AUTOMOBILE ASSOCIATION OF KENYA

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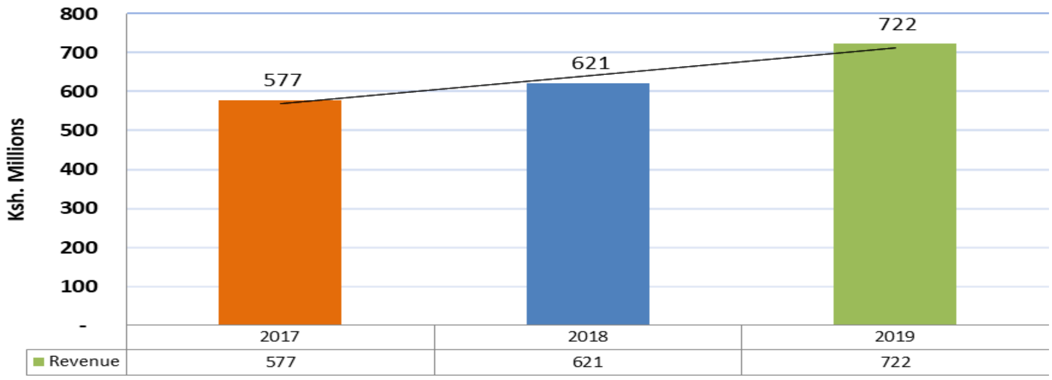
TREASURER'S REPORT

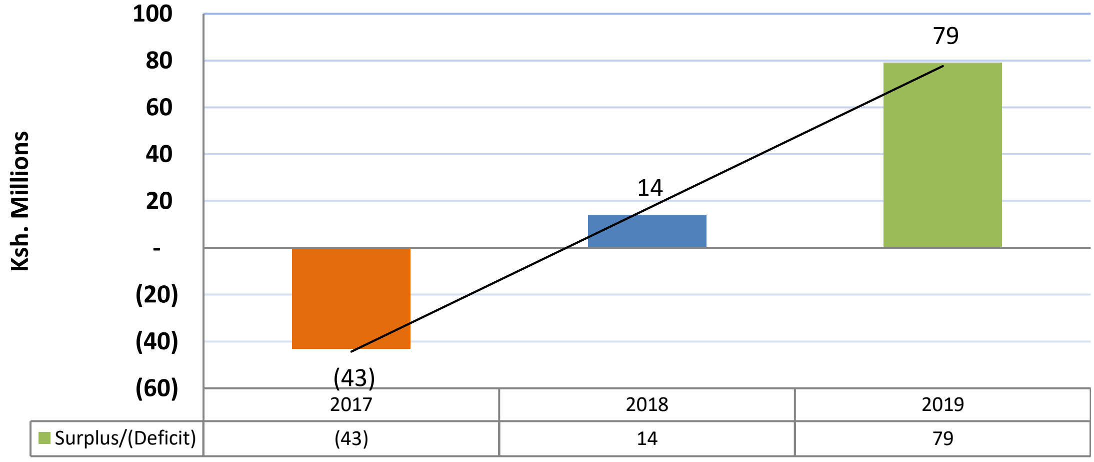
Dear Members,

I greet you all and welcome you to this year's AGM. It is my honour to present to you the accounts of the year 2019. In the year under review, the Association continued to register good financial performance and organic growth. The Association's revenue continues to grow while expenses are managed downwards hence improving the surplus year on year over the last three years. This performance is well illustrated in the graphs below:

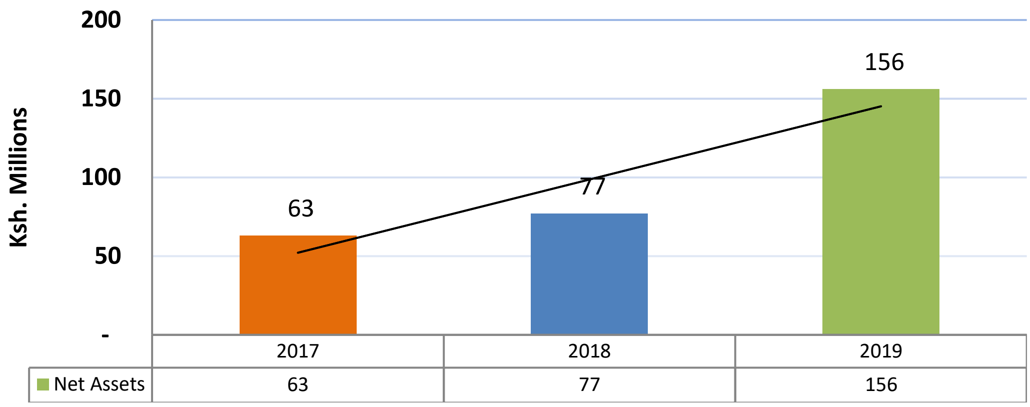
Three Year Revenue Trend



Three Year Surplus/ (Deficit) Trend



Three Year Net Assets Trend



The other details of the performance are contained in the audited financial statements. A copy of this is available in the CEO's office and on the website for inspection in accordance with Rule 8(i) of the Association's constitution. These financial statements were prepared on a going concern basis, in accordance with the Association's accounting policies and in compliance with the International Financial Reporting Standards. The accounts comprise of; the statement of surplus or deficit and retained earnings, statement of financial position, statement of cash flows and statement of significant accounting policies and explanatory notes. Below are some highlights of the financial performance:

Consolidated Statement of Surplus (Deficit) - 2019

a) Revenue

The group revenue increased by Kes 81.6 million (from Kes 620. 6 million in 2018 to Kes 721.7 million in 2019) representing an annual growth of 16.3%. This growth was mainly driven by revenue growth from driving school, international driving services, and seminars provided to the Counties. The new revenue lines that were introduced in 2019, that is, Fleet management, Premier Driving School, and the Training Institute are expected to boost revenue in the coming years.

b) Expenses

Compared to 2018, Administrative Expenses went up by 15.6% in 2019 due to a one-off cost associated with the 100 years celebration captured in adverts and promotion vote. Other expenses that went up here include the staff expenses due to the Union Salary awards and improved staff medical cover. Vehicle running expenses also went up due to an increase in the operating fleet numbers as a result of the new vehicles acquired within the year. This increase in expenses were mitigated by cost subdued in other votes.

Compared to 2018, Operating Expenses went up by Kes 13.2 million (17.1%) due to depreciation on new branches leasehold and amortisation of ICT Systems. Software Licenses and subscriptions also went up by Kes 5.7 million (82%) and this contributed to the overall increase.

Another factor that contributed 2019 expense reduction was the payment of Kes 50.9 million staff terminal dues that were paid in 2018 and not incurred in 2019. Consequently, the net surplus in 2018 was much lower than in 2019.

Consolidated Retained Surplus

The group posted a surplus of Kes 78.8 million. This was an improvement by Kes 64.7 million (103%) over the prior year. As a consequence, members' funds (retained surplus) grew from Kes 77.1 million in 2018 to Kes 156 million in 2019. This was as a result of the good governance structures put in place by the Governing Council, the reviewed business model, the commitment and hard work by the new Management which came into the office in 2018 fully implemented performance management incorporated staff motivation aspects.

Future outlook

The Association is expected to perform well into the future although the COVID 19 Pandemic has and might continue to slow down some lines of business. We have seen various businesses and Corporates facing quite some challenges as they try to adapt to the new normal. Global economies are struggling and given this situation is unprecedented, no one can say with certainty what the future holds.

The Association has put in place various mitigation factors to address these challenges and to:

1. Protect the lives, health and safety of the employees, customers, members and all other stakeholders.
2. Protect the Association from any adverse effect of the Corona Virus.
3. Ensure business continuity, supply chain resilience and financial liquidity.
4. Support the overall business recovery and growth.

Part of item 4 above will include raising capital through a private offering to the members of the Association. The proceeds will be used to scale up the operations, diversify sources of revenue and digitize the Association's operations.

On behalf of the Governing Council, I wish to thank you all for your support and look forward to the same support into the future.

With Kind Regards,

Treasurer
<u>AUTOMOBILE ASSOCIATION OF KENYA</u>