more comprehensively reported, including the "in kind" donation of personnel time to run the Vodafone NZ Foundation.
- Continued reliance on data from external sources that are not independently verified, for example waste data from contractors.

ERM congratulates Vodafone NZ on its 2010 CR Report.



ERM New Zealand Ltd, 15 December 2010, Auckland, New Zealand

ERM New Zealand Limited (ERM) is an independent global provider of environmental, social and corporate responsibility consulting and assurance services. ERM has prepared this statement for Vodafone New Zealand in accordance with ERM's standard terms and the standard practised by members of the environmental consulting profession performing this type of service at the same time. No other warranty, express or implied, is given by ERM as a result of the provision of this statement. To the extent permitted by law, this statement is provided for informational purposes only, without the right to rely, and ERM will not be liable for any reliance which may be placed on this statement by a third party. This statement may not be used by any third party without ERM's express written permission.

Environment

The environmental impacts of our operations are diverse. Through our mobile network, Vodafone's footprint spans the length of the country, across urban and rural locations. This network requires energy to run and produces electronic waste when we maintain and upgrade it. Electronic waste is also the result of the sale of hundreds of thousands of new mobile handsets each year, into a country where phones already outnumber people.

For our business to be sustainable we must be responsible in our management of these impacts. We can also take advantage of the opportunities to reduce the environmental impacts of our customers through smart application of our technology.

Climate change

Vodafone announced its global climate change approach in 2008, including a key commitment is to reduce Vodafone's global emissions by 50 percent by 2020, against baseline emissions from 2006. This reduction is intended to be a direct reduction in emissions from our operations, without any offsetting. At present this strategy excludes operations integrated into the Vodafone Group since 2006, including operating companies in Turkey and India, which are formulating individual strategies.

The New Zealand Emissions Trading Scheme is intended to introduce a market mechanism to reduce New Zealand's greenhouse gas emissions and meet its international carbon reduction obligations. In its current form the trading scheme is being implemented with a staggered introduction of emissions caps across all emitting sectors, covering forestry, industry, electricity generation, fuel and agriculture. Vodafone New Zealand does not consume electricity and fuel in the significant quantities required to be directly covered by the trading scheme, although our energy costs have increased moderately as a result of its introduction.

Our direct CO2 emissions

Vodafone New Zealand's carbon dioxide emissions increased 3.7 percent last year. This increase is due to investment in increased network capacity. Emissions reductions from other sources partially offset the network growth. Transport emissions, which includes air travel and vehicle fuel, reduced 10.2 percent. We also achieved an emissions reduction of 8.3 percent from our offices.

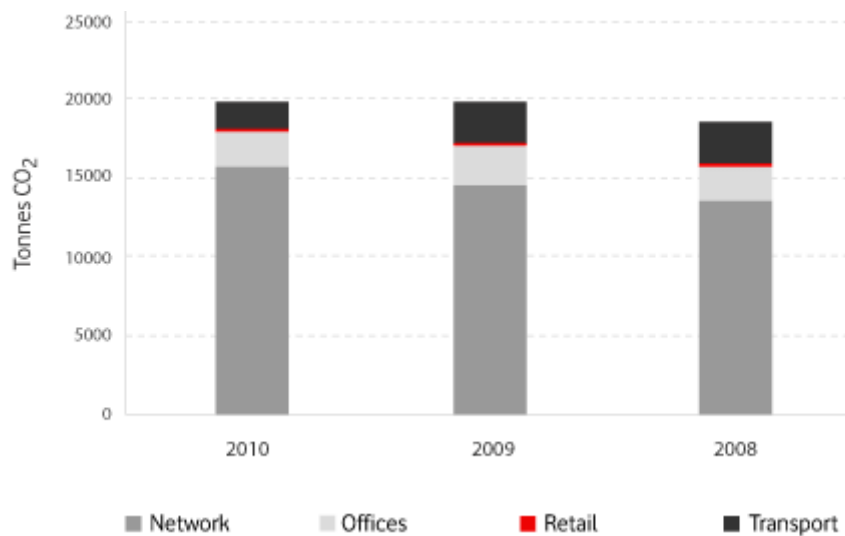
Emissions from our network operations increased 7.7 percent over the past year, which corresponds to a growth in the capacity of our networks.

Our long-term goal is to reduce outright emissions across all our operations. At present we are running two networks in parallel, both 2G and 3G. Ultimately, as our customers migrate across to the newer and more efficient 3G network, we will be able to decommission 2G network equipment. Fourth generation networks (4G, or LTE) are likely to integrate 2G and 3G technology in one box, delivering further efficiency gains. In the meantime, our focus is to run our current networks efficiently. This includes optimising current technology, adopting efficient solutions such as free-cooling air-conditioning and assessing onsite renewables such as wind and solar generation for remote mobile phone sites and core network hubs.

Vodafone New Zealand Carbon Emissions Chart

	2010	2009	2008
Network	15726	14608	13576
Offices	2277	2482	2199
Retail	151	162	148
Transport	1714*	1909*	2677
Total	19867	19159	18599

*Air travel figures are for the 12 months from February



Mobile recycling

Mobile recycling is one of our key environmental initiatives. The mobile industry has shown leadership as one of the first to collect consumer electronic waste. Despite the availability of multiple recycling options for our customers, we are still struggling to meet our mobile recycling collection targets. With the introduction of the Waste Minimisation Act, similar product stewardship schemes will be introduced across many other products groups, raising public awareness of the importance of recycling and the availability of recycling facilities.

Last year we collected 14,236 mobile handsets for recycling. We believe our collection numbers should be far higher. However, this follows a similar trend noticed across other Vodafone operating markets, where tough economic conditions have slowed sales of new handsets, hence limiting the number of handsets and opportunities to recycle.

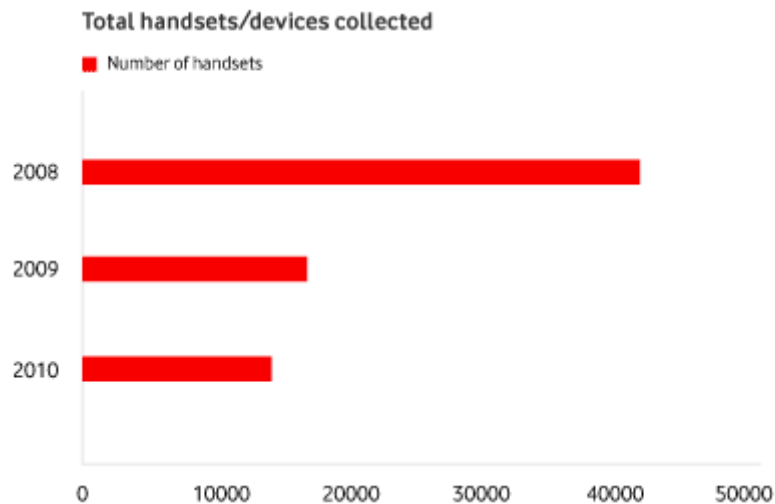
If a phone is still in good working order, the best environmental outcome is for that phone to be reused by someone else. A working phone also represents a social and economic opportunity for someone in the developing world, whom otherwise would not have access to any form of telecommunications.

In March 2010 we launched a new mobile recycling partnership with the Starship Foundation. The Starship Foundation launched their own rival mobile recycling programme in 2009, and had been running a scheme, whereby suitable collected phones were resold into developing countries. The proceeds from these sales are directed to the Starship Children's Hospital. We are hopeful the high profile of the Starship cause, and the participation of other industry members in the scheme, will assist in raising awareness of mobile recycling and consequently increase collection performance.

[More about recycling](#)

Recycling

	2010	2009	2008
Handsets collected	14236	16382	41925



Network waste

We have an ongoing commitment to reuse or recycle more than 95 percent of the waste from our network operations. The profile of our network waste is changing. Previously our focus has been on new site builds, and maintenance of the existing network. We are now starting a phase of replacement of older technology with next generation equipment. In the past year we reused or recycled 96.8 percent of our network waste by mass.

Our network waste data is sourced from a raft of network contractors, suppliers and service providers. In previous years we have commissioned an independent audit of our network waste stream, to ensure we are capturing all sources of network waste, to test our reporting system and our data accuracy. These audits have shown areas for improvement, and highlighted gaps in reporting across our internal network team, which is split into deployment, transmission and maintenance units. We are confident in the accuracy of the data reported, however we are working to improve data capture to ensure any gaps are filled to get a complete picture of network waste.

Some of our older airconditioning units contain R-22, an ozone depleting HCFC used as a refrigerant. Our target is to replace all R-22 units by 2012. All sales and import of R-22 will cease across New Zealand from 2015.

Network Waste

	2010	2009	2008
Disposed (kg)	2293	963	959
Reused or Recycled (kg)	69,844	25,191	53,429
Percentage Recycled/Reused	96.8%	98.3%	98.2%

Network Deployment

Our network of mobile phone sites is the foundation of our mobile operations - it represents a large proportion of our investment in New Zealand. The ability to operate our network around the country depends upon the trust of local communities, alongside the support of local and central government.

At 31 March 2010 we had 1369 mobile phone sites around the country, covering 97 percent of where New Zealanders live, work and play. In recent years the focus of our network deployment has shifted from building national coverage to maintaining and improving performance. Growth in new site numbers has slowed. Our main focus now is to upgrade the speed and capacity of our sites, in order to bring faster data speeds and the benefits of next generation 3G services to more New Zealanders.

In areas of dense population, 3G services are provided by smaller, lower-powered mobile sites, operating at higher 2100MHz frequencies. Much of the rollout of our urban coverage has involved adding to and updating equipment on existing network sites. Accompanying this is the rollout of new site builds, designed to make use of existing structures such as lamp-posts and commercial rooftops.

Community Engagement

In recent years we have dealt with a number of communities concerned about the rollout of new mobile sites. This concern coincided with an increase in network deployment activity across all mobile providers, including Telecom and 2Degrees, whom have both rolled out new mobile networks. A key concern raised by many groups regarding the rollout of mobile sites has been the lack of consultation and notification prior to consent applications or site construction.

The 2008 enactment of the National Environmental Standard (NES) for telecommunications facilities has meant there are fewer regulated obligations upon network builders to consult with councils and local communities when building mobile sites. In order to address these issues Vodafone proposed the creation of a set of Community Engagement Guidelines, setting out a set of engagement practices for the industry to commit to when constructing or altering mobile sites. These guidelines were created by a working party of the Telecommunications Carriers Forum (TCF). The working party included representatives from Vodafone, Telecom, Woosh and Kordia.

The guidelines were launched in November 2009, following a period of public consultation. The guidelines, and the submissions to the consultation, are available to the public on the [TCF website](#)

What to consider when choosing a mobile phone site

A suitable location for a new mobile phone site must fulfil the technical network requirements for improved coverage for our customers, while balancing the expectations of the community and impacts on the local environment. There are a number of criteria to take into account:

Community/environmental

- Compliance with Resource Management Act
- Compliance with local authority district plan
- Alignment with the Urban Design Protocol
- Compliance with NZS 2772.1:1999 RF exposure levels
- Visual impact on the landscape
- Road safety impacts of roadside cabinets
- Noise emissions
- Community sensitivity around certain sites such as schools
- Environmental impacts and impacts on biodiversity

Network requirements

- Enhanced network coverage or capacity
- Strong and safe construction
- Any requirements for line of sight with other mobile sites
- Easy access and maintenance
- Available location for lease

Social

Customer Service

Customer service is a core focus for Vodafone New Zealand. It is a key indicator when we assess the performance of our business, standing with equal importance alongside our financial results.

Customer service has traditionally been a strength for Vodafone. However the rapid growth in the complexity and size of our business in some cases outpaced the development of robust processes to ensure we could effectively respond to customer requests. This negatively impacted our reputation for providing excellent service. We have implemented a number of significant programmes designed to improve our customer experience and will continue to focus on this area.

In order to ensure we maintain focus on improvements we launched Programme Proud in April 2009. This is a cross functional project team focused on improving our service quality through fixing and enhancing our service processes. We believe that passionate people, plus great processes, equals great customer service.

In 2008 we introduced a \$1 service charge for calls to our contact centre for our prepay customers. This charge was introduced to encourage our customers to use self-serve alternatives for simple transactions, for example to check account balance.

The service fee was successful in reducing the number of calls into the call centre, which meant that our employees could spend more time dealing with more complex issues over the phone, and that call answering times reduced dramatically. However, we have listened to our customers' feedback on the fee and we recognise that it is not every customer's preference to use self-service alternatives in all circumstances.

In July 2010 we conducted a week long trial to test the impact of removing the \$1 service fee on a portion of our prepay customers. Due to the success of the trial, from the 15th September we have implemented a pilot for all prepay customers, with the intention of permanently removing the \$1 service fee.

A key focus for our business market has been to provide a specialist Customer Service team based in New Zealand. Since the end of the 2010 financial year we have launched both a Corporate Help Desk to Help Desk service and 888 for small and medium business customers, representing a big step forward in meeting the needs of this market.

Bill Shock

Bill shock occurs when customers receive a larger than expected bill from their telecommunications provider. This is because they are either unaware of the price of the services they have used, or are not aware of the quantity of services they used in the billing period.

The adoption of mobile data, and particularly data roaming overseas, has driven awareness of the issue. Other causes include calling when roaming overseas and early termination charges when customers wish to cancel contracts.

Vodafone is aiming to lead the response to this industry-wide issue. Our approach is to communicate clearly with customers on what they are spending, and provide clarity on usage and offer cost certainty through product innovation.

Telecommunications Dispute Resolution Service

The Telecommunications Disputes Resolution (TDR) service is a free and independent service available to consumers to resolve complaints with their telecommunications provider. Customers can escalate complaints to the TDR if they feel their complaint has not been handled appropriately, or if they have not received a response within six weeks. A TDR resolution can award compensation up to \$12,000.

This is an industry-wide scheme created by the Telecommunications Carriers' Forum (TCF). At present the scheme has ten (at September 2010) members who fund the [TDR](#), including Vodafone and the other main telecommunications companies.

A number of smaller telecommunications operators have pulled out of the TDR in the past year. Some of these companies cited high cost and process complexity as a factor. The TCF is conducting a review of the TDR to ensure its suitability as a scheme for all industry operators.

www.tdr.org.nz

TXT Bullying

TXT bullying is a serious issue. Vodafone have approached this on an industry-wide basis. We work with NetSafe, the Police and other mobile operators to maintain a standard approach to individual complaints across all organisations, and an agreed process for handing over complaints when the message originated on a different mobile network.

Last year the number of calls we received reporting nuisance or malicious calls and TXTs increased slightly. The number of actions from complaints also increased.

In July 2009, we set up an alternative reporting channel for TXT bully complaints. Customers can now TXT the word 'Bully' to 4001 to report an incidence of bullying. The primary reason for setting up this alternative channel was to ensure our customers did not fail to report problems if they were concerned about the \$1 service charge for pre-pay customers to call the call centre. Although all calls about TXT bullying, harassment or nuisance calls have this service charge refunded, customers must have a minimum balance of \$1 in order to make a call.

Malicious and nuisance complaints reported

Complaint type	2010	2009
Nuisance	6247	5920
Malicious	327	202
Wrong number	52	192
Total	6626	6314

Actions		
Warning	3277	2694
Forward to other telco	280	374
Temporary service bar	215	165
TXT removed	148	134
Account deactivated	10	8
Total	3930	3375

Cybersafety and cybercitizenship education

In June 2009 Vodafone announced a partnership with Parents Inc. Parents Inc is a charitable organisation whose vision is to positively impact every family. They aim to achieve this by equipping parents and children with the best-quality skills and resources.

Their partnership with Vodafone is focused on educating parents and young people to enable them to get the best from technology. This includes the development of an online education space and seminars for parents and using TXT messaging to help encourage parents and provide information. A school module as part of Parent Inc's Attitude programme has also been rolled out to high schools, providing students with advice.

www.parentsinc.org.nz

Online and mobile content

With the convergence of mobile and internet technology, the range of content available over the internet is now easily accessible through a mobile phone. This includes the full range of content format, including audio and video files. Third-party content providers are able to sell their services to our customers using Vodafone's network. Direct payment for these services is taken from the customer's Vodafone account.

Some of these services include content unsuitable for younger customers. In order to protect young people from adult-only content we introduced the ContentGuard filter. ContentGuard must be deactivated via an age-verification process before any restricted content may be accessed. It was Vodafone's policy that no adult content was sold via the Vodafone Live! service prior to the introduction of the content filter.

A complimentary content filter which will cover content across the mobile internet, covering all websites, is also planned. This filter will be activated on request, and can only be deactivated by following an age-verification process. The launch of this filter was planned for the previous financial year, but has been delayed due to compatibility issues with our network.

In our fixed-line business we agreed to participate in the Department of Internal Affairs (DIA) illegal content filtering scheme. The filter works on a blacklist principle, blocking any sites which have been identified as hosting illegal content.

Mobiles and Road Safety

As a responsible business we support legislation to promote safe driving. Using a mobile while driving is a significant distraction and increases the risk of accident and injury. In 2008 we strengthened our public position on mobiles and driving safety, and called for a law change banning the use of handheld mobiles while driving. This call was covered across national media, and was influential in the previous Government's announcement of their intention to consider a ban.

The ban on the use of handheld mobile phones while driving came into force on 1 November 2009. Vodafone publicly supported the ban, and implemented a communication plan to educate our customers. The primary communication was a TXT message to all customers, advising them of the law change, encouraging them to do the right thing by turning their phone off or pulling over to use it, and providing a link to [more information](#).

Mobile phone blocking in prisons

From 2007 Vodafone and Telecom New Zealand cooperated with the Government in a successful pilot of mobile phone blocking in prisons. Mobile phone blocking prevents prisoners committing further offences while behind bars. There is potential for prisoners to use cell phones to organise further crime, harass witnesses and others in the community and arrange escapes. Mobile phone blocking complements existing monitoring systems on prison pay phones.

The technology has been rolled out extensively across prison sites around the country and the project was completed in February 2009.

Premium TXT Services

Premium TXT services can include paid TXT competitions, subscriptions to TXT updates and paid access to content via TXT message. These services are operated by other companies through our mobile network. In the past premium TXT competitions have prompted complaints to the Commerce Commission, due to questions over the adequacy of disclosure of terms and conditions, which can include automatic subscription to premium TXT services.

In order to ensure these services are sold responsibly the Telecommunication Carriers' Forum (TCF) established an industry code of practice to set standards for telecommunication service providers, content service providers and content providers. The Mobile Premium Messaging Services Code was launched by the [TCF](#) in February 2008, with Vodafone one of 19 signatories.

www.tcf.org.nz

Employees

A responsible business must also be a responsible employer. It is essential to our ongoing success that we ensure our people feel confident, appreciated and inspired and have opportunities to develop and are motivated to excel.

The Vodafone People Survey is an annual survey of our performance as an employer. The survey which ran in December 2009 was completed by 88 percent of New Zealand employees, giving us a thorough indication of employees' views of the company. The survey's results are used to drive action to improve employee engagement and measure the effectiveness of our organisation and management.

Employee engagement is the key high-level performance indicator measured by the People Survey. The engagement index contains seven key questions that measure:

- **Commitment** = overall satisfaction with Vodafone; rating of the company as a place to work; willingness to recommend the company as a place to work and pride in Vodafone
- **Retention** = willingness to continue working for the company
- **Discretionary Effort** = willingness to 'go the extra mile' for the company

The results of the 2009 People Survey measured a significant increase in the Employee Engagement Index to 75 points. The engagement improvement was the result of improvements across the board, with the largest increases measured for

- successfully retaining quality people (+18 percent increase in favourability)
- using the People Survey results constructively (+17 percent)
- management team listening to employee's opinions and ideas (+17 percent)
- job security (+16 percent)

Employee Fact Box

	2010	2009
Total number of permanent and fixed term employees	1,367	1,390*
Voluntary employee turnover	14.3 percent	22.6 percent
Number of Women in senior management roles	4 out of 27	5 out of 28
Number of lost-time accidents**	2	4

* Restated from previous report to ensure consistency in reporting methodology

** Excludes accidents for employees travelling to and from work, but includes work travel

Vodafone People Survey Results

	Percentage of employees agreeing with the statement		
	2009	2008	2007
Vodafone is socially responsible (a good corporate citizen)	93%	89%	85%
Vodafone is ethical in its business dealings	83%	75%	78%
I am proud to work for Vodafone New Zealand	85%	83%	89%
The company takes a genuine interest in my wellbeing	73%	59%	63%
Overall, Vodafone is a good place to work compared to other organisations I know about	83%	73%	79%
I am rewarded fairly for the work that I do	54%	51%	53%
Overall Engagement Score	75	69	68

Vodafone Foundation

The [Vodafone New Zealand Foundation](#) is Vodafone's philanthropic arm. The Foundation's strategy is to encourage positive and healthy outcomes for young New Zealanders aged 12 to 24. The Foundation is funded by grants from Vodafone New Zealand and the [Vodafone Group Foundation](#)

The Foundation operates three main programmes - the long-running grant making and the World of Difference programmes have recently been joined with a new Youth Health Fellowship, which will first be awarded in late 2010. The World of Difference Programme is the Foundation's signature programme, funding the salaries and expenses of up to six people each year, enabling them to contribute their skills working with a charity of their choice.

The Foundation also helps Vodafone employees to support causes they are passionate about. The 'Hands Up' programme gives Vodafone employees the chance to lend their specialist skills by spending up to two weeks volunteering for one of the Foundation's partner charities. The Foundation also supports employee fundraising, matching any funds raised by employees with the 'Double your Dollar' scheme.

The Vodafone New Zealand Foundation has its own [website](#). Detailed information on its programmes and funding recipients is available there.

2010	2009	Source / Destination
Foundation Income		
\$593,294	\$585,082	from Vodafone New Zealand
\$700,000	\$650,000	from the Vodafone Group Foundation
Foundation Investments		
\$1,342,122	\$1,479,790	total grants made in the financial year
\$37,956	\$65,631	grants through employee matched giving scheme
Total Contribution		
\$1,342,122	\$1,479,790	Total donations
\$202.5 million	\$234.9 million	Net profit before tax – Vodafone New Zealand
0.66%	0.63%	Percentage of pre-tax profits donated

Health and Our Technology

Current advice, the World Health Organisation (WHO) in their fact sheet on base stations and wireless technology states "there is no convincing scientific evidence that weak RF (Radio Frequency) signals from base stations and wireless networks cause adverse health effects" www.who.int/peh-emf/en/

Vodafone's global resources on mobile phones, masts and health: www.vodafone.com/mpmh

Mobile phones use radio frequency (RF) fields to communicate with the nearest available base station. Many other everyday items make use of RF fields to send and receive information, such as radios, televisions, walkie talkies, baby monitors and wifi networks. When a mobile phone is used, the body absorbs some of the RF field and some scientists have suggested that this might be harmful.

We recognise there is public concern about the safety of mobile phones and mobile phone sites. It is our responsibility to ensure the health and safety of all our employees, customers and members of the public. We are committed to respond to public concerns on this issue by making objective and independent information available and engaging with stakeholders on this issue.

In New Zealand radio frequency emission levels from mobile phone sites are set by the New Zealand standard NZS 2772.1:1999. This standard is based upon International Commission for Non-Ionizing Radiation Protection (ICNIRP), which have a large safety margin built into them, with public exposure levels set 50 times below levels which health effects may be measured. There have been thousands of scientific studies into the effects of RF on health. There is no evidence to convince experts that exposure below the guidelines set by ICNIRP carries any health risks, for adults or children.

ICNIRP recently reviewed their guidelines considering all scientific research since the original publication. Their conclusion was that there was no new evidence of any health effects below their recommended guideline which would warrant any review or reduction of the precautionary limits set.

Monitoring EMF in New Zealand

For the past seven years Vodafone has commissioned independent field monitoring of RF fields around its mobile phone sites. These tests are carried out by the National Radiation Laboratory, an independent organisation which is part of the Ministry of Health. This has created a significant public database of sites showing typical RF levels around our sites. Vodafone was the first company in New Zealand to publicly disclose independent monitoring information of RF levels in this way. The results of the tests are available on the [National Radiation Laboratory's website](#).

From 2007 onwards we reduced the number of sites monitored each year. This corresponds with a slowing rate of growth in the number of mobile phone sites, as the focus shifts towards upgrading existing sites to newer 3G technology. In areas of particular public interest we may also commission individual field monitoring tests to meet community demand. Last year we commissioned reports on ten sites selected at random by the NRL. In some cases we also commission additional reports on specific sites if requested by the local council or community.

All sites tested in the past seven years have complied with the reference levels for the public in New Zealand Standard 2772.1:1999 Radiofrequency Fields Part 1: - Maximum exposure levels 3 kHz - 300 GHz.

At most of the sites tested in the past year, the maximum exposure was less than 1 percent of the levels permitted by the New Zealand Standard. At one site, a rooftop site in a beachside recreational area in Mt Maunganui, the peak reading was 36.9 microwatts per square centimetre ($\mu\text{W}/\text{cm}^2$), 8.2 percent of the Standard. This reading was taken from a small deck on a Surf Lifesaving building. Measurements taken in publicly accessible areas around the site were all below 1 percent of the Standard.

For information on how we go about choosing the location of a mobile phone site see our [Network Deployment](#) page.

Emissions from mobile handsets

The strength of a Radio Frequency field's effect on a person can be measured using specific absorption rates (SAR). The SAR value measures the energy absorbed by the body as heat in watts per kilogram. The International Commission on Non-Ionizing Radiation Protection (ICNIRP) has guidelines for a recommended maximum SAR value of two watts per kilogram. All handsets sold by Vodafone comply with these guidelines. SAR values for individual handsets can be found on the Mobile Manufacturers' Forum www.mmfai.org/public/sar.cfm

Modern mobile phones adjust the power automatically to the minimum required to communicate with the mobile phone site. Generally, the nearer the site, the lower handset RF output. When switched on but not in use, handsets send only brief infrequent signals to maintain contact with the network. These are made a few times every hour as a short transmission lasting just a couple of seconds.

For those people concerned about emissions from handsets, the WHO advises that exposure may be limited by keeping call lengths to a minimum, and by keeping the handset away from the head by using a handsfree or speakerphone function. There have been attempts to design mobile phone covers that absorb RF fields, to reduce the person's exposure. The WHO advises that there is no scientific evidence that these are needed, and that the effectiveness of the covers is unproven. They are also likely to affect the quality of service, and may in fact increase the mobile phone's operating power.

Economic

As a telecommunications provider, Vodafone's economic impact extends far beyond its direct financial contribution to the economy.

Telecommunications products and services act as an economic enabler, facilitating coordination of people and resources, breaking down geographic isolation, increasing innovation and boosting productivity.

To maximise these benefits a balance in the commercial and regulatory environment is required that encourages private investment in infrastructure, while also fostering competition to drive innovation and value for consumers. To ensure this balance Vodafone works with other members of the telecommunications industry, the Government and various government agencies on different aspects of the New Zealand regulatory environment.

The shared aim is to foster a marketplace which delivers great value, world-class telecommunications services to all New Zealanders.

Increased Competition

Over the past year the launch of new network-enabled competitors and more mobile virtual network operators competing in the market has meant an increasingly competitive mobile marketplace.

The entry of 2degrees into the market is the most significant of these changes. The launch of their Prepay plan in August 2009 has made a significant impact on the market, with the Commerce Commission reporting that they had achieved a four percent market share within the first six months of operation. 2degrees operates its own network in Auckland, Wellington, Christchurch and Queenstown. Outside these areas it relies upon Vodafone's network to support their customers through a roaming arrangement.

Telecom's launch of its WCDMA-based XT Network in May 2009 has also enhanced the competitiveness of the mobile market. WCDMA is based on GSM technology - the same mobile technology "family" used by Vodafone New Zealand and 2degrees. This means that for the first time, many customers are able to keep the same phone when switching between mobile service providers, increasing customers' ability to shop around for the best deals and pricing. Telecom still operates their legacy CDMA network, though they intend to shut this network down in 2012.

Providers need not have their own network in order to compete in the mobile market. Both Vodafone and Telecom support Mobile Virtual Network Operators (MVNOs) - companies that use another company's network in order to provide services to their customers. At the end of the financial year there were eight MVNOs operating in the New Zealand market:

MVNOs on the Vodafone Network:

- Black & White
- CallPlus
- Compass
- M2

- Orcon
- TelstraClear

MVNOs on the Telecom Network:

- Digital Island
- Zintel Cogent

There is evidence customers are taking advantage of the increased choice and competition in the market by switching between providers more than ever before. The number portability statistics show the number of people transferring their existing phone number between mobile providers. The statistics show that the entry of 2degrees and the launch of Telecom's XT network have significantly increased the number of customers porting between providers, with numbers increasing from approximately 3000 a month to over 10,000.

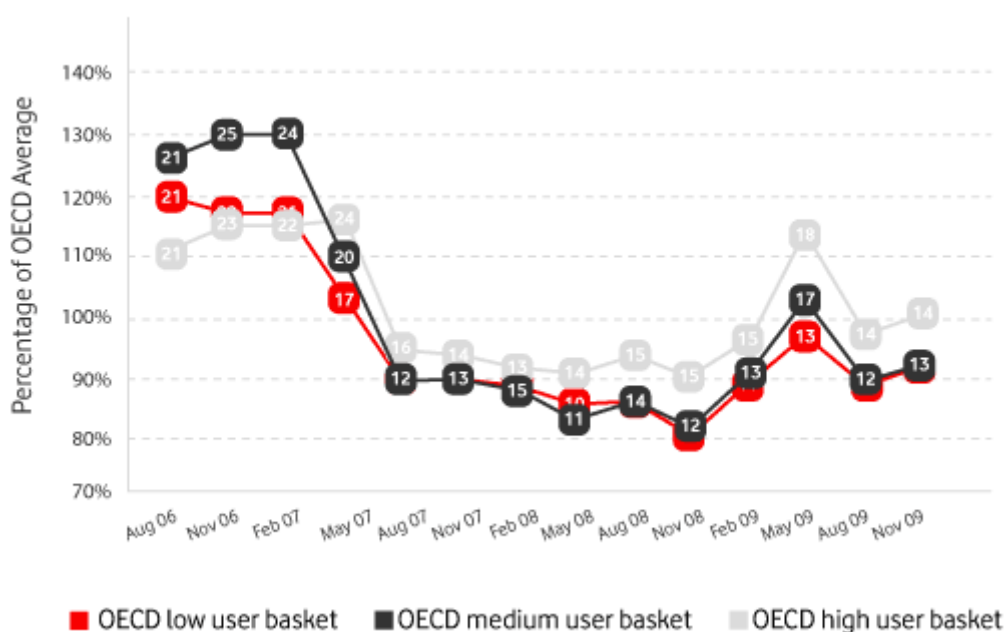
Pricing

Vodafone has maintained its commitment to remain in the cheaper half of the OECD mobile pricing benchmarks. At the end of 2009 we ranked in the cheaper half of the 30 OECD countries across all baskets measuring light, moderate and heavy users of mobile services. Vodafone also continues to rank below the OECD pricing average for those user baskets.

As of November 2009, the best value plans in New Zealand as measured by the OECD were all offered by Vodafone, and were:

- For low users: Vodafone Easy 20 on a 12 month term (ten percent cheaper than OECD average)
- For medium users: Vodafone Easy 60 on a 12 month term (eight percent cheaper than OECD average)
- For high users: Vodafone Easy 150 on a 12 month term (one percent cheaper than OECD average)

Vodafone's historic OECD rankings - Aug 2006 to Nov 2009



The OECD reviewed its benchmarking in November 2009, and will be reporting against new benchmarks from 2010 onward. Vodafone is working with the industry and the Commerce Commission to develop an extension to the benchmarking methodology that is more relevant to New Zealand customers.

Mobile termination rates

Mobile Termination Rates (MTRs) are the charges levied between operators when terminating calls on a mobile network. For example, they make up part of the cost of a call from a fixed line telephone to a mobile phone. The Commerce Commission initiated the current investigation into these rates in 2008, following an earlier investigation on this issue that commenced in 2004, to explore whether mobile network operators like Vodafone were charging termination rates that were too high.

Vodafone's preference is for market-led solutions. We proposed an industry-led binding undertaking that would have lowered these termination rates without the need for Government intervention and regulation.

Since the end of the financial year, in August 2010, the Minister of Communications has announced his intention to regulate MTRs. We are disappointed with this decision. We will work in cooperation with the Commerce Commission to determine a fair and accurate price to regulate termination that balances the various interests appropriately.

Telecommunications Policy and Regulation

In the past year there have been significant changes in telecommunications policy.

Through the **UltraFast Broadband Initiative** (UFB), the government will be investing up to \$1.35 billion in open-access, dark-fibre infrastructure to accelerate the roll-out of ultra-fast broadband to 75 percent of New Zealanders over ten years. The design of this initiative was

finalised in September 2009, with the government confirming its goal to provide downlink speeds of up to 100 Mbps and uplink speeds of up to 50 Mbps in the target areas. The Government, via Crown Fibre Holdings, is currently considering the tenders of potential partners for the build of these fibre networks in the candidate areas. Vodafone is particularly interested in this initiative, as it will provide next generation fibre connections to New Zealand homes, that will allow us to offer a wholly new set of products and services.

As a complementary initiative, the Government has also committed to enhancing rural telecommunications through the **Rural Broadband Initiative** (RBI). This initiative was also confirmed in September 2009.

The Government's objectives for the RBI are to:

- connect 97 percent of schools to fibre, enabling speeds of at least 100 Mbps, with the remaining three percent to achieve speeds of at least 10 Mbps ("the rural schools objective"); and
- improve coverage of fast broadband services so that 97 percent of New Zealand households and enterprises are able to access broadband services of five Mbps or better, with the remaining three percent to achieve speeds of at least one Mbps ("the rural community objective").

The RBI will be funded by \$50 million of Government funding, and another \$250 million collected from the Telecommunications industry through the Telecommunications Development Levy.

The introduction of the RBI, and its funding mechanism in the TDL, has given the Government cause to reconsider the need for and design of the legacy **Telecommunications Service Obligations** (TSO). The TSO framework has two essential features:

- requires Telecom to supply certain basic telecommunications services which would otherwise not be made available commercially; and
- enables levying the telecommunications industry to recover the Commerce Commission's estimated shortfall in costs of providing these TSO services.

Vodafone has long objected to the design of the TSO obligations, in that they require competitors of Telecom to pay millions of dollars to Telecom to support supposedly "commercially non-viable" customers in rural areas, despite the fact that many of these customers are covered by alternative networks. Further, under the design of the TSO Telecom has no obligation to spend the money it receives on improving its rural network. This is despite the fact that the payment of TSO charges comes with the real opportunity cost of limiting Telecom's competitors' ability to invest in and improve their own networks in rural areas.

However, under the changes to the TSO announced in 2009, Telecom will no longer be able to request subsidy from the rest of the industry unless it can prove that the entirety of its delivery of TSO services over its fixed network is operating at a loss and is commercially non-viable, rather than the rural portions of that network alone. Vodafone supports these changes.