



Reviewed Condensed Consolidated Financial Statements

for the year ended 31 December 2019 and declaration of cash dividend

Trencor Limited

(Incorporated in the Republic of South Africa)

Registration number 1955/002869/06 | Share code: TRE | ISIN: ZAE000007506 | ("Trencor" or "the company")

COMMENTARY

GROUP

- On 17 December 2019, Trencor unbundled to its shareholders, by way of a distribution of assets *in specie*, 24 278 802 of the 27 278 802 shares it held in Textainer Group Holdings Limited ("Textainer"). As a consequence, Trencor accrued a net liability of R174 million for dividends tax at 31 December 2019 which was settled in full on 31 January 2020. Textainer has a primary listing on the New York Stock Exchange (NYSE: TGH) and an inward secondary listing on the JSE Limited (JSE: TXT). Such unbundling contributed to the reduction in Trencor's net asset value ("NAV") reflected in the table below.
- Effective 31 December 2019, TAC Limited ("TAC"), a wholly-owned Trencor subsidiary, entered into an agreement with Textainer Limited for the sale of Leased Assets Pool Company Limited ("LAPCO"), a wholly-owned TAC subsidiary, for US\$65,5 million.
- The SA rand to US dollar exchange rate at 31 December 2019 was R14,09 (2018: R14,39). The average SA rand to US dollar exchange rate for the year was R14,46 (2018: R13,11).
- Basic loss for the year ended 31 December 2019 amounted to 263 cents per share (2018: basic earnings 1 610 cents per share).
- Headline loss for the year ended 31 December 2019 amounted to 14 cents per share (2018: headline loss 1 818 cents per share).
- Gross cash dividend of 185 cents per share declared (2018: nil).
- Based on the relevant spot exchange rate and the listed share price of Textainer, the NAV of Trencor at the dates below were as follows:

	27 March 2020	31 December 2019	31 December 2018
Textainer share price	R147,00	R139,12	US\$9,96
Spot exchange rate US\$1:	R17,50	R14,09	R14,39
	Rm	Rm	Rm
Textainer interest (fair market value)	441	417	3 910
TAC (book NAV)	1 157	1 026	1 704
TAC (IFRS adjustments)	-	-	(285)
Cash (excluding in TAC)	850	871	914
Other net liabilities	(10)	(188)	(12)
Total NAV	2 438	2 126	6 231
	Rand per share	Rand per share	Rand per share
Textainer interest (fair market value)	2,54	2,40	22,51
TAC (book NAV)	6,67	5,91	9,81
TAC (IFRS adjustments)	-	-	(1,64)
Cash (excluding in TAC)	4,90	5,02	5,26
Other net liabilities	(0,06)	(1,08)	(0,07)
Total NAV per share	14,05	12,25	35,87

Notes:

- The values at a reporting year-end are actual values converted at the applicable exchange rate. At 27 March 2020, other than for Textainer and the cash outside of TAC which are recorded at actual as at 27 March 2020, all other components of the NAV are at the actual values prevailing at the end of the previous reporting date adjusted for the current exchange rate where applicable.
- Included in the book NAV of TAC at 27 March 2020 are cash deposits of US\$66,1 million (31 December 2019: US\$73,3 million). The reduction in cash deposits is mainly due to a cash dividend of US\$7 million paid by TAC to Trencor in March 2020.
- The fair market value of Textainer at 31 December 2019 and at 27 March 2020 have been measured with reference to the Textainer share price listed on the JSE, as with effect from 11 December 2019 Trencor is invested in the JSE inward secondary listed Textainer share. At 31 December 2018 Trencor held its shares in Textainer through the NYSE.

COVID-19

Appropriate measures are in place to ensure that Trencor remains operational throughout the recently announced shutdown in South Africa due to the presence of the COVID-19 virus. The shutdown period is not expected to have any material effect on Trencor's going concern status.

TEXTAINER

At 31 December 2019, Trencor held 3 000 158 shares (JSE: TXT) in Textainer (5,3%). At 31 December 2018, Trencor held 27 278 802 shares (NYSE: TGH) in Textainer (47,5%).

TAC

US GAAP RESULTS

- Net loss attributable to Trencor for the year ended 31 December 2019 was US\$45,6 million (2018: profit US\$0,6 million).
- Net loss attributable to Trencor included an impairment to the container fleet of US\$44,9 million as a result of LAPCO being classified as a held for sale asset.

CONVERTING US GAAP RESULTS OF TAC TO IFRS

The results of TAC, reporting under US GAAP, are converted to IFRS for inclusion in the results of Trencor, which is required to report under IFRS.

Reconciliation of TAC US GAAP results to IFRS for the year ended 31 December:

	2019 US\$m	2018 US\$m
US GAAP (loss)/profit attributable to Trencor	(45,6)	0,6
Adjustments:		
IFRS non-cash reduction/(increase) in impairment loss	15,3	(3,8)
IFRS reduction in depreciation	3,9	8,2
IFRS tax effect of the above, and other	0,7	0,8
IFRS (loss)/profit attributable to Trencor	(25,7)	5,8

DIVIDEND

DIVIDEND CONSIDERATIONS

Post the implementation of the unbundling and the LAPCO disposal, Trencor's assets consist mainly of cash and the retained Textainer shares. At the appropriate times in the ongoing simplification process, Trencor envisages being able to make distributions of its available cash to its shareholders and ultimately take steps to delist from the JSE. Trencor will only be in a position to do so as and when its cash resources become commercially available. The commercial availability of Trencor's cash resources is linked to the indemnities referred to in note 9.

The proceeds of monetising the retained Textainer shares will be distributed to Trencor's shareholders as soon as possible subsequent to such proceeds becoming available for distribution. Trencor has been considering a potential direct purchase by a third party of all of its retained Textainer shares in a single transaction, provided that such a transaction is not classified by the JSE as a Category 1 transaction in terms of the Listings Requirements of the JSE. Such classification would materially delay the implementation of the transaction and receipt of the sale proceeds and involve significant costs should Trencor be required to obtain shareholder approval for the transaction. Trencor has applied to the JSE for a ruling on the need for such classification and the result of that ruling is under discussion with the JSE. Should such a transaction not occur, Trencor will pursue other ways of monetising the retained Textainer shares as expeditiously as practically possible.

At 27 March 2020, restricted cash deposits of US\$33,6 million (R588 million) are held in two independently administered escrow accounts for purposes of the Halco Trust indemnity and the LAPCO disposal indemnity. Trencor has to date retained assets and liquidity sufficient to cover the maximum potential exposure under the Halco Trust indemnity, and until such time as this indemnity terminates or falls away prior to its scheduled termination date, must continue to do so. In addition to amounts so held in escrow, non-restricted cash of US\$45 million (R788 million) is earmarked for purposes of the Halco Trust indemnity.

From the balance of non-restricted cash resources, funds have been earmarked by the board for projected ongoing annual operating costs of the company and for retention of a prudent cash buffer against unforeseeable future costs for the period until and including 2024.

In this regard, more detail will be disclosed in the Joint Report by the Chairman and Chief Executive Officer in the 2019 Integrated Annual Report which is anticipated to be available at the end of April 2020.

DECLARATION OF CASH DIVIDEND

Bearing in mind the above considerations, the board has declared a gross cash dividend (number 106) of 185 cents per share (R321 million), out of distributable reserves in respect of the year ended 31 December 2019.

The salient dates pertaining to the dividend payment are as follows:

Last day to trade <i>cum</i> the dividend	Tuesday, 21 April 2020
Trading commences <i>ex</i> the dividend	Wednesday, 22 April 2020
Record date	Friday, 24 April 2020
Payment date	Tuesday, 28 April 2020

Share certificates may not be dematerialised or rematerialised between Wednesday, 22 April 2020 and Friday, 24 April 2020, both days inclusive.

Directors: David Nurek (Chairman), Jimmy McQueen, Eddy Oblowitz, Ric Sieni* (Financial), Roddy Sparks, Hennie van der Merwe* (CEO), Herman Wessels (*Executive)

Secretaries: Trencor Services Proprietary Limited

Registered Office: 13th Floor, The Towers South, Heerengracht, Cape Town 8001

Transfer Secretaries: Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank 2196 (Private Bag X9000, Saxonwold 2132)

Sponsor: Rand Merchant Bank (A division of FirstRand Bank Limited)

Note that:

- Dividend withholding tax at the rate of 20% will be applicable to shareholders who are not exempt from this tax and not subject to such tax at a reduced rate, which will result in a net dividend of 148 cents per share to these shareholders;
- Trencor's tax reference number is 9676002711; and
- Trencor's issued share capital at the declaration date is R867 673 (173 534 676 ordinary shares of 0,5 cent each).

REVIEW REPORT

The condensed consolidated financial statements, which comprise of the statement of financial position at 31 December 2019 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to such financial statements, have been reviewed by KPMG Inc., who expressed an unmodified review conclusion. The auditor's report does not necessarily report on all of the

information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the company's registered office.

PREPARATION OF FINANCIAL STATEMENTS

These condensed consolidated financial statements have been prepared by management under the supervision of the financial director, Ric Sieni CA(SA). The directors take full responsibility for the preparation of the financial statements.

On behalf of the board

Hennie van der Merwe
Chief Executive Officer

31 March 2020

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

	Reviewed 2019 Rm	Audited 2018 Rm
ASSETS		
Property, plant and equipment	2	3 058
Investment in equity shares (note 3)	417	3 910
Derivative financial instruments	-	9
Deferred tax assets	1	2
Restricted cash (note 8)	476	-
Total non-current assets	896	6 979
Inventories	-	19
Trade and other receivables	9	127
Cash and cash equivalents	1 428	1 280
Total current assets	1 437	1 426
Total assets	2 333	8 405
EQUITY		
Share capital and premium	1	1
Reserves	2 125	6 230
Total equity attributable to equity holders of the company	2 126	6 231
LIABILITIES		
Interest-bearing borrowings	-	1 622
Total non-current liabilities	-	1 622
Trade and other payables	31	29
Current tax liabilities (note 12.1)	175	11
Current portion of interest-bearing borrowings	1	512
Total current liabilities	207	552
Total liabilities	207	2 174
Total equity and liabilities	2 333	8 405
Capital expenditure incurred during the year	-	399
Ratio to total equity:		
Total liabilities (%)	10	35
Interest-bearing borrowings (%)	-	34

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Reviewed 2019 Rm	Restated 2018 Rm
Continuing operations		
Other operating income	-	18
Gain on deconsolidation of subsidiary	-	5 767
Accumulated foreign currency translation gains recycled to profit or loss on liquidation of entities	36	526
Employee benefits expense	(23)	(23)
Depreciation	(2)	-
Impairment of goodwill	-	(137)
Other operating expenses	(61)	(75)
Fair value adjustment of investment in equity shares (note 3)	104	(3 345)
Operating profit before finance income	54	2 731
Finance income - Interest income	51	58
Profit before tax	105	2 789
Income tax expense (note 12.1)	(182)	(10)
(Loss)/Profit for the year from continuing operations	(77)	2 779
Discontinued operation		
(Loss)/Profit from discontinued operation, net of tax (note 4.1)	(379)	69
(Loss)/Profit for the year	(456)	2 848
Other comprehensive loss		
Items that are or may be reclassified subsequently to profit or loss		
Foreign currency translation (losses)/gains	(13)	237
Accumulated foreign currency translation gains recycled from other comprehensive income on deconsolidation and liquidation of entities	(36)	(3 714)
Total comprehensive loss for the year	(505)	(629)
(Loss)/Earnings per share		
Basic (loss)/earnings per share (cents)	(263)	1 610
Diluted (loss)/earnings per share (cents)	(263)	1 610
(Loss)/Earnings per share - Continuing operations		
Basic (loss)/earnings per share (cents)	(44)	1 571
Diluted (loss)/earnings per share (cents)	(44)	1 571
Number of shares in issue (million)	173,5	173,7
Weighted average number of shares in issue (million)	173,7	176,9
Year-end rate of exchange: SA rand to US dollar	14,09	14,39
Average rate of exchange for the year: SA rand to US dollar	14,46	13,11

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Equity holders of the company								
	Share capital Rm	Share premium Rm	Foreign currency translation reserve Rm	Share-based payment reserve Rm	Gain on changes in ownership interests in subsidiaries Rm	Retained income Rm	Total Rm	Non-controlling interests Rm	Total equity Rm
Audited									
Balance at 1 January 2018	1	43	3 821	439	482	2 262	7 048	5 387	12 435
Total comprehensive loss for the year									
Profit for the year	-	-	-	-	-	2 848	2 848	-	2 848
Other comprehensive loss for the year									
Foreign currency translation differences	-	-	237	-	-	-	237	-	237
Foreign currency translation differences recycled to profit or loss	-	-	(3 714)	-	-	-	(3 714)	-	(3 714)
Total other comprehensive loss for the year	-	-	(3 477)	-	-	-	(3 477)	-	(3 477)
Total comprehensive (loss)/income for the year	-	-	(3 477)	-	-	2 848	(629)	-	(629)
Transactions with owners, recorded directly in equity									
Distributions to owners									
Shares bought back by the company	-	(43)	-	-	-	(57)	(100)	-	(100)
Dividends paid	-	-	-	-	-	(88)	(88)	-	(88)
Total distributions to owners	-	(43)	-	-	-	(145)	(188)	-	(188)
Change due to deconsolidation of subsidiary	-	-	-	-	-	-	-	(5 387)	(5 387)
Total transactions with owners	-	(43)	-	-	-	(145)	(188)	(5 387)	(5 575)
Transfer of reserves									
Transfer to retained income	-	-	-	(439)	(482)	921	-	-	-
Balance at 31 December 2018	1	-	344	-	-	5 886	6 231	-	6 231
Reviewed									
Total comprehensive loss for the year									
Loss for the year	-	-	-	-	-	(456)	(456)	-	(456)
Other comprehensive loss for the year									
Foreign currency translation differences	-	-	(13)	-	-	-	(13)	-	(13)
Foreign currency translation differences recycled to profit or loss	-	-	(36)	-	-	-	(36)	-	(36)
Total other comprehensive loss for the year	-	-	(49)	-	-	-	(49)	-	(49)
Total comprehensive loss for the year	-	-	(49)	-	-	(456)	(505)	-	(505)
Transactions with owners, recorded directly in equity									
Distributions to owners									
Shares bought back by the company	-	-	-	-	-	(5)	(5)	-	(5)
Dividend <i>in specie</i> , net of R2 million unclaimed dividends reversed	-	-	-	-	-	(3 595)	(3 595)	-	(3 595)
Total distributions to owners	-	-	-	-	-	(3 600)	(3 600)	-	(3 600)
Total transactions with owners	-	-	-	-	-	(3 600)	(3 600)	-	(3 600)
Balance at 31 December 2019	1	-	295	-	-	1 830	2 126	-	2 126

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Reviewed 2019 Rm	Audited 2018 Rm
Cash flows from operating activities		
Cash generated from operations	420	351
Increase in container leasing equipment	-	(399)
Finance income received	53	62
Finance expenses paid	(94)	(79)
Dividends paid to equity holders of the company	-	(88)
Income tax paid	(7)	(12)
Net cash inflow/(outflow) from operating activities	372	(165)
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	-	26
Increase in restricted cash	(477)	-
Net cash flow on disposal of subsidiary (note 4.3)	626	-
Decrease in cash on deconsolidation of subsidiary	-	(1 701)
Net cash inflow/(outflow) from investing activities	149	(1 675)
Cash flows from financing activities		
Interest-bearing borrowings repaid	(360)	-
Shares bought back by company	(5)	(100)
Net cash outflow from financing activities	(365)	(100)
Net increase/(decrease) in cash and cash equivalents before exchange rate fluctuations	156	(1 940)
Cash and cash equivalents at the beginning of the year	1 280	3 134
Effects of exchange rate fluctuations on cash and cash equivalents	(8)	86
Cash and cash equivalents at the end of the year	1 428	1 280

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA *Financial Reporting Guides* as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated financial statements for the year ended 31 December 2018 except for the implementation of IFRS 16 *Leases* ("IFRS 16") (replacing IAS 17 *Leases* ("IAS 17")). The comparative statement of profit or loss and other comprehensive income has been restated to show the discontinued operation separately from continuing operations as if the operation had been discontinued from the beginning of the comparative period (refer to note 4).

2. Change in accounting policy

IFRS 16 – IFRS 16 replaces existing leases guidance, including IAS 17, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The group has adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application being 1 January 2019. Therefore, the comparative information for 2018 is reported under IAS 17 and not comparable to the information presented for 2019. In using the modified retrospective approach, the group excluded initial direct costs in measuring the right of use asset.

Leases as lessee – At the date of initial application, the group recognised a lease liability (R4 million) measured at the present value of the remaining lease payments, discounted using the entity's incremental borrowing rate (9,25%) at the initial application date. A right of use asset was recognised equal to the lease liability recognised. The lease liability is included in interest-bearing borrowings and the right of use asset is included in property, plant and equipment. During the year ended 31 December 2019, depreciation on the right of use asset amounted to R2,4 million and interest paid on the lease liability amounted to R0,2 million. There was no material impact on the opening balance of retained income, nor was there a difference between the present value of the lease commitments as previously disclosed and the lease liability at the date of initial recognition.

IFRS 16 has no significant impact on the lessor accounting for leases between the group and the equipment managers since there was no acquisition of containers during the year.

3. Investment in equity shares and fair value adjustment

On 17 December 2019, Trenchor unbundled to its shareholders by way of a distribution of assets *in specie*, 24 278 802 of the 27 278 802 shares it held in Textainer Group Holdings Limited ("Textainer"). Textainer has a primary listing on the New York Stock Exchange and an inward secondary listing on the JSE. The distribution amounted to R3 597 million on which an amount of R174 million was accrued in respect of dividends tax, payable within one month of the year end (refer to note 12.1).

	Reviewed 2019 Rm	Audited 2018 Rm
Fair value at 1 January 2019	3 910	7 255
Distribution to shareholders	(3 597)	–
Fair value adjustment	104	(3 345)
Fair value at 31 December 2019	417	3 910

4. Discontinued operation

At the end of November 2019, the container owning and leasing segment was discontinued when Leased Assets Pool Company ("LAPCO"), a wholly-owned subsidiary of TAC Limited ("TAC"), was sold in terms of a stock purchase agreement with Textainer Limited, a wholly-owned subsidiary of Textainer.

The operation was classified as a discontinued operation under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* as of 29 November 2019, as at that date, management determined that all the conditions for such classification, in terms of IFRS 5, had been met. The assets and liabilities of the operation, at their fair values, were transferred into a disposal group on that date and classified as held for sale. The container equipment was impaired in terms of IAS 36 *Impairment of Assets* to its fair value less cost to sell in terms of the value in the stock purchase agreement and an impairment loss of R435 million was incurred. The proceeds on the sale of LAPCO were received on 31 December 2019.

	Reviewed 2019 Rm	Restated 2018 Rm
4.1 Results of the discontinued operation		
Revenue (note 4.5)	513	543
Other operating income	1	–
Cost of containers sold	(165)	(151)
Depreciation	(113)	(103)
Other operating expenses	(32)	(33)
Impairment of property, plant and equipment (note 4.4)	(448)	(108)
Operating (loss)/profit before net finance expenses	(244)	148
Net finance expenses	(114)	(80)
Finance expenses: Interest expense	(99)	(88)
Realised and unrealised (losses)/gains on derivative financial instruments	(21)	4
Finance income: Interest income	6	4
(Loss)/Profit before tax	(358)	68
Income tax credit	–	1
(Loss)/Profit for the year	(358)	69
Loss on disposal of subsidiary, net of tax	(21)	–
(Loss)/Profit from discontinued operation, net of tax	(379)	69
Basic (loss)/earnings per share (cents)	(218)	39
Diluted (loss)/earnings per share (cents)	(218)	39
4.2 Cash flows from discontinued operation		
Net cash inflow/(outflow) from operating activities	406	(15)
Net cash inflow from investing activities	392	–
Net cash outflow from financing activities	(356)	(1)
Net cash inflow/(outflow) for the year	442	(16)
4.3 Effect of disposal on the financial position of the group		
Property, plant and equipment	(2 273)	
Inventories	(42)	
Trade and other receivables	(116)	
Cash and cash equivalents	(297)	
Interest-bearing borrowings	1 748	
Derivative financial instruments	16	
Trade and other payables	10	
Current tax liabilities	10	
Net assets and liabilities	(944)	
Proceeds on disposal of subsidiary	923	
Loss on disposal of subsidiary, net of tax	(21)	
Proceeds on disposal of subsidiary	923	
Cash and cash equivalents disposed of	(297)	
Net cash flow on disposal of subsidiary	626	
	Reviewed 2019 Rm	Audited 2018 Rm
4.4 Impairment of property, plant and equipment		
Container leasing equipment:		
Held for sale impairment	435	–
Value in use impairment	–	107
Impairment recognised in respect of containers on operating leases not recovered from defaulting customers	13	4
Reversal of impairment provided on containers on operating leases with defaulting customers	–	(3)
	448	108
4.5 Revenue		
Goods sold	168	184
Leasing income	345	359
	513	543



	Reviewed 2019 Rm	Audited 2018 Rm
5. <u>Headline loss</u>		
(Loss)/Profit attributable to equity holders of the company	(456)	2 848
Impairment of property, plant and equipment	448	108
Loss on sale of subsidiary, net of tax	21	–
Compensation recovery from third party in respect of impairment of property, plant and equipment	(1)	–
Gain on deconsolidation of subsidiary	–	(5 767)
Accumulated foreign currency translation gains recycled to profit or loss on liquidation of subsidiaries	(36)	(526)
Impairment of goodwill	–	137
Profit on sale of property, plant and equipment	–	(18)
Total tax effects of adjustments	–	3
Headline loss	(24)	(3 215)
Weighted average number of shares in issue (million)	173,7	176,9
Headline loss per share (cents)	(14)	(1 818)
Diluted headline loss per share (cents)	(14)	(1 818)

	Reviewed 2019 Rm	Audited 2018 Rm
6. <u>Segmental reporting</u>		
Revenue		
Reportable segments		
Containers – owning and leasing (discontinued operation)	513	543
(Loss)/Profit before tax		
Reportable segments		
Containers – owning and leasing (discontinued operation)	(358)	66
	(358)	66
Gain on deconsolidation of subsidiary	–	5 767
Loss on disposal of subsidiary	(21)	–
Fair value adjustment of investment in equity shares	104	(3 345)
Accumulated foreign currency translation gains recycled to profit or loss on liquidation of subsidiaries	36	526
Unallocated	(35)	(157)
	(274)	2 857
Reconciliation (loss)/profit before tax		
Continuing operations	105	2 789
Discontinuing operations - (loss)/profit	(358)	68
Discontinuing operations - loss on disposal of subsidiary	(21)	–
	(274)	2 857
Assets		
Capital expenditure incurred by the container owning and leasing segment	–	399

	Reviewed 2019		Audited 2018	
	Carrying amount Rm	Fair value Rm	Carrying amount Rm	Fair value Rm
7. <u>Financial instruments</u>				
The carrying amounts and fair values of financial assets and financial liabilities are as follows:				
Assets:				
Financial assets carried at fair value through profit or loss:				
Investments ¹	417	417	3 910	3 910
Derivative financial instruments ²	–	–	9	9
Financial assets carried at amortised cost:				
Restricted cash	476	476	–	–
Trade and other receivables	1	1	117	117
Cash and cash equivalents	1 428	1 428	1 280	1 280
	2 322	2 322	5 316	5 316
Liabilities:				
Liabilities at amortised cost:				
Interest-bearing borrowings (excluding debt issuance costs)	1	1	2 170	2 170
Trade and other payables	31	31	29	29
	32	32	2 199	2 199

¹ Level 1 or ² level 2 of the fair value hierarchy. The value of the interest rate swaps included in level 2 of the fair value hierarchy was based on a discounted cash flow analysis utilising forecasted interest rate yield curves.

8. Restricted cash

Cash is held by two independent escrow agents in interest-bearing accounts as cash collateral for any potential exposures under the related indemnities provided to third parties. US\$17,2 million (R242 million) is restricted until 31 December 2024 and US\$16,6 million (R234 million) is restricted until 30 June 2021 (refer to note 9).

9. Indemnities and warranties

9.1 Indemnities

9.1.1 Indemnity provided by Trenchor in relation to the Halco Trust

On 20 February 2018, Trenchor, as a nominated beneficiary of the Halco Trust, received a vesting and distribution from the Halco Trust of the entire issued share capital of Halco Holdings Inc (“Halco”), which in turn held the shares in Textainer and TAC. Before the vesting and distribution were effected, as is customary in the Halco Trust’s jurisdiction, Trenchor was required to provide an indemnity, *inter alia*, to the trustee of the Halco Trust.

In terms of this indemnity, Trenchor indemnifies the indemnitees detailed below against certain events, which include the incurrence of liabilities, costs and expenses by the indemnitees in relation to the administration and/or the termination of the Halco Trust, the liquidation of the corporate trustee of the Halco Trust, the escrow arrangements contemplated by the indemnity and the incurrence of liabilities, costs and expenses by the directors and shareholders of the corporate trustee of the Halco Trust associated with the aforementioned liabilities. The indemnitees include the corporate trustee of the Halco Trust, the directors and shareholders of such trustee, their respective successors in title, and the directors and shareholders of such shareholders and their respective successors in title, as well as any liquidator of the corporate trustee.

The indemnity terminates on 31 December 2024 and Trenchor’s maximum potential exposure under such indemnity is US\$62 million, for which an amount of US\$17,2 million is currently held in accordance with the terms of an escrow agreement by an independent escrow agent in an interest-bearing escrow account in Liechtenstein (refer to note 8). The escrow balance will be so held until the indemnity terminates on 31 December 2024 or otherwise falls away prior to this date. Trenchor is contractually required in terms of the escrow arrangement linked to the indemnity to retain sufficient cash and other liquid assets equal to the full face value of the maximum potential exposure under the indemnity of US\$62 million. No contingent liability has been disclosed in the financial statements for the year ended 31 December 2019 in respect of this indemnity as the directors believe that the possibility of an outflow of resources in relation to this indemnity is remote.

9.1.2 Indemnity provided by Trenchor in relation to Halco’s mislaid Textainer share certificates

On 11 May 2018, Trenchor, jointly with Textainer and Halco, provided an indemnity in favour of, *inter alia*, Computershare Trust Company, the share transfer agent of Textainer, and Computershare Inc (collectively “Computershare”) in relation to Halco’s mislaid share certificates of 5 503 556 common shares in Textainer (the “Computershare indemnity”). Furthermore, Trenchor, jointly with Halco, provided an indemnity in favour of Textainer in relation to the Computershare indemnity (the “Textainer indemnity”). Both the Computershare indemnity and the Textainer indemnity became effective from the time that Trenchor was registered as the holder of Halco’s entire holding of common shares in Textainer. In December 2019, the Textainer indemnity was amended such that Halco was no longer a party thereto (Halco having been liquidated in the course of 2018) and such that Textainer indemnifies Trenchor against any loss or related costs incurred by Trenchor as a result of any claim brought under the Computershare indemnity.

No contingent liability has been disclosed in the financial statements for the year ended 31 December 2019 in respect of the Computershare indemnity as the directors believe that the possibility of an outflow of resources in relation to this indemnity is remote. Trenchor has recourse to the Textainer indemnity in terms of which Trenchor may recover from Textainer any losses incurred by Trenchor as a result of any claim by Computershare under the Computershare indemnity.

9.1.3 Indemnity provided by TAC in relation to the disposal of LAPCO

On 2 December 2019, TAC, being a wholly-owned subsidiary of Trenchor, entered into a stock purchase agreement (“SPA”) with Textainer Limited, in terms of which TAC sold to Textainer Limited (a wholly-owned subsidiary of Textainer) all of the issued ordinary shares held by TAC in its wholly-owned subsidiary, LAPCO, together with rights to certain dividends, for US\$65,5 million. The SPA became unconditional on 31 December 2019. In terms of the SPA, TAC indemnifies Textainer Limited and its affiliates, as is common in a sales transaction of this nature, against losses which may be incurred by those parties, including losses arising out of a breach of any representation or warranty made by TAC as the seller.

The potential exposure under the indemnity provisions of the SPA is determined with reference to the nature of the indemnified claim. The maximum potential exposure in terms of these indemnity provisions is capped at an amount equal to the sales price of (i.e. US\$65,5 million) save in relation to claims on account of fraud, wilful misconduct or wilful misrepresentation. The obligations under the indemnity provisions of the SPA expire on 30 June 2021.

An amount of US\$16,6 million is currently held in accordance with the terms of an escrow agreement by an independent escrow agent in an interest-bearing escrow account in the USA for purposes of the indemnity obligations under the SPA (refer to note 8). The escrow balance will be so held until 30 June 2021. No contingent liability has been disclosed in the financial statements for the year ended 31 December 2019 in respect of this indemnity as the directors believe that the possibility of an outflow of resources in relation to this indemnity is remote.



9.2 Warranties

The company has warranted the performance and obligations of certain subsidiary companies in connection with a number of partnership agreements entered into with third parties. The partnerships were established for the purposes of purchasing and selling marine cargo containers manufactured by a subsidiary company in South Africa. The last manufactured containers were sold into the export market in 1999. All amounts attributable to third parties in terms of these arrangements had been settled by 31 December 2017. No contingent liability has been disclosed in the financial statements for the year ended 31 December 2019 in respect of these warranties as the directors believe that the possibility of an outflow of resources in relation to these warranties is remote.

10. Use of estimates and judgements

Judgements and estimates are consistent with those in the consolidated financial statements as at and for the year ended 31 December 2018 apart from the impact of judgements for IFRS 16 (refer to note 2) and IFRS 5 (refer to note 4) .

11. Financial risk management

The group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2018.

12. Events after reporting period

12.1 Dividends tax

The distribution of the unbundled shares (refer to note 3) constituted a distribution of an asset *in specie* as such term is used for purposes of the dividends tax provisions contained in the Income Tax Act. Thus, as distinct from an ordinary cash dividend declared by a company, pursuant to the Income Tax Act, Trencor is liable for any dividends tax levied in respect of the distribution of the unbundled shares.

Trencor's liability for dividends tax on the *in specie* distribution of the unbundling shares may only be reduced to the extent that it has timeously received the requisite forms of declaration and undertaking from the beneficial owners of shares who qualify for an exemption from dividends tax, or a reduced rate of dividends tax in terms of an applicable agreement for the avoidance of double taxation entered into by South Africa.

At 31 December 2019, the company had accrued an amount of R178 million in respect of dividends tax due on the distribution. Subsequent to the year-end and prior to the payment of the dividends tax, further declaration forms were received from beneficial owners of shares who qualified for an exemption from, or reduction of, dividends tax. In accordance with IAS 10 *Events after the Reporting Period* the accrual has been reduced by R4 million to R174 million as a result of such declaration forms being received. It should be noted that in the event that further declaration forms are received between the date of this report and the release of the annual financial statements of the company, this accrual may be reduced and such reduction will have an impact on the current tax payable in the statement of financial position and the tax charge and loss for the year in the statement of profit or loss and other comprehensive income, and basic loss per share and headline loss and headline loss per share.

12.2 COVID-19

Appropriate measures are in place to ensure that Trencor remains operational throughout the recently announced shutdown in South Africa due to the presence of the COVID-19 virus. The shutdown period is expected to have no material effect on Trencor's going concern status.

12.3 Dividend declaration

A final dividend of R321 million (185 cents per share) in respect of the financial year ended 31 December 2019 (2018: nil) has been declared. Dividend withholding tax at the rate of 20% is applicable to shareholders who are not exempt from this tax and not subject to such tax at a reduced rate, which results in a net dividend of 148 cents per share to these shareholders.

12.4 Other

The directors are not aware of any other matters or circumstances arising since the end of the financial year, which will have a material impact on the financial position as at 31 December 2019.

13. Going concern

Neither the COVID-19 shutdown period (refer to note 12.2) nor the discontinuance of the leasing segment in November 2019 (refer to note 4) will have a material effect on Trencor's ability to continue as a going concern. Trencor is currently invested in cash and other liquid assets and the board is of the view that, based on its knowledge of the group, the group has adequate resources at its disposal to settle obligations as they fall due and the group will continue as a going concern for the foreseeable future and have thus prepared the group financial statements on the going concern basis.

14. Standards and interpretations not yet effective

From 1 January 2020, a number of amended standards and interpretations become effective, none of which are expected to have a significant impact on the group's consolidated financial statements.