



Centum Investment Company Plc

Management and Staff Bonus Scheme

1. Objectives of the scheme

Centum's bonus scheme is geared towards incentivizing the management and staff to create tangible wealth and to ensure that the value is validated by real market transactions. The focus of the scheme is on cash returns. The performance bonus rewards exceptional performance and therefore requires that the cash return for the private equity assets exceed 15% per annum and for real estate exceed a hurdle rate tied to an appropriate real estate index of value appreciation above base. The scheme is also designed to incentivize management and staff to work towards market events which are either full or partial exits or second round financings at values greater than the carrying values or Investment values.

The bonus policy is designed to be simple, objective and verifiable with no subjective inputs.

2. Coverage

The bonus scheme covers all employees of Centum and its key service provision subsidiaries – Centum Business Solutions Limited and Athena Properties Limited, including executive directors and senior management. Non-Executive Directors/Board Members are not eligible to participate in the bonus scheme. Other portfolio companies within the Group are mandated to establish their respective schemes that are aligned with their key value creation metrics, as approved by their Boards of Directors, in line with their strategic objectives. The consolidated bonus award for the Company and its subsidiary portfolio companies is reported separately in the Group financial statements.

3. Determination of the bonus pool

Eligibility to bonus is dependent on performance of Centum. Each year, the cash return of the Private Equity (described as 'Growth Portfolio' and 'Development Portfolio' in our Annual Report), Marketable Securities and Real Estate portfolios are assessed.

1. Private Equity and Marketable Securities

The annual performance based bonus pool for the Private Equity and Marketable Securities portfolios is subject to achievement of a minimum total cash return of 15% on the Company's opening shareholder funds in any financial year. The annual bonus pool is then computed as 20% of the total cash return that is above the hurdle rate of 15%. Should total return exceed 25%, then the performance pool will be increased by 1% for each 1% above total return to a cap of 10%.

Elements of cash return for the two portfolios are:

- i. Value movements arising out of market events. A market event being either a full or partial disposal or issue of shares in the portfolio company.
- ii. Dividend and interest income from the portfolio; and
- iii. For companies where there have been no market events, the revaluations gains or losses are eliminated and only movements in the book value of equity are taken into account. This can either be positive or negative depending on the underlying profitability of the business.

An illustrated example of the computation is set out below:

	KES
Total returns as reported on company financials	1,000
Adjustments:	
Accrued bonuses included in the income statement	10
Fair value gains / losses on portfolio valuation	(500)
Realised cash gains on exits*	300
Net Asset Value movements in portfolio companies**	100
Adjusted Return (a)	910
Opening shareholder funds (b)	5,000
% Return c = (a/b)	18%
Hurdle Rate (d)	15%
Return above hurdle rate e = (c – d)	3%
Return eligible for bonus f = (e * b)	150
Bonus pool at 20% (g = 20% * f)	30

* Adjusted for profitability (NAV movements) included in previous computations

** Reflecting cash profitability of portfolio company

2. Real Estate

Eligibility to participate in the Real Estate bonus pool is dependent on attainment of a cash return (on achievement of a market event through sale of the real estate asset or part exit from the project) above a hurdle rate adjusted base.

The base refers to the actual cash deployed into the investment. At the end of each financial year, the base is adjusted for all costs incurred (investment and operational).

The hurdle rate is determined as the year on year movement of an appropriate Real Estate Index, which ensures that management is not incentivized for ordinary/inflationary increases in the value of asset arising out of inflation. Where a relevant index is not available, a hurdle rate of 15% is applied.

For computation of the bonus pool, the return is computed as the difference between the value realized in a cash transaction and the hurdle adjusted base. The bonus pool is then computed as 10% of this return. This is illustrated by the example below:

	KES
Value realised through a cash transaction	1,000
Base (investment plus costs incurred during the period)	(400)
Value appreciation based on an appropriate real estate index	(250)
Hurdle adjusted base	(650)
Return	350
Bonus Pool at 10% of Return**	35

* Assuming a 25% year on year change on the index. The hurdle is the Property Index movement

** Payable over a three year period

applicable Board approved policy. The auditors then present their opinion to the Board of Directors.

- Audited financial statements of Centum, as a standalone Company, are used.

The bonus entitlement for any particular year is paid out to staff in three tranches over a period of three years, subject to vesting conditions. The vesting conditions are that:

- Opening asset values (based on the adjusted calculations in 3 above) not falling below the level they were at the point of the bonus award (high water mark);
- The high-water mark will be adjusted for owner related adjustments such as payment of dividends or new capital raisings; and
- An eligible employee must remain in the employ of the Company for the entire period unless a specific waiver is granted by the Board of Directors.

In the audited financial statements, the company accounts for the bonus provisions in any year in accordance with IFRS, applying the following formula:

- In the first year the company accrues 61% of the total bonus;
- 28% is accrued in the second year; and
- 11% is accrued in the third year.

4. Verification of Computation and Vesting

- At the close of each financial year, the Company's external auditors are required to verify and audit the computation of the bonus pool to ensure that it has been calculated in accordance with the