



## GOVERNANCE, RISK AND REGULATION

Strong corporate governance, ethical behaviour, robust risk management and regulatory compliance form the foundation upon which we build and sustain value. These are fundamental to commercial sustainability and investor trust and, of such importance, we consider them to be material matters. Without the correct corporate checks and balances in place, the positive reputation and trust we enjoy as an organisation could be damaged. If we fail to comply with relevant regulations, we are likely to suffer penalties, fines, other remedial sanctions and reputational damage.

### PERFORMANCE HIGHLIGHTS

Non-compliance register	FY15	FY14	FY13
Number of fines for non-compliance	1*	1	1
Cost of fines for non-compliance (KSH)	500,000	500,000	500,000
Non-monetary sanctions for non-compliance	1†	0	0
Legal actions lodged for anti-competitive behaviour	0	1	0

\* Communications Authority of Kenya (CA) Quality of Service (QoS) fine † Agent networks agreement

Anti-corruption preventative measures	FY15	FY14	FY13
Ethics and anti-corruption staff training (% of total staff)	94%	94%	60%
High risk departments*	97%	98%	
Medium risk departments	83%	81%	

\* Due to the nature of their work, these departments are more susceptible to fraud

### MANAGEMENT APPROACH

From a governance perspective, we ensure that Safaricom is run in an ethical, transparent and accountable manner by having robust governance processes and structures in place, along with explicit guiding principles and clear lines of responsibility.

This minimises the risk of corruption and fraud, which, in turn, bolsters the reputation and trust we enjoy, strengthens employee morale and engagement, and improves stakeholder sentiment and interest. Unlawful or dishonest dealings will not only impact revenues negatively, and damage the brand and reputation of the company in the market, but are likely to result in legal charges, potential imprisonment, fines, a loss of investment and other unconstructive consequences.

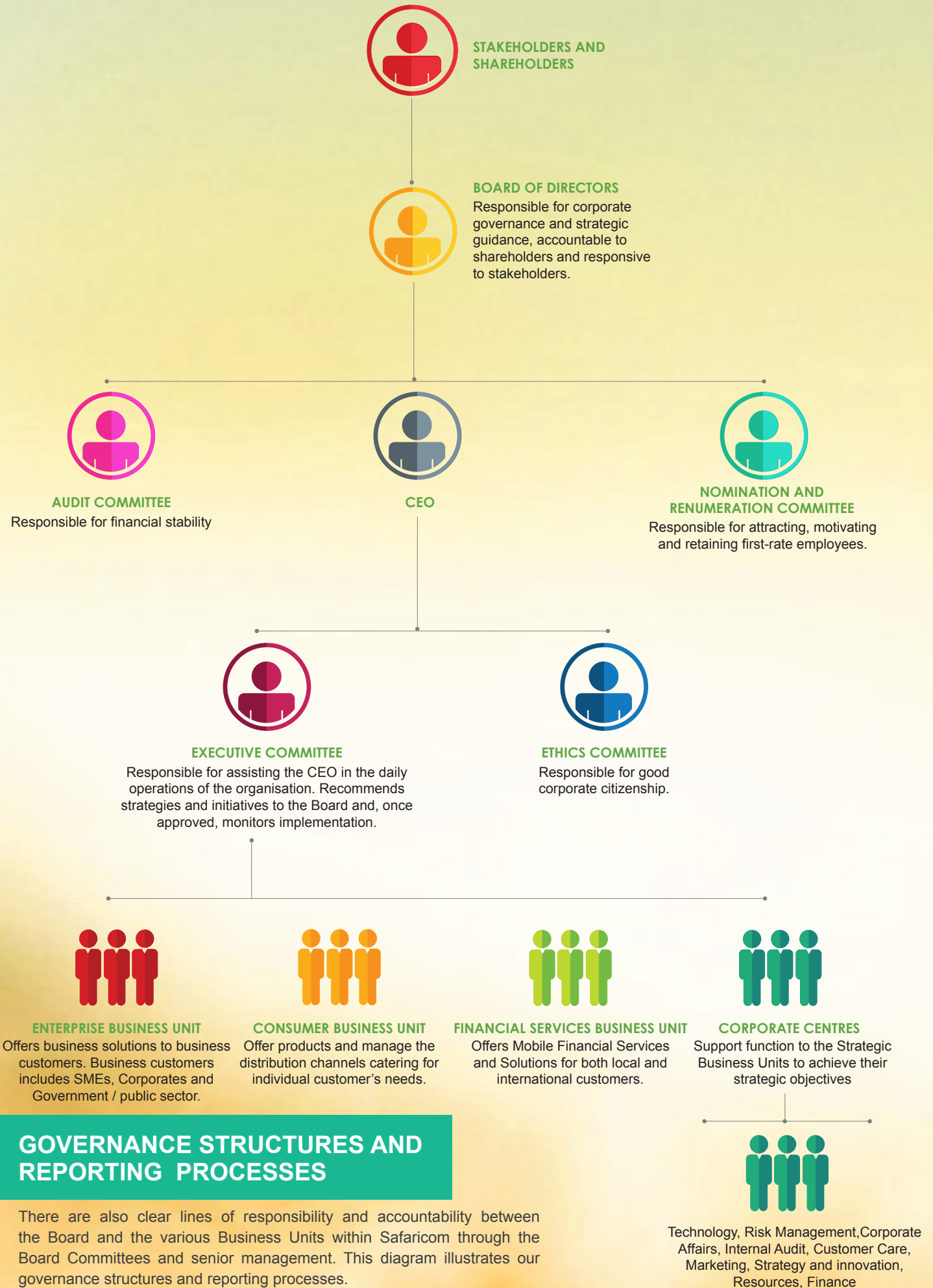
Our response to governance is multi-dimensional and requires having the right structures in place and then monitoring and evaluating these regularly. The Board of Directors is, ultimately, responsible for corporate governance throughout the organisation and the behaviour of members is governed by an explicit Governance Charter. Members of the Board also undergo collective and individual performance assessments at least once annually.

### The Board of Directors

The Board is closely involved in approving the strategic plans of the organisation, which include factors affecting sustainability. During the reporting period, the Board met twice to review strategy, and the CEO updates the Board on economic, social and environmental performance every quarter. The CEO is responsible for social, economic and environmental performance and is the sustainability champion on the Board.

The Safaricom Board consists of 9 members, 8 non-executive and one executive director. The Board undertakes conflict of interest declarations and any potential conflicts of interest are discussed during meetings of the Board; if applicable, these conflicts are disclosed appropriately. All employees at Safaricom also make declarations, in terms of employee relations and/or business relations.

The Nomination and Remuneration Committee (REMCO) recommends and nominates individuals for Board interviews. Members of the committee consider specific skills (technical, telecommunications, financial and general management) and gender when assessing potential candidates. Shareholders also nominate people to the Board.



## GOVERNANCE STRUCTURES AND REPORTING PROCESSES

There are also clear lines of responsibility and accountability between the Board and the various Business Units within Safaricom through the Board Committees and senior management. This diagram illustrates our governance structures and reporting processes.



Our **risk management** processes support our governance objectives. Our risk management response is primarily managed through the bi-annual risk assessments carried out by the Risk Management Division. These assessments are supported by in-depth audit reviews of specific internal controls within the organisation and fraud reviews of processes that are prone to, or are suspected of being compromised. We also benchmark ourselves against other leading telecommunications operators and independent assurance is provided through both internal and external audit functions. As a company, we apply the Precautionary Principle to all of our activities to help ensure that we continue to act as a responsible corporate citizen.

While risk management is considered everybody's responsibility at Safaricom, accountability for this function lies with the Risk Division and its Director sits on the Executive Committee.

Underpinning governance and risk management are our **ethics and values**, which are the principles and standards that guide our behaviour as employees and individuals. Our response to this is primarily managed through our ethics perception survey, an independent assessment of the opinions of our internal and external stakeholders conducted by an external party every two years, along with preventative measures like our ongoing ethics awareness and staff anti-corruption training programmes.

The Ethics and Compliance Department (ECD) is responsible for managing ethics and values within Safaricom. This department forms part of the Risk Division and its Director sits on the Executive Committee.

The ECD reports to both the Ethics Committee, which is chaired by the CEO, and to the Board Audit Committee through the Director of Risk Management. We also have ethics champions in different divisions who have been trained on ethics and values and will act as the 'first point of contact' in that division. The ECD engages with all divisions within Safaricom.

Ensuring that we remain compliant with **regulatory** demands is necessary, not only to make sure we are operating in a lawful manner and to the correct standards, but to avoid exposure to the remedial measures available to the regulators, such as onerous fines, non-financial sanctions and, ultimately, the revoking of our licence to operate.

Our response to this is primarily managed by assessing our processes against applicable laws to ensure that we are compliant and reviewing the effect of changes in legislation on our internal processes. We also proactively engage with our regulators on all issues through a variety of channels (please see the stakeholders section on page 66 of this report for further information about this important relationship).

The Regulatory and Public Policy Department is responsible for managing regulatory issues on behalf of Safaricom. This department sits within the Corporate Affairs Division. The Department interacts with different teams across the business, in particular, the strategic business units (CBU, EBU and FSBU), Technology and the Risk divisions. The Corporate Affairs Director sits on the Executive Committee, which has oversight on regulatory issues.



## COMMUNICATIONS AUTHORITY OF KENYA REVIEWING METHODOLOGY

Along with every other mobile network operator in Kenya, we were again fined KSH 500,000 by the Communications Authority of Kenya (CA) during the year. The CA is mandated by government to ensure that operators are delivering services of an adequate quality. Accordingly, the CA tests every operator against eight Quality of Service (QoS) measures it has developed annually. Operators that fail to meet any of these criteria are fined. The results of these tests are made available to the public and published on its website. We are pleased to note that the CA has taken operator concerns regarding the QoS measures it is using onboard and is currently reviewing the methodology that underpins its testing framework.

## OPENING OUR AGENT NETWORKS TO DEEPEN FINANCIAL INCLUSION

In July 2014, we agreed to open up our agency networks and allow Safaricom agents to sell the products and services of other mobile operators. We are happy to do this because we want to see the market progress and

expand since we believe this will help deepen financial inclusion in Kenya, which remains one of our strategic objectives. We also welcome increased competition, not only because we are confident in the quality of our products and services, but because we believe it will encourage us to continue to innovate and find new ways of offering even more value to our customers.

## MAINTAINING OUR FOCUS ON RISK

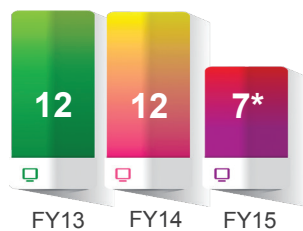
We launched a new framework for our comprehensive risk assessments during the year, switching from assessments demarcated by division to company-wide evaluations based the seven strategic pillars of the organisation. The new framework not only better reflects the concerns and objectives of the business, but has also eliminated the potential 'gaps' that existed between divisions.

Each of the seven assessments was conducted twice during the year and encompassed the following categories: enterprise risk management, operational risks, strategic risks and ethics risks per strategic objective. Mitigation plans were then developed to counter any of the risks identified.

## ANTI-CORRUPTION MONITORING MEASURES

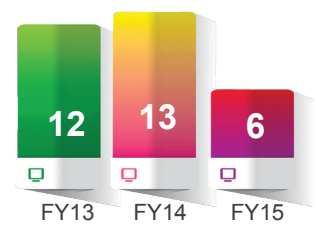
(These statistics are as at 31 March 2015)

### Risk assessments (Bi-annual)

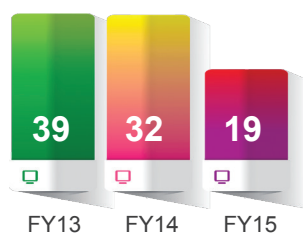


\* reflects a change in methodology

### Fraud reviews



### Audit reviews



### Special request reviews



We also took proactive steps to identify cases of fraud. This included the use of the fraud management system to identify possible cases of fraud and to carry out in-depth fraud reviews to determine whether fraud had occurred within key processes. Six fraud reviews were carried out during the year under review. The fraud reviews have been key in uncovering frauds and also in proactively enhancing controls to prevent the occurrence of fraud in the future.

Nineteen audit reviews were also carried out during the reporting period. The objective of the reviews was to obtain assurance on the adequacy, design and operating effectiveness of internal controls. Eleven additional reviews were carried out that were special requests from management.

Where unethical action was suspected during the year, investigations were undertaken. The investigations covered various frauds, including asset misappropriation, fraudulent expense claims and corruption cases. The investigations led to disciplinary action against members of staff and, in some cases, reporting cases to law enforcement officers and prosecuting suspects.

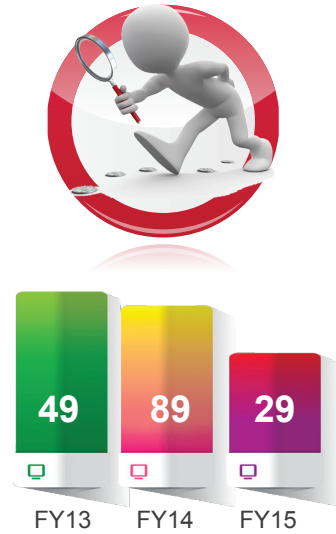
Although every case of fraud is one too many, it is noted that the overall number of cases dropped during the year (29 investigations were conducted in FY15 in comparison to 89 in FY14). The reduction in the number of investigations reflects a much improved internal controls. The increase in the number of individuals dismissed is due to a single 'absconding of duty' case in which 30 members of staff were involved.

## ETHICAL STANDARDS AND BEHAVIOUR CONTINUE TO IMPROVE

An independent ethics perception survey was conducted by the Ethics Institute of South Africa in January 2015. The purpose of the survey is to measure the 'ethical climate' within Safaricom. We are pleased to be able to report that the survey has become even more representative, with above 70% of all Safaricom employees (3,474) completing the survey this time, up from 44% in 2012. As well as the staff questionnaire, the survey included interviews with 10 Executive Committee (Exco)

## ANTI-CORRUPTION CORRECTIVE MEASURES

### Fraud cases investigated



### Outcomes of investigations

	FY15	FY14	FY13
Disciplinary warnings	13	16	8
Dismissals	58	56	55
Cases reported to law enforcement agencies	4	7	28

members, five non-executive directors, 15 suppliers, five dealers, four of our regulators, and three focus groups (with Heads of Departments, senior managers and other staff members).

The overall outcome of the survey was a perceived improvement in ethics management within the organisation. Awareness of ethical issues and how to deal with these is considered to have improved significantly, along with the example being set by management. The whistle-blowing 'ethics hotline' is also seen as more trustworthy and effective. Areas that could be improved were identified, nonetheless, including management being more open to targets not being met because of ethical considerations and to finding ways to reward exemplary ethical behaviour.

### Anti-corruption preventative measures

Ethics and anti-corruption staff training (% of total staff)	94%	94%	60%
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The Safaricom employees who participated in the ethics perception survey reported an improved awareness of ethical issues and a clearer understanding of appropriate behaviour. This suggests that our continued focus on disseminating knowledge through anti-corruption and ethics awareness training has been a success. All new employees receive ethics and anti-corruption training during their induction and awareness is reinforced through quarterly ethics bulletins.

## ETHICS TRAINING

Every member of staff is expected to attend ethics training at least once a year. We have been able to achieve a 94% attendance rate for the last two years. Most of the training is undertaken through face-to-face sessions and supplemented by e-learning courses. The awareness training is tailored to address the specific ethics risks faced by the attendees. For high corruption-risk departments, the training focuses on anti-corruption and bribery.



A highlight of the year was the popular Ethics Awareness Week in August 2014. During the week, various activities are carried out to create awareness of ethical issues. The activities carried out during the week included: discussions on ethics by the CEO and other senior leaders; rewarding our 'ethics heroes'; ethics quizzes; and heightened messaging on ethics via the electronic staff bulletin, posters and merchandise given to staff.

## BUSINESS PARTNERS TRAINING

In response to our FY14 strategic recognition that our environment extended beyond Safaricom and into our commercial ecosystem, we expanded the ethics training and rolled out to business partners and suppliers.

During prequalification, business partners are provided with a supplier code of conduct that highlights our ethical expectations of them. Prequalification is carried out during the first engagement with the business partner and every two years subsequently. To ensure business partners and suppliers understand the code, targeted training is provided on areas that are specifically relevant to them. This year, the emphasis was on how good ethics management will benefit them as opposed to a compliance-based approach.

## LOOKING AHEAD

From a regulatory perspective, we will continue to ensure compliance with the current laws and regulations affecting our business operating environment. We are proactively engaging with the Communications Authority of Kenya (CA) on three issues, in particular:

### Information and Communications Sector Regulations

The CA has begun a comprehensive review of the regulations governing the sector and is proposing to impose retail price controls on perceived dominant

operators. While we welcome attempts to grow the market and to provide consumers with the very best offerings in terms of variety, price and quality, we are concerned that the current proposals will unduly impact our ability to respond to market forces and to compete fairly.

### National ICT Policy

In October 2014, the government published a draft ICT policy for stakeholder comments and input. We have made formal submissions in response regarding infrastructure sharing, the county telecommunications operators, the reduction of radio spectrum fees and the need to include incentives for environmental management.

From a **risk management** perspective, we plan to conduct two company-wide risk assessments and six fraud reviews during the year ahead and, in terms of ethics, we plan to ensure 97% of members of staff receive training, along with 80% of our dealers and our top 200 suppliers.

As a country, fraud and corruption remains a common practice. Being part of this ecosystem we remain susceptible to this vice and more concrete measures needs to be taken to fight and change this culture both internally and externally