Centum Group Chief Executive Officer

Annual Letter to Shareholders

Dear Shareholder,

It gives me great pleasure to present to you the 2018/2019 financial report which is the last year of the Centum 3.0 five-year strategy period that commenced on April 1, 2014.

Performance over the Centum 3.0 strategy period

Aggregate Performance

Centum's gain in net worth over the five years since the strategy period began on April 1, 2014, has been Kshs 29.7 Billion, with the book value of shareholder funds having increased from Kshs 22.9 Billion on March 31, 2014, to Kshs 52.6 Billion on March 31, 2019. This increase, when adjusted for cumulative dividends paid of Kshs 2.26 Billion over the period, represents a gross return on the book value of shareholder funds of Kshs 31.9 Billion. This is a cumulative return of 139% or a compounded annual return of 19%.

This is as opposed to the Nairobi Securities Exchange (NSE) share index which closed on April 1, 2014 at 4,959.96 and declined to 2,846.35 as at March 31, 2019, a 42% drop or a 10.5% annual decrease. The significant outperformance of our investment portfolio relative to the NSE index, is a validation of the prudence of the original strategy to diversify our investment portfolio away from listed securities as was the case before and to focus on the alternative asset space of private equity, real estate and infrastructure. Unfortunately, the Centum share performance was affected by the market underperformance. We closed March 31, 2014 with a share price of Kshs 36.50, representing a market capitalisation of Kshs 24.3 Billion. By March 31, 2019, the share price was at Kshs 32.0, which represents a market capitalisation of Kshs 21.3 Billion.

This was despite the significant growth in the book value of shareholder funds. The current market capitalisation of the Company is only 40% of the book value of shareholder funds. I will be discussing later in the letter the steps we intend to take to reduce the Share Price to Net Asset Value (NAV) per share gap.

The constituents of the growth in book value of shareholder funds by asset class at the beginning and at the end of Centum 3.0 is set out below:

	31 March 2014	31 March 2019
	Kshs Million	*Kshs Million*
Investment Portfolio[1]		
Private Equity	15,603	26,937
Real Estate	9,141	35,854
Marketable Securities	3,807	3,834
Development	52	3,913
	28,604	70,538
Cash & Bank Balances	175	253
Other Assets	33	853
Total Assets	28,811	71,644
Borrowings	4,201	16,145
Other Liabilities	1,675	2,899
Shareholder Funds	**22,936**	**52,600**

139%
Cumulative return on shareholder funds 2014-2019

19%
Compounded annual return on shareholder funds 2014-2019

[1]*Portfolio numbers differ from financial statements due to accounting classification of cash and other assets across the segmental allocation*

Asset Class Performance

The table below sets out the performance for each of our asset classes.

Value Attribution in Kshs Millions								
Asset Class	Opening Value April 1, 2014	Net Investments	Dividends	Proceeds	Value Realised from Transactions	Unrealised Value	Closing Value March 31, 2019	Centum 3.0 Return (%)
Private Equity	15,603	7,979	3,044	(12,414)	6,685	6,040	26,937	31%
Real Estate	9,141	10,612	-	(4,655)	3,153	17,603	35,854	29%
Marketable Securities[2]	3,807	(1,999)	427	1,621	-	(23)	3,834	39%
Development	52	3,861	-	-	-	-	3,913	-1%
Total	**28,603**	**20,453**	**3,471**	**(15,448)**	**9,838**	**23,620**	**70,538**	**32%**

[2]Realised value from Marketable Securities was reinvested into the portfolio and contributed to the closing value

Private Equity

The Private Equity class remained a significant driver of returns for Centum, reflecting the success of our active portfolio management strategy. The Centum private equity portfolio recorded an impressive 31% IRR over the Centum 3.0 strategy period. The table below set out the asset by asset performance of each of the assets in the private equity portfolio and provides an attribution analysis per asset of the split of the value created between dividends, earnings growth and multiple enhancement.

Value Attribution of the Key Private Equity Assets in Kshs Million							
Asset	Opening Value April 1, 2014	Investments	Dividends	Earnings Growth	Multiple Expansion	Change in Net Debt	Closing Value March 31, 2019
Almasi Beverages	1,802	1,459	449	6,187	867	(464)	9,851
Nairobi Bottlers	2,848	-	873	3,528	2,518	(1,982)	6,912
Sidian Bank	56	4,526	-	1,753	(3,021)	-	3,315
Isuzu East Africa	2,076	-	541	(2,183)	(1,459)	3,587	2,021
Longhorn Publishers	266	517	180	593	(382)	46	1,040
NAS Servair	594	-	426	194	13	81	882
ACE Holdings	-	711	-	-	-	-	711
King Beverage	-	533	-	-	-	-	533
Zohari Leasing	-	253	-	-	-	-	253
Total[a]	**7,642**	**7,999**	**2,469**	**10,073**	**(1,464)**	**1,268**	**25,518**

31%
Gross return from Private Equity

39%
Value attributed to growth in earnings

[a]Excludes Nabo and Centum Business Solutions which are service entities within the Group

Real Estate

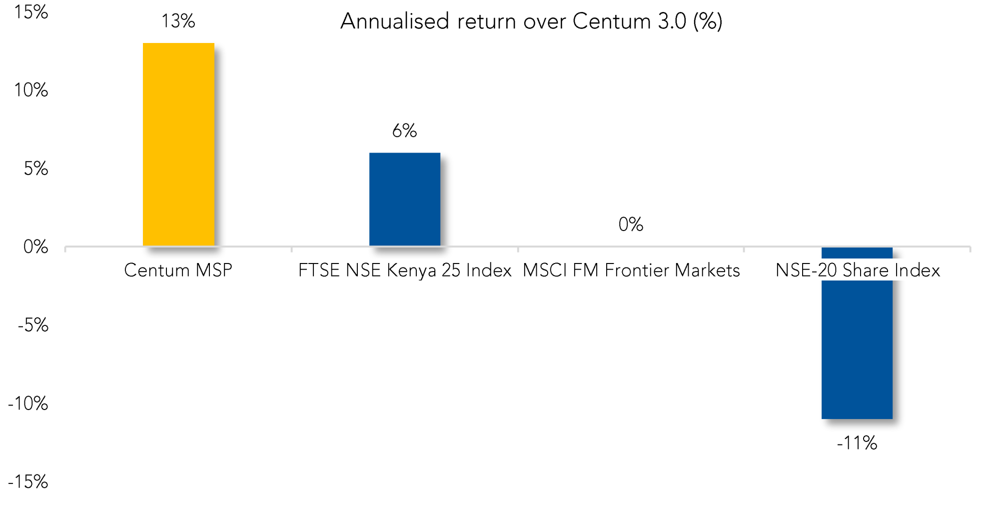
The Real Estate class had a favourable performance as well driven primarily by the uplift in value of the land banks, supported by land sales and infill development activities at the project and development level.

Value Attribution in Kshs Million									
Land Bank	Cost of Acquisition	Size (Acres)	Implied Cost per Acre	Additional Investment	Current Valuation	Value Uplift	Effective Acreage	Current Valuation per Acre	Recent Transaction per Acre
Two Rivers	2,000	102	18.7	4,394[b]	14,469	2.3x	47	304.9	432.7
Pearl Marina	3,890	389	10.0	2,663	9,442	1.4x	389	23.6	29.0
Vipingo	2,100	10,254	0.2	1,404	16,838	4.8x	10,254	1.6	10.0

[b]Additional investment in Two Rivers represents the capital raised at Two Rivers Development from AVIC and ICDC, with our shareholding representing our carried interest in the development

Marketable Securities

The Marketable Securities Portfolio (MSP) generated strong performance over the Centum 3.0 strategy period, outperforming all comparable market indexes. During the period, MSP contributed Kshs 2.5 Billion in liquidity to Centum in line with its mandate of contributing cash and additional liquidity.



Performance against the 3.0 Strategic Pillars

<table>
<tr><th>Centum 3.0 Objective</th><th>Actual Performance</th></tr>
<tr><td>Earn a return of 35% over the strategy period</td><td>
The aggregate asset return over the strategy period was 32% with the performance per asset class as follows:
<table>
<tr><th colspan="2">Gross Return over Centum 3.0</th></tr>
<tr><td>Private Equity</td><td>31%</td></tr>
<tr><td>Real Estate</td><td>29%</td></tr>
<tr><td>Marketable Securities</td><td>39%</td></tr>
<tr><td>Development</td><td>-1%</td></tr>
<tr><td>Aggregate Return</td><td>32%</td></tr>
</table>
The performance of the Private Equity and Real Estate asset class was 31% and 29%, respectively, as opposed to the target 35% return. The Marketable Securities portfolio performance was 39% and performed even better when tracked against comparable market indexes.
The performance of the Development portfolio was disappointing and significantly below expectations. The reasons for the disappointing performance range from the challenges of developing and scaling up greenfield ventures to significant delays to the uncertainties that we have faced in the power development projects. I will discuss this in further detail in the business commentary section.
We have picked the lessons of what has worked well and what has not worked and applied them in the Centum 4.0 strategy. The major lesson from Centum 3.0 was that greenfield business and project development requires a significantly longer period than we had initially anticipated and that the actual risks are not necessarily aligned with our risk appetite.
</td></tr>
<tr><td>
To focus and build capabilities in eight sectors, namely:

Financial Services
Fast-Moving Consumer Goods
Real Estate
Power
Education
Agriculture
Health Care
Information Communication and Technology (ICT)

</td><td>
We are active in six of the eight sectors, and we do not yet have a portfolio presence in health care and information communication and technology (ICT).
The initial approach of investing in health care was through the establishment of a greenfield venture in partnership with a very successful international health care company. However, following a review of the performance of the Centum 3.0 strategy and, in particular, the performance of our development portfolio, we decided not to pursue a greenfield as a market entry strategy. We will, however, seek opportunities in this sector as part of our Private Equity portfolio in opportunities that are aligned to our investment criteria.
We evaluated a number of buy-out and growth capital opportunities in the ICT sector in the period, but we did not close on any as none met our investment criteria. We, however, hope to make investments in this sector within the Centum 4.0 period.
</td></tr>
<tr><td>Scale the assets to Kshs 120 Billion</td><td>We closed Centum 3.0 with an asset base of Kshs 71.6 Billion, up from Kshs 28.8 Billion, a 149% growth. The Centum 3.0 strategy had assumed firstly, that we would take on a significantly larger level of borrowing than we eventually ended up with. Secondly, that we would continue with a zero-dividend policy. We resumed dividend payment in 2015/2016 and have to date paid out Kshs 2.3 Billion in dividends. Thirdly, that market conditions would have been significantly better than what was experienced. Finally, that the development portfolio would have performed significantly better than it did.</td></tr>
<tr><td>Brand</td><td>We continued to develop the Centum brand, which is today recognised nationally and across the continent as a credible, reliable and preferred investment partner.</td></tr>
<tr><td>Cost</td><td>We maintained operating costs at an average of 1.5% of total assets and by the time we closed the 2018/2019 financial year, costs as a proportion of assets were at 0.9%.</td></tr>
</table>

Centum 4.0 Strategy

The Board of Directors approved the Centum 4.0 strategy in February 2019. The Centum 4.0 strategy will guide the business over the coming five-year period ending March 31, 2024. The objective of the 4.0 strategy is to build on our achievements and lessons learned in Centum 2.0 and 3.0 and create an institution that will consistently deliver value for all its stakeholders while taking a reduced level of risk in the context of the current prevailing challenging economic environment. The underlying themes of the 4.0 strategy were:

i. Consistent and steady value creation with an emphasis on cash return;

ii. Prudent risk management;

iii. Strong governance and institutional structures at the Centum level and all its subsidiaries to enable consistency in the delivery of objectives; and,

iv. The need to close the share price to NAV per share gap and, thereafter, endeavor to ensure that the share price reflects underlying value creation.

It was in the context of these themes that we developed Centum 4.0 with five strategic objectives.

Financial Objectives

Return and Dividend Pay-out

i. Generate a minimum return on equity of 20%;

ii. Optimise dividend pay-out to the minimum of 30% of the cash annuity income (excluding capital gains) or the previous year's dividend payout.

Capital Structure and Liquidity

i. Balance sheet strengthening through repayment of all long-term debt obligations (i.e., zero long-term debt capital structure) at Group level. All non-recourse debt should be taken at the project/asset level;

ii. Double the book-value of shareholder funds to over Kshs 100 Billion by FY2024;

iii. Maintain a minimum of 12-months cash cover to fund all cash operating expenses and dividends and any other cash investment obligations falling due within 12 months.

Operating Costs

i. Maintain a maximum operating cost-to-cash annuity (cash annuity income will exclude capital gains) income ratio of 30% for the Group;

ii. Ensure each business unit maintains its operating costs within the management fee income earned from their respective portfolios.

Non-Financial Objectives

Portfolio Focus

Focus on three core business units, namely:

i. Real Estate portfolio (Target asset allocation: 45-55%)

ii. Private Equity portfolio (Target asset allocation: 30-40%)

iii. Marketable Securities portfolio (Target asset allocation: 10-20%)

Continue to develop the existing Development portfolio without making capital deployments to new development assets.

Organisational Effectiveness

i. Ensure optimisation of Centum's operating model to support effective and efficient execution of its strategy, including governance, structure, people, processes, technology and culture.

We believe that the target return on the book value of shareholder funds of 20% is realistic and consistent with our track record given the following facts:

a. We achieved a return on the book value of shareholder funds of 19% in Centum 3.0 even with the development asset class, which is a major asset class underperforming; and

b. We incurred a significantly higher cost in debt service, which reduced the return on equity in Centum 3.0, whereas we plan to totally deleverage the balance sheet in line with our theme of prudent risk management.

A 20% annual rate of return consistently delivered over the next five years should grow the book value of shareholder funds by Kshs 78 Billion. We expect to deploy between 15% and 25% of this amount in dividends and in funding the buyback of our shares, which we consider significantly undervalued.

In line with the objective of closing the Price to NAV gap and following significant investor engagement, we are of the view that an enhanced dividend payout and a share buyback will bring the share price in line with the NAV per share.

To enable us to deploy capital to the objectives of enhancing the dividend and buying back our shares it is essential that we divert the cash flow that we are currently utilising in annual debt service to this objective. We currently incur close to Kshs 1.8 Billion a year in interest expense. If this amount was directed to buying back our shares at a 10% premium to the current average price of Kshs 32 per share, we would purchase approximately 56 Million shares every year. This effort sustained over a three-year period would translate to a purchase of 168 Million shares. This would have the effect of increasing the dividend per share by 33%, assuming we kept the absolute dividend payout at the current Kshs 799 Million per year.

It is against this context that we have set for ourselves an objective of retiring our entire debt. The major tranches of our debt are a USD 75 Million facility which we will repay using the proceeds of the ongoing Almasi Beverages and Nairobi Bottlers exit, where we expect to realise approximately Kshs 19 Billion. The second major tranche of our debt is the Kshs 6.1 Billion corporate bond that matures in May 2020, and which we plan to retire using internally generated funds.

Our subsidiary business lines and the portfolio companies are, however, free to borrow to finance their investment opportunities and operations, provided that borrowing is non-recourse to Centum and it can be serviced from the cash flows of the investment opportunity that they are seeking to make.

The twin objective of enhancing dividend payouts and buying back our shares has therefore, informed our objective to focus on investments that can provide a more regular cash generative investment. In addition, the current market conditions caution against pursuing a strategy highly dependent on capital gains at the point of exit.

To provide our shareholders with a consistent dividend payout, we have pegged the payment of dividend to the annuity cash flows. The dividend policy is to pay out the higher of 30% of cash annuity income and the previous year’s dividend. Our objective will, therefore, be to increase the annuity portion of the income of the business and to be less reliant on lumpy exit proceeds.

We have changed our cost structure benchmark from a cost to asset ratio to a cost to current income ratio, which excludes capital gains. This will ensure that expenses are funded from the current income of the company and that we do not dilute shareholder return on capital gains.

After lengthy deliberations and considering different organisational structures, we concluded that the best parenting model for Centum vis-à-vis its subsidiaries is one where Centum offers strategic guidance to independent subsidiaries and investee companies. To further simplify our business model, we have re-organised our portfolio into three business lines and a support services hub:

i. **Centum Real Estate (Centum RE):** Centum RE is a wholly owned subsidiary that holds and manages Centum's real estate assets. These holdings are currently Centum's 58% stake in Two Rivers Development Limited, 100% holding in Vipingo Development Limited, 100% holding in Pearl Marina Estates Limited and a 100% holding Athena Properties Limited which is a real estate development and project management company.

   This business is led by Samuel Kariuki who is also our Group CFO but is in the process of transitioning out of the Group CFO role. Samuel has proven himself to be very capable, especially in structuring funding given that this is a capital-intensive business, instilling financial discipline in an area where that is key and effective project management. The success we have recorded to date is largely on account of Samuel and his team's leadership. He is supported by a capable development team with specialisations in all disciplines of real estate development, sales and marketing.

ii. **Centum Capital Partners (CCAP):** CCAP is a wholly owned subsidiary of Centum and is a private equity fund manager. It is currently managing Centum's private equity assets and has a mandate to manage new private equity funds that will attract third-party capital alongside Centum's own capital. Due to the fact that we will not be deploying capital to new development opportunities, CCAP is responsible for the portfolio management of Centum's existing development portfolio, the bulk of which is Centum's investment in Amu Power, Akiira Power and Greenblade Growers.

   CCAP is led by Fred Murimi, who joined the company eight years ago as the Corporate Affairs Director and Company Secretary. In this position, Fred was the force behind many of the transactions that we did. He moved on to manage the private equity portfolio four years ago and, in that role, he immersed himself into portfolio management. He has been very instrumental in the success of the current fund. Fred is supported by a very capable team.

iii. **Nabo Capital (Nabo):** Nabo is a wholly owned subsidiary and is a licensed asset manager. It was established five years ago and at the time it only managed Centum's marketable securities portfolio. It has over the last five years built an impressive roster of other clients, in addition to an impressive track record of market-beating performance in the marketable securities asset class across the African continent. We intend to continue to employ the services of Nabo to manage our marketable securities portfolio.

   Nabo has been led by the very capable Pius Muchiri since its inception in 2014. Pius joined Centum 15 years ago and has done a tremendous job in building a top tier company.

iv. **Centum Business Solution (CBS):** CBS is a wholly owned subsidiary of Centum which houses all the business support functions. These include, but are not limited to; finance, treasury, human capital management, legal, company secretarial, tax, internal audit, risk, information systems and corporate communications. CBS performs two services for the Centum group. The first is the responsibility for oversight to ensure compliance and adherence to the group guidelines. The second is as a shared services centre to enable the business lines to tap into a centre of excellence and access services at a lower cost than they would otherwise have accessed had they been standalone entities. This structure has reduced risk and cost across the group while enhancing effectiveness. CCAP, for example, has access to an impressive breadth and depth of capability that would not ordinarily be available to a private equity fund manager and that capability is also available to CCAP's portfolio companies. CBS runs as a profit centre and has a client orientation with the various clients, Centum included, paying fees and receiving services as per a client service level agreement.

   CBS is run by Thomas Omondi, who joined us in 2018 from Kenya Airways where he served for 13 years and in different senior roles, including Chief Transformation Officer, Director – Strategy and Performance Management and Commercial Director. Thomas has brought a valuable skill set to the Group and is principally responsible for delivering the organisational effectiveness pillar of our strategy. During the year, Mwangi J. Mbogo was appointed as the Company Secretary in February 2019, having joined as in September 2018 as the Group Chief Legal Officer. Mwangi brings a wealth of experience in corporate and commercial transactions, including mergers and acquisitions, joint ventures and partnerships, as well as real estate and conveyancing transactions.

2018/2019 Financial Review

I will focus my review on our Company Financial Statements which present a clearer picture of Centum's performance as an investment Company. The group financial statements are distorted by the consolidation effect of subsidiaries such as Almasi Beverages and Sidian Bank. The group financials would be relevant if Centum was an operating holding company and therefore consolidating the performance of its operating subsidiaries.

Total Return Statement for the Year (KES Millions)	March 31, 2019	March 31, 2019
Dividend Income	700	2,040
Interest Income	1,197	1,347
Other Income	8	133
Realised Gains	1,262	9
Unrealised Gains	4,239	4,001
Gross Return	**7,406**	**7,530**
Portfolio Costs	(631)	(853)
Finance Costs	(1,710)	(1,646)
Current and Deferred Tax	(353)	(354)
Total Return	**4,712**	**4,677**
Opening NAV	48,686	44,807
Gross return as a percentage of opening NAV	**9.7%**	**10.4%**

Total return was Kshs 4.71 Billion, which was largely flat compared to the previous year's total return of Kshs 4.68 Billion. The total return is a measure of both realised and unrealised gains net of all costs and interest expenses. Total Return as a percentage of opening shareholder funds was 9.7%, down from 10.4% the previous year. This was a reasonable return considering that the listed markets declined by 25.7% in the period and this has an impact on both our marketable securities portfolio and the private equity portfolio, given that we use listed market comparators to value our private equity portfolio.

The major drivers of total return on the income side are dividend and interest income, realised gains and unrealised gains. Dividend and interest income declined but this was offset by an increase in the realised income. Unrealised income is largely driven by valuation movements in the underlying portfolio. We have adopted a very conservative valuation approach for the private equity and real estate portfolio and, therefore, the unrealised gain does not fully reflect the value created. A case in point is the exits we have continued to make in our private equity and real estate portfolio at significantly higher valuations than the carrying values.

The total return was weighed down by Kshs 1.7 Billion in finance costs, and it is our intention to fully retire the debt and therefore do away with this expense line. Finance costs as a proportion of opening shareholder funds were 3.5%.

Expenses declined by 26% from Kshs 853 Million to Kshs 631 Million and of this, Kshs 105 Million were one-off non-recurrent expenses. The non-recurrent expenses largely related to the consultancy costs associated with the work we did with the Boston Consulting Group in developing the Centum 4.0 Strategy. Total expenses as a proportion of total assets came down to 0.9% and, excluding the non-recurrent expenses, costs as a percentage of assets were at 0.8%. Our current recurrent expenses as a proportion of recurrent income are at 27% against our strategy ceiling of 30%. With the portfolio decisions that we have taken, which will increase recurrent income, it is my expectation that we shall drive this number significantly lower in the course of the Centum 4.0 strategy period.

The aggregate value of the investment portfolio in the year increased by Kshs 8.9 Billion against a Kshs 1.3 Billion rise in borrowings.

The Board decided to recommend a similar dividend per share as the previous year, which is in line with the new dividend policy of paying the higher of the previous year's dividend or 30% of the annual recurrent income. The recurrent income in 2018/2019 was Kshs 1.897 Billion, and 30% would have translated to Kshs 569.1 Million. Our objective is to sustainably increase the dividend payout in line with the growth of the recurrent income.

Centum Business Line Review and Outlook for 2019/2020

Centum Real Estate

Centum RE is pursuing a four-pronged real estate strategy:

a. Sale of infill developments within our current assets;
b. Sale of development rights within our current assets;
c. Management of rental assets such as Two Rivers Lifestyle and the theme park;
d. Development of third-party development sites on a joint venture basis.

Centum RE has made good progress on each of the four areas, and as at April, 2019 they had presold infill developments with a value of Kshs 3.8 Billion. The key rental asset of Centum RE is the Two Rivers Lifestyle Centre, which was 78% let by gross lettable area and 76% let as a proportion of units available for rent.

Centum RE has also developed an attractive pipeline of joint venture developments targeting the middle-income segment of the market. We expect that they will launch a number of these developments in the course of the 2019/ 2020 financial year.

Both Vipingo Development and Pearl Marina Estates Limited are fully funded by equity and shareholder loans. Now that the companies are cash flow generative, Centum RE is working on paying back some of the shareholder loans advanced by Centum, in addition to independently funding its investment pipeline.

In the 2019/2020 financial year, we expect Centum RE to make further progress on each of its four business pillars and to make good progress on the development phase of these projects. Centum RE has secured non-recourse debt funding for each of the projects and is in advanced discussions with prospective equity partners as well.

Centum Capital Partners (CCAP)

CCAP is responsible for managing three distinct portfolios:

a. Centum's Private Equity Portfolio;
b. Centum's Development Portfolio; and
c. Centum Fund II

a. **Centum's Private Equity Portfolio:** The principal driver of value in this portfolio has been value growth underpinned by earnings growth and enhancement of the valuation multiples as a result of improvement in the prospects of the business and reduction of risk. I would like to highlight the performance of the key subsidiaries in the portfolio being the bottlers and Sidian Bank.

- **Almasi Bottlers and Nairobi Bottlers** – Centum holds a 54% equity stake in Almasi Bottlers and a 28% equity stake in Nairobi Bottlers both being licensees of Coca Cola. We announced on June 12, 2019, that we had signed a Share Purchase Agreement to sell our entire holdings in both assets to Coca Cola Beverages Africa (CCBA) at approximately Kshs 19.5 Billion.

  The exit value is a significant uplift to our last year's carrying value of Kshs 13.8 Billion and a cost base of Kshs 3.4 Billion. The exit of our stake in the bottlers is the culmination of a strategy that we have executed over the last 10 years to consolidate the bottlers, enhance their value and realise the value uplift through an exit. We believe that these assets need a different kind of ownership to create the next phase of value and CCBA, which is one of the largest bottlers in the world, is uniquely placed to do so.

  On our part, we are of the view that we secured an attractive exit value and this funds will be re-deployed to enhance the cash generation capacity of the business, noting that they were contributing Kshs 400 Million in dividend which is a 2% yield relative to the exit value. We expect to conclude this exit within the 2019/2020 financial year.

- **Sidian Bank** – Centum holds an 82% equity interest in Sidian Bank. The Bank has made a remarkable improvement across all its key indicators of liquidity, asset growth, liability growth and both funded and non-funded income. We invested Kshs 1.1 Billion in a rights issue of the Bank which was followed by an investment of Kshs 1.2 Billion by IFU in the form of a Tier 2 capital.

  The key highlights of performance of the bank in the last financial year were:

  - Customer deposits – Kshs 15 Billion, up 15%;
  - Gross loan book – Kshs 13 Billion, up 12%;
  - Centum recapitalised through rights issue;
  - IFU Tier II capital facility of Kshs 1.2 Billion.

  Following the interest rate cap, the bank went into a loss-making position, but I am pleased to report that the bank went back into profitability in 2019.

  We have a positive outlook for the 2019/2020 financial year for our private equity business. We are looking forward to completing the exit of the bottlers, while the remaining companies in the portfolio have excellent prospects.

b. **Centum's Development Portfolio:** The principal assets within the development portfolio are Amu Power, Akiira Power, Ace Holdings, the holding company of the SABIS® International Schools and Greenblade Growers. I will focus my attention on our two power assets.

- **Amu Power** – Centum holds a 51% equity interest in Amu Power, which is developing a 1,050 MW Gross Power Output power plant in Lamu. We, between 2014 and 2015, provided the Company with Kshs 2.1 Billion in debt financing for the development phase of the project. This enabled it to achieve critical milestones, including the signing of the Power Purchase Agreement (PPA), the Electricity Generation License, the Government of Kenya Letter of Support and the Environmental Impact Assessment (EIA) License. The EIA License that had been issued to the Amu Power was revoked on June 26, 2019 and Amu Power was directed to undertake a fresh EIA.

  The management of Amu Power has opted to appeal the decision made by the National Environmental Tribunal before the High Court, which effectively puts a stay on the decision of the Tribunal. In line with our conservative valuation approach, we carry our investment in Amu Power at cost.

- **Akiira Power** – Centum holds a 37.5% equity interest in Akiira Power, which is developing a 70 Mw geothermal project in Nakuru County in around the same location as the Ol Karia site. We had as at March 31, 2019, invested Kshs 1.5 Billion and our partner, Frontier Energy, has invested an equivalent amount. The project has secured a PPA and a Government of Kenya Letter of Support. We have acquired the land and we have commenced exploratory drilling. The current focus is the development of the geothermal resource. Earlier this year, Akiira signed an agreement with KenGen to jointly develop the resource. We are currently updating the studies with a view to developing a drilling plan.

c. **Centum Fund II:** Centum has in the past very successfully managed and invested its own private equity assets without any third-party funds. One of the lessons of Centum 3.0 was that we had access to more opportunities than we ended up investing in and if we had access to more capital, we would have taken up more opportunities and, therefore, reduced the overall portfolio risk. The second lesson was that companies that were leaders within their market segment offered us a better return than companies lower down the chain. A good example is Platcorp Holdings and GenAfrica, which are investments that we have made and exited within the past six years and realised a 30% internal rate of return. Considering that we have about Kshs 10 billion to deploy to the private equity asset class within the Centum 4.0 period, and that market leaders will tend to be in the investment range of Kshs 2 billion to Kshs 5 billion, it is preferable from a portfolio risk perspective to pool capital so that our investment provides us with exposure to a portfolio of 8 to 10 quality assets. This is the rationale behind the decision to establish a Private Equity Fund managed by CCAP and into which Centum shall direct its investments in the Private Equity through.

The secondary benefit of establishing a Fund is that the CCAP business will earn fees which like in the case of NABO, shifted the business from being a cost centre to a profit centre.

The final benefit is that a fund structure will provide the fund manager with a longer investment horizon than the one we have operated with so far on account of the need to meet various funding obligations.

The investment criteria of the fund are drawn from the lesson of Centum 2.0 and 3.0 and we shall focus on companies that are:

i. Within the East African region which we understand;

ii. Have some form of sustainable market leadership in their market segments;

iii. Within our sector focus areas;

iv. Attractive and sustainable economic growth, margins, asset efficiency and risk;

v. An aligned management team; and

vi. A reasonable valuation relative to the prospects of the business.

As we did in Centum 3.0, we shall focus on buy-out and growth investments in companies that meet our investment criteria.

The current investment environment is ideal to make acquisition on account of the tight liquidity situation, which has made equity a more attractive form of funding for companies, in addition to moderating what we considered unrealistic valuation expectations. In addition, Centum is not just a financial investor but is a local strategic partner.

The CCAP team is busy evaluating new investment opportunities and also engaging with investors looking at making an investment in the fund.

Marketable Securities

The marketable securities portfolio, which is largely segmented between listed equities and fixed income, presents a different set of opportunities.

On the listed equity space, there is an opportunity to acquire sizable stakes of listed companies across the African listed markets at attractive valuations. These are companies that meet our private equity investment criteria, but which are listed. We coined the term Quoted Private Equity (QPE) Strategy in our Centum 2.0 strategy period when market conditions were very similar to what the African security markets are experiencing today. In the QPE strategy we acquired sizable stakes in listed companies that had strong fundamentals but by virtue of either their size, free float, trading volumes, unique circumstances or general market sentiment were out of favour and were significantly undervalued relative to their prospects. Examples of some of the investments that we have made and realised significant returns employing this strategy are Carbacid and Kenya Re-Insurance in Kenya, Tanzania Breweries in Tanzania, CAL Bank in Ghana and Bralirwa in Rwanda.

The fixed income market appears attractive and there are opportunities to yield at relatively low risk and generate sizable cash returns as we wait to deploy capital to either our private equity or quoted private equity portfolio.

Quoted Private Equity Track Record						
Investment	Investment Date	Exit Date	Investment Amount	Realised Value	Multiple on Cost	Gross IRR (%)
Carbacid	2009	2011	431	1,200	2.79x	66.9%
Tanzania Breweries Ltd	2012	2015	1,773	7,000	3.95x	184.8%
CAL Bank Ltd[3]	2012	2018	422	1,156	2.74x	92.2%
Kenya Re-Insurance Corporation Ltd Ord 2.50	2012	2018	188	774	4.12x	39.2%
Bralirwa	2012	2014	88	317	3.63x	38.1%

[3]We still hold a stake in CAL Bank through the marketable securities portfolio valued at Kshs 65 million

Conclusion

I would like to conclude by thanking the shareholders and the Board for giving me the opportunity to serve them over the last 10 years. I took over the leadership of this Company in December 2008, with a total asset base of Kshs 6 Billion and a cash base of Kshs 10 Million. This amount has grown to the current Kshs 71.6 Billion and a book value of shareholder funds of Kshs 52.6 Billion. I am proud that we have consistently grown shareholder value without having diluted the shareholders' ownership by the issuance of new shares. I look forward to the new phase of our growth journey where we shall pay off our entire debt and in addition to continuing to generate a consistent return, implement policies that shall enhance the return to shareholders and close the price to NAV per share gap.

I would like to thank my colleagues in management. Our values remain integrity and delivery to promise. I am confident that this committed team of professionals will deliver on their Centum 4.0 commitments.

Dr. James Mworia, CFA
Group Chief Executive Officer
July 2019

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