SAFARICOM 2012/2013 UNITED NATIONS COMMUNICATION ON PROGRESS REPORT

Safaricom

Message from the CEO

At Safaricom Limited, we have developed a long term strategy focused on "transforming lives". We believe that the delivery of our products and services transcends simply making a phone call, or sending a text message, to adding transformative value to Kenyans.   We recognize that the way in which we run our business, the value that we add to Kenyans, and our conduct and business practices must be designed to create and shape a sustainable tomorrow.

We published our first sustainability report in September 2012 and have aligned the strategic pillars of the report to our corporate strategy. These pillars are also aligned to the United Nations Global Compact.

Implementing the United Nations Global Compact is part of our broader commitment towards being a responsible and accountable business, and is in line with our commitment to our stakeholders. We work towards ensuring that our operating standards are of a consistently high level, and that our policies are translated into practical actions.

I continue to be honoured to serve on the United Nations Global Compact Board. Safaricom is committed to a continuous improvement process, and we confirm our on going commitment and support for principles of the United Nations Global Compact.

Bob Collymore

CEO

1. Our Business

Safaricom Limited (hereafter referred to as "Safaricom") is a leading integrated communications company, providing voice and data communications services to consumers, businesses and public sector clients. Our shareholding structure is composed of the Government of Kenya (35%); Vodafone (40%) and free float (25%) where we are listed on the Nairobi Stock Exchange, trading in the telecommunications and technology segment.

We operate solely in Kenya and our headquarters are located at Safaricom House in Nairobi. We consist of a number of operating divisions, including:

- Chief Executive Office
- Executive Business Office and Project Management Office
- Profit Centres
    - Enterprise business unit
    - Consumer business unit
    - Financial services
- Corporate Centres
    - Risk management
    - Customer care
    - Marketing
    - Corporate affairs
    - Finance
    - Resources
    - Technology

As an organisation, we have annual revenues of KShs 107 Billion and have 19 Million customers in Kenya, representing market penetration and 64.5% market share by subscriptions[1]. Our Mpesa money transfer service continues to grow and is used by over 15M people. Mobile penetration in Kenya is at 78%.

Safaricom is committed to developing innovative, affordable and relevant products and services that help our customers to transform their lives. We aim to do this in a responsible and ethical manner and believe that integrity is good for business, good for individuals and good for society. We apply the precautionary principle in our actions and the way that we manage our business. As part of our business activities, we engage with a range of stakeholders and have developed a stakeholder charter which describes our commitment to each stakeholder group.

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[1] Safaricom Financial Report 2012

This report represents our public communication to our stakeholders on the progress we have made on implementing the ten UNGC principles in our business activities. This communication will be followed by a more detailed Sustainability Report, which is currently in preparation.

2. Human Rights

This is covered under Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: Businesses should make sure that they are not complicit in human rights abuses.

Safaricom values the respect and protection of human rights, not only within our business, but also within our suppliers. We implemented a Supplier Code of Conduct which sets the standards that Safaricom and its suppliers wish to achieve. It is designed to promote safe and fair working conditions, along with the responsible management of environmental and social issues, throughout Safaricom's supply chain. Among other aspects, the Code covers the following: employment relations, child labour, forced labour, elimination of discrimination, freedom of association, wages and benefits, health and safety, environmental matters and the community. Signing of this code of conduct and agreeing to adhere to the terms therein is required before the execution of the contract.

Respecting human rights and acting ethically is not only our key responsibility as a corporate citizen, it also makes business sense. It bolsters the reputation and trust in an organization, improves employee engagement and generally improves stakeholder buy- in.

3. Labour

This is covered under Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation.

3.1   Our employees

Employees are one of Safaricom's most valuable assets and key to the sustainability of our organisation. Safaricom is committed to being an employer of choice and has developed an Employee Charter to guide our interactions with our staff. The Charter commits us to providing a great place to work — where both individual accomplishments and team effort will be rewarded; as well as a great place to grow — creating opportunities for personal empowerment and career growth in an atmosphere of trust, honesty and openness. In order to create a safe and exciting place to work, we

have embarked on a number of initiatives to ensure that we create just this environment.

Occupational Safety and Health (OSH) is central to Safaricom's management approach as we recognise the importance of creating safe, healthy and productive surroundings for all personnel. Several steps have been taken to improve our OSH performance, including:

- **Safaricom Safety and Health Management System**: Safaricom has developed and is implementing an Occupational Safety and Health (OSH) Management System framework, which provides for a comprehensive and systematic approach to managing safety and health matters. It has been developed to ultimately lead to sustained safety and health performance. The ultimate end result of the implementation of the OSH management system will be OHSAS 18001:2007 certification, which is the worldwide recognizable occupational health and safety management system standard against which company OSH management systems can be assessed and certified.

- **Development and Implementation of an Occupational Safety and Health Plan**: In order to sustain an environment which is a safe and exciting place to work, we developed and implemented a high level Occupational Safety and Health Plan. The plan is based on our health and safety policy statement objectives, our safety and health strategy and strategic directions, our safety and health audit results, our safety and health risk assessments as well as statutory requirements.

  The plan considers the strategic priorities of demonstrating accountability through leadership, inculcating a positive safety culture, collaborating with supply chain, developing staff OSH capabilities, creating channels of sharing and learning, and robust governance and assurance.

  The plan furthermore describes milestones and KPIs to measure implementation and performance. Specifically, it also addresses the five high risk activities associated with our business operations, which include:

  - Driving safety;
  - Work at height;
  - Electrical work;
  - Legacy infrastructure; and
  - Contractor management.

- **Targeted OSH Training:** We have embarked on targeted OSH training to entrench a health and safety culture across Safaricom. To achieve this, Safety and Health in conjunction with the Learning and Development functions, have identified online

training courses to be availed to staff to entrench a safety conscious culture within our organization. Going forward we will be completing the role-specific training needs analysis process and launching the Skillsoft platform.

- **Ergonomics Software Solution:** We have introduced software to help staff develop good computing habits which improve productivity and reduce costs associated with workstation injuries and fatigue. We have also procured ergonomics seats for some of our operations, following an evaluation of the working environment by a government-approved Occupational Health Practitioner.

- **Safaricom's Steering Committee:** In July 2012, we constituted a steering committee comprised of EXCO and Divisional Safety Champions, to manage and co-ordinate various OSH sub-committees in order to provide leadership on OSH functions and programs. The divisional safety champions, under the chairmanship of the EXCO safety champion, have met in the quarter to address safety issues and chartered way forward towards improving safety performance within the business.

Safaricom is committed to the overall health and wellbeing of its employees and that employee wellness is key to our success. We support and promote wellness initiatives that will lengthen life, reduce the incidence of illness and assist everyone on achieving a productive, satisfying lifestyle. Through the wellness programs, Safaricom aims at enhancing the health of employees, improve attendance at work, improve employee morale and increase productivity.

- **Workplace Wellness/Health programs:** Safaricom has designed and implement wellness programs that have the greatest impact on reducing health care costs and improving the overall health status employees. The primary focus of the wellness programs is on preventing healthy employees from developing chronic diseases by reducing employee risk factors. This is done most effectively by changes to policies and work environments that increase opportunities and support for employees to become more physically active, select healthier foods, avoid drug and substances abuse and manage stress. The wellness programs also offer interventions to employees with existing chronic disease conditions to help them better manage those conditions and prevent the further progression of those diseases through early screening and disease management programs.

- **Employee and family assistance programs:** Safaricom has designed programs to assist in the identification and resolution of productivity problems associated with employees impaired by personal concerns, including but not limited to health, marital, family, financial, alcohol, drug, legal, emotional, stress, or other personal

concerns which may adversely affect employee job performance. An example is counseling services available to staff.

- **Financial Wellness programs:** Safaricom recognizes that financial problems are a major cause of medical stress-related conditions, injuries on duty, absenteeism, poor quality, low morale and high turnover. The risks associated with financial problems negatively impacts on the Employee as well as the company. The company is in the process of development and implementation of Financial Wellness programs to help employees manage their finances well and improve their living standards.

- **Chronic Disease Management Program:** Safaricom has partnered with AON Kenya to develop and implement a Comprehensive Wellness Program as an additional benefit to staff, under the medical scheme. One of the major components of the wellness program is the Chronic Disease Management Program. This program aims at prevention and management of chronic diseases. Benefits include:
  - Improved quality of life and increased productivity;
  - Information is power – Increased awareness/knowledge;
  - Prevents illness and address proactively the factors that influence wellness;
  - Enhanced recruitment and retention;
  - Reduced medical costs and absenteeism; and
  - Maintain employer of choice status.

- **Wellness Facilities:** Safaricom has set up a number of wellness facilities for our staff, which include:
  - Daycare/crèche facilities;
  - Gyms;
  - Games rooms;
  - Lounge areas;
  - Cyber café's;
  - Cafeterias;
  - Clinics;
  - Resource centre;
  - Prayer rooms; and
  - Mothers rooms.

Our employees are able to exchange views across the organisation and engage with management through the Staff Council, which meets with the CEO at least once a quarter. We also carry out regular staff surveys to get feedback from our employees.

3.2   Our suppliers

It is Safaricom policy that all suppliers, and their subcontractors, observe the same high standards of ethics as Safaricom personnel. Accordingly, we have developed a Business Partner Charter and Supplier Code of Conduct to guide our interactions. The Charter commits us to building mutually beneficial and sustainable relationships with all business partners in an environment of equity, mutual respect and honesty. The Supplier Code of Conduct sets the standards that Safaricom and its suppliers wish to achieve. It is designed to promote safe and fair working conditions, along with the responsible management of environmental and social issues, throughout Safaricom's supply chain. The Code is now part of pre-qualification, RFP documentation and all signed contracts.

Among other aspects, the Code covers the following: bribes, conflicts of interest, gifts and other courtesies, relations with competitors, employment relations, child labour, forced labour, disciplinary practices, elimination of discrimination, freedom of association, wages and benefits, health and safety, environmental matters and the community, compliance and implementation, taxation, financial integrity and retention of records.

4.   Environment

This is covered under principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Safaricom has an environmental management framework which outlines our commitment to environmental management. It reinforces our existing internal operations with a comprehensive approach to environmental management.

In order to enhance our environmental performance, we have initiated plans to upgrade the current Isometrix environment management system to the latest version of IsoMetrix known as IsoMetrix.Net. From a management perspective, IsoMetrix allows executives to manage by exception and drive continual organisational improvement by providing instant real-time access to reports and performance criteria for effective decision-making.

Complying with environmental regulations is an important part of managing our environmental performance. We are currently required by law to comply with the following legislation:

- Environmental Management and Coordination Act, 1999
- Environmental Impact Assessment and Environmental audit regulations, 2003

- Noise and excessive vibration pollution regulations, 2006
- Waste management regulation 2006
- EIA licence conditions
- Kenya Civil Aviation Act
- Kenya Communication Commission Act
- Occupational safety and health Act, 2007

From an environmental performance perspective, we manage waste, e-waste, paper recycling, electromagnetic frequencies, waste, and environmental impact assessments and audits associated with our infrastructure. Our approach to managing each of these aspects is elaborated on below.

- **Waste management:** The Environmental Management and Coordination, Legal Notice: 121: (Waste Management) Regulations, enforced by NEMA, provide guidelines on the handling, packaging, treatment, condition, storage and disposal of waste. Waste generators are responsible for ensuring collection, segregation at source and proper disposal of their waste streams. They are also responsible for minimization of waste generation through adoption of cleaner production methods such as improved production processes, monitoring of product cycle and incorporation of environmental concerns in design and disposal of products. Safaricom employees and contractors are encouraged to adopt the waste management hierarchy (prevention, minimization, reuse, recycling, energy recovery and finally disposal) to promote waste minimization within our workplaces and encourage re-use and/or recycling wherever possible. Waste is separated to promote recycling and composting of biodegradable waste. All waste is collected by a National Environment Management Authority (NEMA) licensed waste collector. We avoid the usage of non-recyclable plastic containers; and also substitute thin plastic containers with durable containers.

- **E-waste:** The use of electronic and electrical equipment has increased globally leading to efficient operations and communications in all sectors of the economy. This has led to an increase in the production of such equipment at a larger scale, making it one of the fastest growing global manufacturing activities. On the other hand, the unrelenting pace of change in technology has also seen the massive change and improvement on electric and electronic products rendering them outdated at a very fast rate. This situation is coupled with increased access to low quality imported electronic goods and subsequent high rates of obsolescence. Electrical and electronic equipment contain various constituent parts like plastics, metals and precious and heavy materials such as gold, silver, platinum, copper, lead, cadmium and aluminium among others. Once an appliance has reached end-of-life these elements constitute e-waste. Improper disposal or handling of these can cause pollution to water bodies, soil contamination due to leakage of heavy

metals in the environment and air pollution if wastes are burnt in dumpsites. This has negative impacts both on the physical environment and effects human and animal health. Kenya, like many other countries in the developing world, currently lacks a legal framework on e-waste. The Waste Management Regulations, 2006 do not sufficiently address this category of waste.

On 17th October, 2012, Safaricom re-launched the e-waste recycling programme whose objective is to manage the impact of old/unused electronic gadgets from 'cradle to grave'. The initiative is aimed at collecting old electronics (phones, lap tops and related accessories) and handing them back to a recycler. To facilitate this, we designed specialized boxes for collection which were distributed to all retail centres and offices. We have also developed an e-waste information bulletin that is distributed to customers and other members of the public to raise awareness and urge them to drop their e-waste into collection boxes for recycling. Government ministries and learning institutions have also been engaged to prepare the waste in readiness for collection and recycling.

- **Paper consumption and recycling:** Safaricom started to manage its paper consumption in 2008, and we are currently drafting a responsible paper usage and printing policy. To minimize paper usage we recommend printing and photocopying only when absolutely necessary, with the default printers set to duplex printing. We use recycled paper as opposed to virgin paper, and all paper is shredded for the ease of recycling.

- **Electromagnetic frequencies:** At Safaricom we are committed to ensuring that our activities pose no risk to the health and safety of the communities in which we operate. As a result we have reviewed our EMF booklet answering the frequently asked questions in relation to mobile phones, masts and your health. We have a responsibility to remain conscious of our customers and indeed, the general public's questions and concerns.

- **Energy Security:** We have also embarked on projects to reduce energy consumption, and reduce maintenance hours across our business. These include:

  - Hybrid power supply systems for the Safaricom gym water system which use solar energy when available sunlight is viable and switches to electricity when the solar radiation levels are low.
  - Converting lighting in major offices (Safaricom Care Centre, Jambo Call Centre and HQ1) to LED lighting which is controlled by occupancy sensors.

- Converting retail shops to LED lighting controlled by occupancy sensors as part of the refurbishment project. To date lighting at 7 out of the 40 shops have been converted.

In order to manage energy security and enhance our business resilience, we have created redundancies in the energy infrastructure to ensure that should one system go down, it does not paralyse our operations. The redundancy has reached level 4 in critical facilities such as the HQ1 Data Centre, which refers to having four different backup systems as alternative power sources.

Redundancies have been created whenever there are opportunities for power upgrade (caused by increased demand), and have been implemented at JCC, HQ1 and HQ2. This has resulted in zero downtime for the last year and a half when electricity shortages have been experienced at the critical data centres due to reasons such as a main board going down and a generator catching alight after overheating.

Safaricom supported activities to mark 'World Environmental Day' which is celebrated worldwide each year to raise awareness and action on environmental issues. This year's theme was 'Green Economy: Does it include YOU?' In commemorating World Environment Day 2012, Safaricom in partnership with NEMA and other corporate entities, community groups undertook a number of conservation activities such as:

- Corporate tree planting that was held in Ngong Hills' forest as the culmination of the corporate Green Week. Safaricom participated and supported the activity where a total of 4,500 tree seedlings were planted on a five- acre land allocated by the Kenya forest service.
- Safaricom staff also participated in the National Mazingira Run held at Uhuru Park Nairobi. The aim of the run is to link sports with environment.

5.   Anticorruption, Ethics and Governance

This is covered under principle 10 that states that Businesses should work against corruption in all its forms, including extortion and bribery. At Safaricom we believe that good governance is the pillar on which we create value as an organisation.

Good governance is fundamental to business sustainability. We continue to make sure that our governance structures support effective decision-making and robust control, and are aligned to changing requirements as well as local and international best practice.

We are committed to ensuring that ethics and integrity become part of our day to day Business in Safaricom.

- We have constituted an ethics committee as an oversight body driving the ethics and integrity agenda in the company.
- We took an active role in drafting and signed up for the Kenyan Businesses Code of Ethics.
- We reviewed our ethical position and ethics management process to identify any improvement areas.
- We reviewed and approved code of ethics related policies such as the anti bribery policy, insider trading policy, gift policy and the blacklisting policy.

At Safaricom, risk management is everyone's responsibility. The Risk Management Division inculcates and embeds a culture of continuous and proactive identification and management of risk factors that ensure that emerging opportunities and threats are optimally harnessed. Management has embraced this practice and carries out periodic risk assessments to monitor our rapidly changing environment. These assessments are also used to ensure that our responses and controls are aligned to maximise value to the business. Independent assurance is provided by both internal and external audit functions while benchmarking to other leading Telecommunications operators is undertaken to ensure our Risk Management practices are improved year on year.

The Safaricom Way encapsulates Safaricom's ethical standpoint, and includes eight charters which describe our commitment to our stakeholders. We also have a number of other policy documents, such as:

- The Safaricom code of conduct - which provides guidance to staff on issues of integrity;
- The supplier and dealer codes of conduct - which provide guidance to business partners on issues of integrity.
- Other policies that cover ethical conduct which include: the corruption policy, gift policy, blacklisting policy, fraud policy, supplier sponsored trips, as well as amnesty agreements policies and guidelines.

Safaricom is a signatory to the United Nations Global Compact (UNGC). The UNGC is a strategic policy initiative for business that are committed to align its operations and strategies to the 10 universally accepted principles in the area of human rights, labour, environment and anti-corruption. Safaricom CEO Bob Collymore was appointed to the Global Board of the UNGC. The Board provides strategic and policy advice for the initiative and makes recommendations to the Global Compact Board Office, participants and other stakeholders.

We have engaged in a number of initiatives to ensure that we always act with the highest ethics and values.

- **CEO breakfast:** Safaricom recognizes that as part of a wider ecosystem it needs to partner with other businesses in promoting business ethics. With this in mind, Safaricom facilitated a CEO breakfast together with the Kenya Association of Manufacturers, which was attended by 30 CEOs. The breakfast focused on the role of private business and confirmed their commitment in fighting corruption.

- **Ethics risk assessment:** During the financial year, Safaricom commissioned an ethics risk assessment which was carried out by an independent consultant. The purpose of the survey was to engage with our internal and external stakeholders in order to gauge their perceptions and expectations of the ethics of the company. The stakeholders included staff, dealers/ agents, suppliers and government institutions that Safaricom frequently interacts with. The ethics survey formed critical input in developing Safaricom's ethics strategy.

- **Board Audit Committee self-assessment:** During the year, the Board Audit Committee (BAC) which amongst other duties has oversight over ethics management, carried out a self-assessment where the members rated themselves based on the Audit Committee Institute Questionnaire. The aim of the review was to enable the Committee to benchmark itself against best practice and also to identify any development opportunities. The BAC also developed its charter, policy and procedures were documented and approved in the year. In addition, the Audit charter and code of conduct were documented and approved by the BAC.

- **Controls self-assessment:** Safaricom implemented a controls self-assessment program in the year. We carried out a comprehensive documentation of the companywide controls to come up with the Safaricom Controls Framework. We then undertook a companywide controls self-assessment by the various process owners. The review was spearheaded by the Internal Audit function and its objective is to assist in developing a central database of all controls and to implement a controls conscious culture within the company. This will go a long way to enhance the process owner's involvement in reviewing the adequacy of their controls.

- **External quality reviews:** In accordance with internal audit standards, an external quality review was carried out of Internal Audit and IS Audit functions. The objective of the review was to gauge the functions compliance with the International Auditing standards and also to identify improvement areas. One of the key improvement areas arising from the review is the separation of the audit functions from the other risk management functions so as to enhance independence and effectiveness.

- **Audit reviews:** Thirty nine risk based audit reviews were carried out in the year. The objective of the reviews was to obtain assurance on the adequacy of the design and operating effectiveness of the controls in the scoped processes. Twelve in-depth fraud reviews were carried out in the year. The reviews are designed to identify instances of fraud and to plug any fraud loopholes identified.

- **Companywide risk assessments**: Enterprise risk assessments were carried out to ensure that enterprise risks are anticipated before they arise and that Safaricom takes advantage of any arising opportunities and mitigate against the threats. Companywide fraud risk assessments were carried out with the aim of identifying high fraud risk areas and making recommendations to reduce the risks. Fraud risk assessment is also crucial in identifying areas that require more in-depth fraud detection reviews.

- **Investigations:** 49 Investigations were carried out within the year by Safaricom's internal investigation team, which covered various frauds including asset misappropriation, fraudulent expense claims and corruption cases. The investigations lead to disciplinary action against involved staff, blacklisting of involved companies and in some cases the frauds were reported to law enforcement agencies for follow up. Following the investigations control improvements were carried out to ensure that the fraud loopholes identified are sealed.

- **Awareness sessions:** For all high ethics/ fraud risk areas face to face awareness sessions were carried out regardless of the staff level. The sessions are customized to discuss fraud and ethic risks that are relevant to the attendants. Some of the topics covered include; conflicts of interest, corruption and fraud trends.

- **Ethics newsletters:** Ethics newsletters were sent out to all staff, and covered topics such as acceptable gifts, recent frauds and their outcomes, and the activities of the ethics committee.

Last Word

Safaricom was involved in the the following meetings related to the principles of the UNGC:

- Hosting of the CEO's roundtable on Ethics and Anti-corruption in February 2013

- Co-hosting of the Africa/Middle East Regional Networks Meeting for the UN Global Compact in February where Safaricom presented on the evolution of the political messaging policy initiative, and maternal health programme in February 2013

- Participation at the United Nations Disaster Mitigation and Response forum in Arusha in December 2012

- Presentation and Discussion on Child Rights at World Child and Youth Forum at the Royal Palace in Stockholm in March 2013

In addition, a member of the Sustainability team has been appointed to the United Nations Global Compact Advisory Council on Supply Chain Sustainability

We are currently in the process of developing our second sustainability report. The report will be issued in July 2013 and uploaded as a replacement for this report.