

Corporate Governance

Trencor endorses the principles underlying the King IV Report on Corporate Governance (“the Code” or “the King Report”). Ongoing enhancement of corporate governance principles is a global movement, supported by the board which, together with senior management, will continue to follow and adopt, as appropriate, existing and new principles and practices which advance good practical corporate governance and add value to the company.

The principles recommended by the King Report have been assessed and the disclosure on how these have been applied is contained in a register available on the company’s website.

Save as may be indicated in that register and in this report, the board is not aware of any non-compliance with the Code during the year under review.

The salient features of corporate governance as applied in the group are set out below.

BOARD OF DIRECTORS COMPOSITION

The names and brief résumés of the directors appear on page 81.

The board comprises seven directors, two of whom are executive (chief executive officer and financial director) and five non-executive, four of whom qualify as independent non-executive directors in terms of the King Report.

The board is satisfied that there is a clear balance of power and authority at board level and that no one individual director or block of directors has undue influence on decision-making. The directors have considerable experience and an excellent understanding of the business and are accountable through the board charter, code of ethics and prevailing legislation.

Board effectiveness reviews are undertaken on an annual basis and the board is satisfied with the results of this process.

Nominations for appointment to the board are formal and transparent and submitted by the nomination committee to the full board for consideration.

CHAIRMAN/LEAD INDEPENDENT

The chairman of the board is an independent non-executive director and a lead independent non-executive has also been appointed.

The appointment of the chairman is reviewed on an annual basis.

BOARD DIVERSITY

Trencor recognises the benefits of a diverse board and the board has adopted a formal diversity policy. A diverse board would be able to include and make good use of differences in the skills, regional and industry experience, background, race, gender and other attributes of directors. Thus, in reviewing board composition, the nomination committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, and will consider candidates on merit against objective criteria and with due regard for and balance between the benefits of diversity on the board and the other requirements of the board. In the light of possible further simplification of the corporate interests, it is not practical to set voluntary targets at this stage.

PROFESSIONAL ADVICE

All directors have access to the company secretary and management and are entitled to obtain independent professional advice at the company’s expense if required.

COMPANY SECRETARY

The company secretary is Trencor Services Proprietary Limited, a wholly-owned subsidiary of the company, which is mainly responsible for corporate administration of the company’s corporate office functions. Based on the outcome of an annual assessment conducted by the executive committee, the board is satisfied that the specific individual employed by Trencor Services Proprietary Limited to carry out the duties of a secretary of a public company has the requisite competence, knowledge and experience to effectively perform the role as the gatekeeper of good governance.

MEETINGS

The board meets on a scheduled quarterly basis and at such other times as circumstances may require. During the year ended 31 December 2018, four meetings were held and these were attended by all directors.

Board papers are timeously issued to all directors prior to each meeting and contain relevant detail to inform members of the financial position and activities of the company. When appropriate, strategic matters and developments are addressed.

The chairman meets with non-executive directors, either individually or collectively, on an ad-hoc basis to apprise them of any significant matters that may require their input and guidance. In addition, the non-executive directors may hold separate meetings as and when they deem it appropriate.

The board is satisfied that it has fulfilled its responsibilities in accordance with its charter.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract. Executive directors have engagement letters which provide for a notice period of between one and three months to be given by either party. Refer to page 13 regarding retention compensation.

In terms of the memorandum of incorporation, not less than one-third of the directors are required to retire by rotation at each annual general meeting of the company and may offer themselves for re-election. New directors appointed during the year are required to retire at the next annual general meeting, but may offer themselves for re-election.

DIRECTORS' INTERESTS

The number of shares held by the directors and their associates in the issued share capital of the company at 31 December 2018 and 2017 was as follows:

	Beneficial		
	Direct	Indirect*	Total
Jimmy McQueen	49 649	102 133	151 782
David Nurek	–	10 000	10 000
Eddy Oblowitz	10 000	–	10 000
Ric Sieni	–	–	–
Roddy Sparks	–	4 000	4 000
Hennie van der Merwe	–	–	–
Herman Wessels	–	27 859	27 859
	59 649	143 992	203 641

* Indirect interest represents holdings by associates.

There have been no changes in the above directors' interests between the financial year-end and the date of this report.

AUDIT COMMITTEE

The audit committee, appointed by shareholders at each annual general meeting, comprises three independent non-executive directors. The committee normally meets at least twice a year, prior to and for purposes of the finalisation of the group's interim and annual results, and at such other times as may be required. The committee is primarily responsible for assisting the board in carrying out its duties in regard to accounting policies, internal controls and audit, financial reporting, identification and monitoring of risk, and the relationship with the external auditors.

In addition to the committee members, the other members of the board and certain other group executives are normally invited to attend meetings of the committee. The external auditors attend meetings and have direct and unrestricted access to the audit committee at all times. In addition, the committee chairman meets separately with the external auditors on an ad-hoc basis.

During the year, the committee met on two occasions. The meetings were attended by all members.

The audit committee is satisfied as to the expertise and experience of the financial director, and of the finance function as a whole, and that the external auditors are independent in the discharge of their duties. The use of the services of the external auditors for non-audit services requires prior approval by the audit committee chairman.

BOARD TERMS OF REFERENCE

The board is ultimately accountable and responsible for the performance and affairs of the company. In essence, it provides strategic direction, monitors and evaluates operational performance and executive management, determines policies and processes to ensure effective risk management and internal controls, determines policies regarding communication and is responsible for ensuring an effective composition of the board.

COMMITTEES OF THE BOARD

Several committees of the board exist, each with specific terms of reference, to assist the board in discharging its responsibilities. The terms of reference are reviewed on an annual basis. Each committee is satisfied that it has fulfilled its responsibilities in accordance with the committee's terms of reference. The composition of these committees is reviewed on an ongoing basis. The names of the members of the committees appear on page 2 and changes during the year are noted in the directors' report.

NOMINATION COMMITTEE

The nomination committee comprises three independent non-executive directors and identifies and recommends to the board suitable competent candidates for appointment as directors.

The committee meets on an ad-hoc basis. During the year, the committee held one meeting which was attended by all members.

Directors' independence

The nomination committee has conducted the necessary annual assessment and is satisfied as to the independence of each of the independent non-executive directors of the company and, in particular, those who have been in office for more than nine years, having regard to the requirements of the King Report and the provisions of the Companies Act of South Africa.

Succession planning

The nomination committee of the board is satisfied that suitable succession plans are in place.

EXECUTIVE COMMITTEE

The executive committee comprises two executive directors and met formally on a regular basis throughout the year and informally as and when required. During the year, nine formally scheduled meetings were held which were attended by both members. The minutes of these meetings are distributed to non-executive directors after each meeting.

This committee has the authority of the board, which is subject to annual review, to take decisions on matters involving financial risk management and matters requiring immediate action (subject to the approval of the committee chairman or his nominee) and passing of enabling resolutions, which:

- do not have major policy implications; or
- have been discussed with and the support obtained from a majority of board members, save that any dissenting director has the right to call a board meeting; or
- if requiring significant capital expenditure, are in the normal course of business.

REMUNERATION COMMITTEE

The remuneration committee reports directly to the board and comprises three independent non-executive directors. The committee's task is to review the compensation of executive and non-executive directors and senior management of the company. The chief executive officer is usually invited to attend meetings of the committee, but does not participate in any discussion relating to his own remuneration.

During the year, two committee meetings were held which were attended by all members.

The committee, in assessing base salaries and other forms of guaranteed remuneration, takes into account appropriate benchmarking including, where required, input from independent remuneration consultants.

Remuneration policies and practices

Trencor seeks to employ persons of superior ability who will adequately meet the needs of our stakeholders and believes remuneration should be at least commensurate with that of similarly qualified people in comparable positions in like industries and in similar geographic locations.

- Executive directors

Executive directors are paid a guaranteed amount on a cost to company basis, which includes salaries as well as medical aid and retirement fund contributions.

- Members of management who are not executive directors

The company's policy in respect of these executives is that their guaranteed pay, determined on a cost to company basis, should be attractive compared to levels paid in equivalent positions in other companies. The policy is on the same terms as for executive directors.

- Incentive bonus arrangements for executives and senior management

There are no incentive bonus arrangements due to the activities of the group being such that the contributions of executives to the results or profitability of the company are no longer specifically measurable.

- Retention compensation

In order to retain the services of two executive directors and three members of senior management, retention compensation was agreed with such persons whereby amounts will become payable on specified future vesting dates subject to certain terms and conditions. The committee sought advice from leading external remuneration consultants as to the structure and quantum of each of the retention amounts. In the opinion of these external consultants, the quantum of the retention amounts is fair and reasonable.

The retention compensation amounts are as follows:

	Paid		Payable	
	30 June		31 December	
	2018	2019	2020	
	R'000	R'000	R'000	
Executive directors				
Ric Sieni	3 400	1 000		–
Hennie van der Merwe	–	2 000	1 000	
Senior managers	7 600	2 200	1 000	
Total	11 000	5 200	2 000	

These amounts may be paid earlier, based on the finalisation of the management tasks underlying the retention compensation.

- Non-executive directors

The remuneration committee recommends the fees payable to non-executive directors to the board which, in turn, proposes such fees to shareholders for approval. These fees are also determined with reference to appropriate benchmarking against comparable companies.

Shareholders will be asked at the forthcoming annual general meeting to approve the proposed annual remuneration payable to non-executive directors in their capacities as such from 1 July 2019, which represents an increase of approximately 5%, plus the VAT attributable to such fees.

Remuneration benchmarking

At the beginning of 2017 the committee commissioned external consultants to conduct a job evaluation and a total remuneration benchmarking exercise for selected executive directors and senior management positions. Overall, the results indicated that current remuneration paid in respect of the selected positions is in line with the market. In view of the potential further simplification of the company's interests, no benchmarking exercise has been conducted since the 2017 evaluation.

Directors' remuneration

No fees are paid to executive directors for services as directors. The remuneration paid to directors during the year ended 31 December 2018, excluding amounts paid by Textainer as it is no longer consolidated, was as follows:

	Guaranteed remuneration R'000	Contributions to		Retention compensation R'000	Total remuneration R'000
		Medical aid R'000	Retirement funds R'000		
Non-executive directors					
Jimmy McQueen	263	-	-	-	263
David Nurek	1 202	-	-	-	1 202
Eddy Oblowitz	555	-	-	-	555
Roddy Sparks	521	-	-	-	521
Herman Wessels	521	-	-	-	521
	3 062	-	-	-	3 062
Executive directors					
Ric Sieni	2 925	63	301	3 400	6 689
Hennie van der Merwe	3 579	57	376	-	4 012
	6 504	120	677	3 400	10 701
Aggregate remuneration 2018	9 566	120	677	3 400	13 763

The remuneration paid to directors during the year ended 31 December 2017, including by Textainer where applicable, was as follows:

	Guaranteed remuneration R'000	Contributions to		Share-based payments* R'000	Total remuneration R'000
		Medical aid R'000	Retirement funds R'000		
Non-executive directors					
Jim Hoelter	405	-	-	-	405
Jimmy McQueen	476	-	-	283	759
David Nurek	1 831	-	-	675	2 506
Eddy Oblowitz	499	-	-	-	499
Roddy Sparks	466	-	-	-	466
Herman Wessels	468	-	-	-	468
	4 145	-	-	958	5 103
Executive directors					
Jimmy McQueen	2 365	31	177	392	2 965
Ric Sieni	2 791	58	284	-	3 133
Hennie van der Merwe	2 480	53	258	-	2 791
	7 636	142	719	392	8 889
Aggregate remuneration 2017	11 781	142	719	1 350	13 992

*Award of shares in Textainer for services rendered as directors of Textainer.

Value-added-tax included in non-executive directors' remuneration, where applicable.

Engagement with shareholders regarding the company's remuneration policy

At the annual general meeting held on 14 August 2018, non-binding advisory vote number 1 relating to the endorsement of the company's remuneration policy received less than 75% support from shareholders. On two occasions, through two announcements published on the Stock Exchange News Service, shareholders who voted against non-binding advisory vote number 1 or abstained from voting thereon, were requested to provide their details to the company in order for the company to arrange engagement with the respective shareholders to ascertain the reasons for their votes. The response was very limited.

The Chairman of the remuneration committee subsequently held discussions with certain shareholders, albeit they were not "dissenting" shareholders, to establish their views on aspects of Trencor's remuneration policies and implementation report. Their questions centred mainly around retention compensation payable to executive directors and senior management instead of some form of incentive based on aspects over which management had influence. The chairman of the committee explained that the key drivers of Trencor's performance were Textainer's share price and the R/US\$ exchange rate, over which Trencor's management has no influence. The chairman explained that at this stage of Trencor's life cycle, retention of key personnel was the main consideration of the remuneration committee.

Remuneration implementation report

The workforce in South Africa comprises the employees of Trencor Services Proprietary Limited at Trencor's corporate office currently consisting of only 12 people, thus not meriting a detailed analysis of implementation against our remuneration policy. The committee continues to ensure that competent staff adequate for the company's current needs are retained. The committee is satisfied that the payroll administrator, under the supervision of the financial director, correctly implemented all remuneration payments.

The Trencor Share Option Plan

In terms of The Trencor Share Option Plan, options were previously granted to certain executive directors and employees. All of these options have been exercised and there are no options currently outstanding.

There is currently no intention to grant further options. Accordingly, no authority is sought from shareholders at this stage to place the unissued shares reserved for the Plan under the control of the directors and to authorise the directors to issue such shares.

GOVERNANCE COMMITTEE

The governance committee comprises three independent non-executive directors. The committee is responsible for making recommendations to the board in all matters relating to the development, evaluation and monitoring of the company's

corporate governance processes, policies and principles; the development and implementation of and monitoring compliance with the company's code of ethics and making recommendations to the board on revisions thereto from time to time as appropriate.

During the year, one committee meeting was held, which was attended by all members.

Restriction on trading in shares

A formal policy prohibits directors, officers and employees from dealing in the company's shares from the end date of an interim reporting period until after the interim results have been published and similarly from the end date of the financial year until after the reviewed results have been published. Directors and employees are reminded of this policy prior to the commencement of any restricted period.

In addition, no dealing in the company's shares is permitted by any director, officer or employee whilst in possession of information which could affect the price of the company's shares and which is not in the public domain.

Directors of the company and of its major subsidiaries are required to obtain clearance from Trencor's chairman (and in the case of the chairman, or in the absence of the chairman, from the chairman of the audit or remuneration committee) prior to dealing in the company's shares, and to timeously disclose to the company full details of any transaction for notification to and publication by the JSE.

SOCIAL AND ETHICS COMMITTEE

Given the nature of the company's focus as an investment holding company and the envisaged further simplification of the group, the activities of this committee are limited in scope.

The social and ethics committee comprises three independent non-executive directors and two executive directors.

During the year, one committee meeting was held, which was attended by all members.

The main objective of the committee is to assist the board in monitoring the company's performance as a good and responsible corporate citizen by monitoring sustainable development practices.

The committee is responsible for developing and reviewing policies with regard to the commitment, governance and reporting of sustainable development performance and for making recommendations to the board in this regard.

Its role also includes the monitoring of any relevant legislation, other legal requirements or prevailing codes of best practice, specifically with regard to matters relating to social and economic development, good corporate citizenship, ethical conduct, the environment, health and public safety, consumer relationships, as well as labour and employment. Refer to the sustainability report on pages 18 to 20.

Code of ethics

The board, management and staff agreed a formal code of ethical conduct which seeks to ensure high ethical standards. All directors and employees are expected to strive at all times to adhere to this code, and to enhance the reputation of the company. This code is signed by all directors, managers and employees on an annual basis.

Any transgression of this code is required to be brought to the attention of the board. There were no transgressions during the year under review.

RISK COMMITTEE

The risk committee comprises all the directors. During the year, two committee meetings were held, which were attended by all members.

In addition to the committee members, members of senior management are invited to attend meetings of the committee, as appropriate.

Responsibility for overseeing the management of risk lies ultimately with the board. The risk committee and executive committee assist the board in discharging its responsibilities in this regard by identifying, monitoring and managing risk on an ongoing basis and within the authority conferred upon them by the board. The identification and mitigation of risk are key responsibilities of management and the executive committee.

The following significant risk exposures have been identified:

- **Exchange rate fluctuations**

The investments in Textainer and TAC are US dollar-based and, accordingly, changes in the R/US\$ exchange rate can and do significantly affect the translation of assets, liabilities, income and expenditures into South African currency for reporting purposes.

- **Investment in Textainer**

Textainer is listed on the New York Stock Exchange. Trencor is exposed to the risk resulting from adverse movements in the prevailing listed share price of Textainer and thus market value risk.

The operational and other risks pertaining to Textainer and its operations are detailed in its latest annual report which can be accessed on its website www.textainer.com.

- **Investment in TAC**

TAC is an asset owning company. Over 96% of the container assets owned by TAC are managed by Textainer, and are deployed in the same container leasing industry. TAC's operational performance and risk profile are therefore closely linked with that of Textainer.

The container management agreement between TAC and Textainer provides Textainer substantial control over the operational decisions made during the life of the container. In terms of this agreement Textainer exercises this control over the entire life

of the container, resulting in TAC being exposed to Textainer's performance as a container leasing manager.

- **Indemnity given to the trustee of the Halco Trust and others**

Trencor, as a nominated beneficiary of the Halco Trust, received a vesting and distribution of the Trust's assets. Before the vesting and distribution were effected, as is customary in the Trust's jurisdiction, Trencor had to provide an indemnity to, *inter alia*, the Trustee of the Trust. The maximum exposure under such indemnity is US\$62 million. The indemnity terminates on 31 December 2024. Currently there is nothing to suggest any claim under the indemnity.

- **Unbundling and inward listing of Textainer shares**

In the event that Textainer, for any reason, is unable to successfully obtain a secondary inward listing on the JSE, then it is unlikely that Trencor would be able to unbundle its shares in Textainer to its shareholders and would then remain listed as the effective inward listing of Textainer.

- **Listing risk**

In light of the progress in the simplification of Trencor's interest in Textainer, on 15 June 2018, the JSE deferred any decision regarding Trencor's compliance with the applicable Listings Requirements (following the JSE's view that the effect of the Voting Limitation Deed of 1 January 2018 had rendered Trencor non-compliant) and has requested that Trencor make representations after a period of 12 months on further progress made in respect of the simplification undertaken during that period.

- **Service providers**

Both Trencor and TAC have entered into contracts with various key dependency service providers. These contracts were concluded with due diligence considered prior to the service providers being selected. Should any of these contracts terminate, other competent service providers in the particular field of expertise can be replaced, with minimal disruption to the operational efficiency of Trencor and TAC.

- **Staff retention**

As a consequence of Trencor's stated intention of streamlining its corporate structure and the simplification of Trencor's interests, appropriate measures are necessary to ensure the retention of the required knowledge base in the company for as long as may be necessary to complete these processes. In order to retain their services, retention compensation arrangements were agreed with the executive directors and three senior managers.

- **Timely reporting**

Trencor reports its results in accordance with IFRS while TAC reports in accordance with US GAAP. The time consuming and complex conversion process from US GAAP to IFRS may result in reporting delays.

INFORMATION RESOURCES MANAGEMENT

Trencor, like other organisations, is reliant on information and technology to effectively and efficiently conduct its business. The IT systems, policies and procedures are reviewed on an ongoing basis to ensure that effective internal controls are in place to manage risk and promote efficiencies, and to comply with universally accepted standards and methods. Attention is continuously focused on maximising the benefits whilst minimising the risks associated with all aspects of the IT portfolio as they apply to business operations.

Security policies and procedures for employees and the use of technologies such as enterprise and personal firewalls, antivirus systems, intrusion monitoring and detection are applied, as well as frequent application of software security updates issued by vendors as and when vulnerabilities are discovered.

Trencor has established business continuity procedures that when invoked enable a complete recovery of Trencor's IT network and business systems within specified time limits. TAC has its own business continuity plans.

STAKEHOLDER COMMUNICATION

Members of the executive committee of the board meet on an ad-hoc basis with institutional investors, investment analysts, individuals and members of the financial media. Discussions at such meetings are restricted to matters that are in the public domain.

Shareholders are informed, by means of announcements on the Stock Exchange News Service, press announcements and releases in South Africa and/or printed matter sent to such shareholders, of all relevant corporate matters and financial reporting as required in terms of prevailing legislation. In addition, such announcements are communicated via a broad range of channels in both the electronic and print media. The company maintains a corporate website (www.trencor.net) containing financial and other information, including interim, reviewed and annual results.