TRENCOR

TRENCOR LIMITED

# INTEGRATED ANNUAL REPORT

2018

# Contents



# Financial Summary

| | | 2018* | 2017 |
|---|---|---|---|
| Operating profit before net finance expenses | Rm | **2 879** | 1 002 |
| Profit/(Loss) before tax | Rm | **2 857** | (580) |
| Headline (loss)/earnings | Rm | **(3 215)** | 265 |
| Headline (loss)/earnings per share | SA cents | **(1 818)** | 149 |
| Dividends per share paid | SA cents | **50** | 100 |
| Consolidated net asset value per share | SA cents | **3 587** | 3 980 |
| Ratio of interest-bearing borrowings to total equity | % | **34** | 303 |

* In the 2017 financial year the financial results of Textainer were consolidated in Trencor's financial results, whereas in the 2018 year under review Textainer has not been so consolidated but accounted for as an investment in equity shares measured at fair value through profit or loss (refer to note 8 on page 51). It follows that Trencor's financial results for the respective financial periods reflected above are not comparable. A more relevant comparison would be any change in net asset value ("NAV") from year to year as reflected in the table below.

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:

| | 18 April 2019 | **31 December 2018** | 31 December 2017 |
|---|---|---|---|
| Textainer share price | US$10,22 | **US$9,96** | US$21,50 |
| Spot exchange rate US$1 equals | R14,06 | **R14,39** | R12,37 |
| | R million | **R million** | R million |
| Textainer | 3 920 | **3 910** | 7 255 |
| TAC (US GAAP NAV) | 1 665 | **1 704** | 1 004 |
| TAC (IFRS adjustments) | (279) | **(285)** | (176) |
| Cash (excluding in Textainer and TAC) | 897 | **914** | 1 095 |
| Other net (liabilities)/assets | (11) | **(12)** | 449 |
| Total NAV | 6 192 | **6 231** | 9 627 |
| | R per share | **R per share** | R per share |
| Textainer | 22,57 | **22,51** | 40,97 |
| TAC (US GAAP NAV) | 9,58 | **9,81** | 5,67 |
| TAC (IFRS adjustments) | (1,60) | **(1,64)** | (0,99) |
| Cash (excluding in Textainer and TAC) | 5,17 | **5,26** | 6,19 |
| Other net (liabilities)/assets | (0,07) | **(0,07)** | 2,53 |
| Total NAV per share | 35,65 | **35,87** | 54,37 |

Notes:

1. The values at a reporting year-end are actual values converted at the applicable exchange rate. At 18 April 2019, other than for Textainer and the cash outside of Textainer and TAC which are recorded at actual as at 18 April 2019, 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.
2. On 19 February 2018, TAC issued one million ordinary shares to Halco in exchange for the settlement of all outstanding Halco loans of US$36,8 million. This is the main reason for the significant increase in the NAV of TAC at 31 December 2018 when compared to 31 December 2017. An identical reduction in Other net (liabilities)/assets has been recorded.

# Directors and Committees

| | |
|---|---|
| **Directors** | |
| David Nurek | Chairman/Independent |
| Jimmy McQueen | |
| Eddy Oblowitz | Independent |
| Ric Sieni * | Financial |
| Roddy Sparks | Lead Independent |
| Hennie van der Merwe * | Chief Executive Officer |
| Herman Wessels | Independent |
| * Executive | |
| **Executive committee** | |
| Hennie van der Merwe | Chairman |
| Ric Sieni | |
| **Audit committee** | |
| Eddy Oblowitz | Chairman |
| Roddy Sparks | |
| Herman Wessels | |
| **Remuneration committee** | |
| Roddy Sparks | Chairman |
| David Nurek | |
| Herman Wessels | |
| **Nomination committee** | |
| David Nurek | Chairman |
| Roddy Sparks | |
| Herman Wessels | |
| **Risk committee** | |
| Eddy Oblowitz | Chairman |
| Jimmy McQueen | |
| David Nurek | |
| Ric Sieni | |
| Roddy Sparks | |
| Hennie van der Merwe | |
| Herman Wessels | |
| **Governance committee** | |
| Roddy Sparks | Chairman |
| David Nurek | |
| Herman Wessels | |
| **Social and ethics committee** | |
| Roddy Sparks | Chairman |
| David Nurek | |
| Ric Sieni | |
| Hennie van der Merwe | |
| Herman Wessels | |

Brief résumés of the directors are presented on page 81.

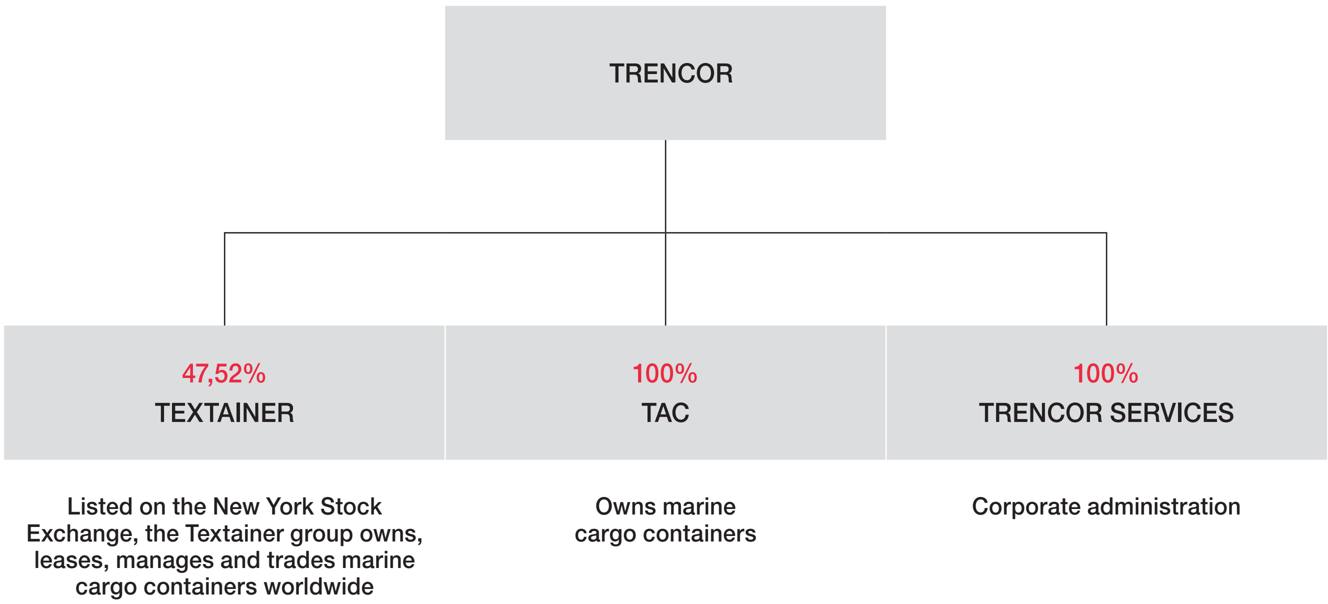
# Group Profile

Trencor Limited is an investment holding company listed on the JSE. Trencor benefits from investments in operations that focus on the provision, management and integration of equipment and services to facilitate the movement of goods by customers. These operations have as their business the owning, leasing, managing and trading of marine cargo containers worldwide. It is the aim of these operations to pursue growth and improvement in their existing businesses and to include in their activities similar businesses that have the potential to render acceptable returns.

This profile may change in the event of further simplification of Trencor's interests as envisaged in the Joint Report by the Chairman and Chief Executive Officer.

# Group Chart

at 31 December 2018



# Five-year Review

| | 2018 Rm | 2017 Rm | 2016 Rm | 2015 Rm | 2014 Rm |
|---|---|---|---|---|---|
| **Operating results** | | | | | |
| Revenue | **543** | 9 625[1] | 9 373 | 9 277 | 8 055 |
| Profit/(Loss) before tax | **2 857** | (580) | (3 757) | 4 | 2 049 |
| Headline (loss)/earnings attributable to shareholders | **(3 215)** | 265 | (771) | 908 | 970 |
| **Statement of financial position summary** | | | | | |
| Shareholders' equity | **6 231** | 7 048 | 8 199 | 11 780 | 9 204 |
| Non-controlling interests | **–** | 5 387 | 6 218 | 9 479 | 7 712 |
| Total equity | **6 231** | 12 435 | 14 417 | 21 259 | 16 916 |
| Interest-bearing borrowings | **2 134** | 37 619 | 41 668 | 47 577 | 35 537 |
| **Funding of total net assets** | **8 365** | 50 054 | 56 085 | 68 836 | 52 453 |
| Property, plant and equipment | **3 058** | 44 793 | 49 060 | 59 636 | 44 911 |
| Investment in equity shares | **3 910** | – | – | – | – |
| Other non-current assets | **11** | 2 116 | 2 289 | 3 126 | 3 418 |
| Current assets | **1 426** | 5 404 | 5 773 | 7 829 | 5 728 |
| Total assets | **8 405** | 52 313 | 57 122 | 70 591 | 54 057 |
| Less: Non-interest-bearing liabilities | **40** | 2 259 | 1 037 | 1 755 | 1 604 |
| **Total net assets** | **8 365** | 50 054 | 56 085 | 68 836 | 52 453 |
| **Statistics** | | | | | |
| Number of issued shares (million) | **174** | 177 | 177 | 177 | 177 |
| Consolidated net asset value per share (cents) | **3 587** | 3 980 | 4 630 | 6 653 | 5 198 |
| Headline (loss)/earnings per share (cents) | **(1 818)** | 149 | (435) | 513 | 548 |
| Dividends per share (cents) | **–** | 100 | 130 | 300 | 267 |
| Dividend cover based on headline (loss)/earnings per share (times)[2] | **–** | 1,5 | (3,3) | 1,5 | 1,9 |
| **Liquidity (%)** | | | | | |
| Ratio to total equity: | | | | | |
| Total liabilities | **35** | 321 | 296 | 232 | 220 |
| Interest-bearing borrowings | **34** | 303 | 289 | 224 | 210 |
| Current ratio (times) | **2,6** | 1,1 | 0,2 | 2,7 | 1,3 |
| **Profitability (%)** | | | | | |
| Taxed profit/(loss) to average total equity[3] | **31** | (5) | (21) | – | 13 |
| Taxed profit/(loss) before interest to average total assets[4] | **10** | 2 | (3) | 2 | 6 |
| Headline (loss)/earnings attributable to shareholders to average shareholders' equity | **(48)** | 4 | (8) | 9 | 11 |
| **Number of employees** | **12** | 184 | 186 | 186 | 187 |

[1] Restated.
[2] From 2014 to 2016 dividend cover based on adjusted headline earnings per share.
[3] Profit/(Loss) after tax divided by average total shareholders' equity.
[4] Profit/(Loss) after tax plus interest after tax divided by average total assets.

# Joint Report by the Chairman and Chief Executive Officer

We are pleased to present Trencor's 2018 integrated annual report.

Our combined chairman and chief executive officer's report addresses the more material developments during the year and casts an eye over what the future is likely to hold for Trencor on a strategic front. More details regarding Trencor's 2018 financial results and information on its investments in Textainer and TAC are presented in the rest of this annual report.

## SIMPLIFICATION OF TRENCOR'S INTERESTS

Considerable progress has been made by the various entities concerned, in their respective jurisdictions, towards the simplification of Trencor's interests. The result is that Trencor now owns 47,52% of the NYSE listed shares in Textainer and 100% of the unlisted shares in TAC. For more details on the key steps that resulted in this simplification, please refer to "Simplification of Interests" on page 23 of this annual report.

The structure above provides a useful vehicle for South African investors to effectively hold US dollar-based offshore investments in Textainer and TAC through owning Trencor shares listed on the JSE. Since the JSE-listed Trencor shares constitute local assets in the hands of its South African shareholders, they can effectively hold these US dollar-based investments without having to utilise their permissible foreign portfolio investment allowance or the like – a distinct advantage, we believe.

It is Trencor's strategy to ultimately distribute all of Trencor's assets to its shareholders. Most of our shareholders, however, would not wish or may not be allowed to directly hold Textainer shares listed only on the NYSE, without Textainer securing a secondary inward listing on a stock exchange in South Africa, as the Textainer shares would then be classified in South Africa as foreign assets for exchange control purposes. Shareholders would then be forced to utilise the shareholder's permissible foreign portfolio investment allowance or the like, alternatively to sell the shares. The unlisted shares in TAC would similarly constitute a foreign asset.

Should the Textainer board decide on an inward listing of Textainer on a South African stock exchange, it would enable the distribution by Trencor of the Textainer shares held by it to Trencor's shareholders as local assets. We hope to be in a position by the time of Trencor's upcoming annual general meeting on 25 June 2019 to provide shareholders with further updates regarding the inward listing of Textainer coupled with a distribution of such Textainer shares to Trencor's shareholders.

Regarding TAC, Trencor is contemplating potential solutions that will similarly enable a subsequent distribution of this asset or its value to Trencor's shareholders. We would be in a position to advise shareholders of definitive steps latest by the time of the envisaged distribution of the shares in Textainer.

Following the potential distributions of the above assets, Trencor's remaining asset will comprise cash. It is the intention of the board to distribute such cash to Trencor's shareholders as soon as circumstances permit. In this regard we advised in Trencor's reviewed condensed consolidated financial statements for the year ended 31 December 2018, that the board is of the view that Trencor should earmark mainly its cash resources for purposes of the indemnity provided by Trencor to the Halco Trust indemnitees before the distribution of trust assets to Trencor, as beneficiary of that trust. Whilst the indemnity expires in 2024, Trencor is exploring ways of possibly substituting any potential exposure with other cover acceptable to the indemnitees. If successful, Trencor may be able to distribute its available cash to its shareholders at an earlier stage.

## REPORTING UNDER IFRS

In our report last year we informed shareholders of measures taken to reduce the risk of reporting delays such as those experienced in prior years, caused by the costly and time-consuming efforts required for converting the US GAAP results of Textainer and TAC to IFRS for purposes of Trencor's consolidated financial statements. We are pleased that as a result of these measures, Trencor was able to produce and release its 2018 reviewed results timeously and at considerably lower cost. Of great assistance in achieving this was the fact that such conversion is no longer required in respect of Textainer, as Trencor now accounts for Textainer as an investment measured at fair value through profit or loss. TAC continues to be converted from US GAAP to IFRS.

## TRENCOR FINANCIAL RESULTS

With Textainer's results thus no longer consolidated into Trencor's financial results, it follows that Trencor's 2018 financial results are not comparable to those of the prior year, as the 2017 results were presented on the basis of consolidation. Detailed financial results for 2018 with corresponding 2017 results are presented later in this annual report.

Many of our shareholders prefer to assess Trencor's performance based on changes in its net asset value ("NAV"). Based on the relevant spot exchange rate and the listed share price of Textainer, the NAV of Trencor expressed in Rand per share at the dates below were as follows:

| | 18 April | 31 December | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Textainer | 22,57 | **22,51** | 40,97 |
| TAC (US GAAP NAV) | 9,58 | **9,81** | 5,67 |
| TAC (IFRS adjustments) | (1,60) | **(1,64)** | (0,99) |
| Cash (excluding in Textainer and TAC) | 5,17 | **5,26** | 6,19 |
| Other net (liabilities)/assets | (0,07) | **(0,07)** | 2,53 |
| Total NAV per share | 35,65 | **35,87** | 54,37 |

Refer to the more detailed table with assumptions on page 1 of this annual report.

With Textainer and TAC now being Trencor's only share investments, it would be informative to look at the operational performance of these companies during 2018. Textainer is a global container leasing business, operating worldwide. TAC owns a fleet of marine containers, the bulk of which is managed on its behalf by Textainer. Trading conditions in the industry in which these companies operate were challenging in 2016, but improved steadily through 2017 and 2018, resulting in a much improved financial performance. Specific aspects relevant to industry conditions and financial performance, as well as a view on prospects in the container leasing industry, are addressed in the annual letter from the Chairman and the President/CEO of Textainer to the shareholders of Textainer. We reproduce this letter on pages 7 and 8 of this annual report, for your ease of reference.

From the perspective of Trencor as investor in Textainer and TAC, the Trencor board is of the view that the financial performance at Textainer and TAC is satisfactory. The management team at Textainer worked extremely hard in recovering from what is generally recognised as one of the most challenging periods in the container leasing industry from late 2015 to early 2017, and has met the goals set for the team in this regard. Textainer's financial results in 2018 reflect a marked recovery from that difficult period.

## SUSTAINABILITY

With Trencor's operations in South Africa comprising only a small corporate office, the important subjects of due attention to, and contributions towards, sustainable operations and practices are best addressed at operational level within Trencor's investments, with reference to the businesses of Textainer and TAC. We do so in our sustainability report but would here again emphasise the major beneficial impact of containerisation of global trade on many environmental aspects and related matters. Textainer and TAC play a major part in this, of which they and Trencor as investor are justly proud. Further details are provided in our sustainability report on page 18 of this annual report.

## CASH FLOW AND DIVIDEND CONSIDERATION

In considering any distribution such as a dividend and/or the potential unbundling of Trencor's assets to its shareholders referred to in our report above, the board would have to satisfy itself that post such distribution Trencor will retain assets and liquidity adequate for covering the maximum potential exposure under the indemnity to the Halco indemnitees referred to above. The board's view is that in order to enable the envisaged distribution of as many as possible of its investment shares to shareholders Trencor should at this stage earmark mainly its cash resources for this purpose. Accordingly, the board resolved not to pay a final dividend in respect of 2018.

## APPRECIATION

We thank our colleagues on the board and our employees for their hard work and unwavering attention to pursuing Trencor's objectives. As in 2017, the ongoing efforts required in bringing the simplification of Trencor's interests to the advanced stage described above were demanding.

David Nurek
Chairman

Hennie van der Merwe
Chief Executive Officer

30 April 2019

# Textainer Letter to its Shareholders

## TO OUR SHAREHOLDERS:

2018 was a pivotal year for Textainer. We delivered continued revenue growth driven by strong lease-out activity and our net income more than doubled over the prior year. We leased out over 500,000 TEU of new and used containers on attractive terms. We experienced favorable market conditions through the first three quarters of the year, with attractive new and used container prices and strong lease-out demand. In addition, 2018 saw growth in container trade and a continued preference by shipping lines for leasing containers.

While the market was relatively quiet during the fourth quarter, we believe demand will return in 2019 as the industry's reasonable available inventory levels and attractive new container prices are expected to offset trade uncertainty. While we are cautious on the macro environment, our high utilization, low container turn-ins, favorable resale prices and the return of demand for new containers, coupled with our focus on operational discipline and prudent investment, should provide continued improvement in our financial performance.

## YEAR IN REVIEW

Container leasing market conditions at the start of 2018 continued the favorable trends from 2017. New container prices were stable for most of the year and well above the lows experienced in 2016. Disposal container prices were also stable at approximately 50% of prevailing new production prices. Firm new and used container prices, limited depot container inventories, limited turn-in activity, and trade growth in general created strong container demand in the first three quarters of 2018 with total dry container production reaching 4 million TEU.

Container trade continued to grow in excess of 5.0% in 2018, or approximately 1.4 times the rate of growth in global GDP. The growth in container trade volumes benefitted shipping lines, but volatile freight rates and fuel costs and continued overcapacity resulted in their mixed financial performance. Shipping lines generally preferred to lease instead of buy containers. Leasing companies purchased over 60% of the new container production as shipping lines focused their capital on vessels and prepared to comply with the IMO2020 rules that will limit Sulphur emissions from vessels.

New container rental rates peaked in the first half of the year supported by strong demand, low inventories and stable new container prices. During the fourth quarter, rental rates declined in parallel with new container prices. During this quarter, the overall market activity was limited with rates at levels that still provided double-digit returns on the lower new production prices. Depot container rental rates remained attractive in 2018, supported by high utilization and limited global depot stock.

New container prices were very stable during the first half of 2018, generally $2,200 +/- $50 per CEU, and were consistent with the prices that prevailed in 2017. During this period, manufacturers built the bulk of the near record 4 million TEU of dry containers produced in 2018. However, at the end of the third quarter and into the fourth quarter, prices declined due to more limited demand, a weaker Chinese currency and declining steel prices. Prices ended the year at about $1,800 per CEU.

Prices for used containers remained high and consistent throughout 2018, continuing the strong market seen in 2017. As a result, we realized over $36 million in gains on used container sales in 2018, an increase of $10 million from the prior year, even as fewer containers were sold.

Overall, the strong market conditions allowed us to increase utilization to an average of 98.1% for the year, an improvement of 170 basis points over 2017. We leased out over 500,000 TEU, three-quarters of which were new production. Lease rates in 2018 provided low double-digit returns with longer lease terms . Lease agreements require a high percentage of containers to be returned in China and other locations in Asia where we anticipate there will be future demand. High utilization and strong lease-out activity allowed us to reduce our stock of depot containers.

We invested $830 million to purchase more than 410,000 TEU of new and used containers in 2018. 92% of our investments were for our own fleet. In October 2018, we purchased the 75% interest in TW Container Leasing we had not owned to acquire sole ownership of seasoned finance leases with a book value in excess of $100 million. At year-end, our fleet totaled 3.4 million TEU, and we owned 79% of our fleet.

In 2018, we continued to build our net income following our return to profitability in the second half of 2017. However full year profits were negatively impacted by $27 million in container impairments, largely arising from unrecoverable containers held by delinquent lessees and write downs for unleasable containers moved to disposal, some remaining from the Hanjin bankruptcy in 2016. Disposal of these containers will allow us to save on storage costs and redeploy the capital. Our adjusted net income for the year was $51.5 million, or $0.90 per diluted common share, a substantial increase from $23.1 million adjusted net income in 2017.

We continue to maintain a strong balance sheet. During 2018, we completed $2.1 billion in debt financings, including raising new funds and refinancing existing facilities. We were able to improve pricing and extend the remaining term of our main revolving credit facility to five years. We finished the year with approximately $779 million of available borrowing capacity in our facilities. Our debt-to-equity ratio at 2.8:1 remains the lowest among our publicly listed peers. We continue to believe that investing in our business will provide attractive long-term returns.

Finally, Textainer welcomed a new management team in 2018, as Olivier Ghesquiere was promoted to President and CEO and Michael Chan was appointed Executive Vice President and CFO. With this new management team, it is our strategic priority to improve profitability. We continue to seek opportunities to lower operating costs and speed up turnaround time. We remain focused on quality revenue increases with double-digit average cash on cash yields and we intend to continue to improve our fleet yield through organic growth and optimized re-pricing of existing leases. We are taking a profit-oriented approach to lease reviews and extensions. If a lease extension does not achieve our targeted yield, we will leverage the favorable resale environment for used containers to dispose of equipment and realize immediate gains. We are also taking a stricter and more proactive approach to identify and initiate recovery of equipment held by customers on the verge of default, in order to limit future losses. We intend to invest in the business to maintain adequate new production inventory and better serve customer needs on short notice. However, we will be measured and disciplined with yields on leases and will only seek growth under the right returns.

## OUTLOOK

Global GDP is expected to grow 3.5% in 2019, and we project container demand will continue to expand at a similar pace. While the market was quiet in the fourth quarter of 2018, we expect demand to return as the industry's low available inventory levels and attractive new container prices are expected to offset continued trade uncertainty. In addition, we continue to experience fewer returns of on-lease containers, which supports our strategy of high utilization, low depot inventory and strong used container sales prices.

We expect container production in 2019 to be lower than the very high 4.0 million TEU produced last year and have recently noted that new container prices increased by about 10% from their recent lows. We expect container production to be supported by slower but continued trade growth, the need for container fleet replacement and attractive new container prices.

Used container prices were positive in 2018, with some declines at year end in connection with the generally quiet market and declining new production prices. Given the continued demand for second hand containers throughout the world, high utilization and limited depot supply, we expect used container prices to remain around their current levels in 2019.

New factory inventory currently is around 650,000 TEU, of which approximately 60% belongs to lessors. With limited new container orders, high utilization and low depot inventories, the current factory inventory level appears balanced for this time of the year.

Major shipping lines saw mixed financial performance in 2018 as industry profitability was negatively impacted by volatile freight rates and fuel costs. Excess vessel capacity also continues to be a concern despite lower new vessel orders. In 2019, shipping lines are expected to ramp up their efforts to comply with the IMO2020 emissions rules. Compliance with these regulations will require significant capital investment in ships and/or higher fuel costs for low Sulphur fuel. The shipping lines' ability to pass these higher costs on to shippers through fuel surcharges and higher freight rates is essential for their financial performance and this issue will continue to evolve in 2019. As shipping lines deploy their capital to comply with the new emissions rules, we are optimistic that they will continue to rely heavily on container lessors in 2019.

Despite ongoing trade disputes, the outlook for GDP growth and container trade is positive. We expect container prices to increase from the lows seen at the end of 2018 as order volumes and steel prices increase. Current rental rates provide attractive returns on equity, however higher interest rates, increased competition or the increased supply of capital to our industry are always risks that can negatively impact our performance.

We remain positive and are confident in our ability to continue to improve our financial performance as we move through 2019.

## CLOSING REMARKS

2019 marks Textainer's 40th anniversary as a container lessor. Over that time, we have successfully navigated through both strong and weak markets in this cyclical business. As we look out to 2019, we are comforted by current market trends, our fleet profile and our financial strength. We are encouraged by our improving financial performance and we look forward to continued growth and improved results this year.

We would like to thank our shareholders, customers, suppliers and employees for their loyalty, support and dedication.

# Review of Investments

Trencor benefits from investments in operations that focus on the provision, management and integration of equipment and services to facilitate the movement of goods by customers. These operations are engaged in owning, leasing, managing and trading of marine cargo containers worldwide.

## TEXTAINER

(The amounts presented in this Textainer review are in accordance with US GAAP.)

Textainer Group Holdings Limited is, through its subsidiaries, primarily engaged in owning, leasing, managing and trading standard dry freight, special dry freight, tank and refrigerated marine cargo containers to global transportation and other enterprises. Textainer listed on the New York Stock Exchange (NYSE: TGH) in October 2007. At 31 December 2018, Trencor held 47,52% of the issued shares in Textainer (2017: 47,78% beneficiary interest). From 1 January 2018 Textainer is accounted for by Trencor as an investment measured at fair value through profit or loss (2017: consolidated).

The year under review and the future outlook for Textainer are covered in more detail in the Textainer letter to its shareholders on pages 7 and 8 of this integrated annual report. Further information regarding Textainer and its businesses can be accessed on its website at www.textainer.com.

### Salient information

| | **2018** | 2017 |
|---|---|---|
| **Financial (US$ million)** | | |
| Lease rental income | | |
| Owned fleet | **501,4** | 444,9 |
| Managed fleet | **111,3** | 104,6 |
| Income before income tax and non-controlling interest | **56,3** | 22,4 |
| Net income attributable to common shareholders | **50,4** | 19,4 |
| Ratio of interest-bearing borrowings to total equity % | **275** | 247 |
| **Operational** | | |
| Average fleet utilisation % | **98,1** | 96,4 |
| Fleet under management (TEU'000s) | **3 355** | 3 280 |
| Owned | **2 646** | 2 447 |
| Managed | **709** | 833 |
| Analysis of fleet under management (TEU'000s) | **3 355** | 3 280 |
| Standard dry freight containers | **3 137** | 3 058 |
| Refrigerated containers | **157** | 158 |
| Other specialised containers | **61** | 64 |
| Term leases (i.e. long-term) % | **80,7** | 78,4 |
| Master leases (i.e. short-term) % | **12,8** | 13,2 |
| Finance leases % | **4,3** | 5,7 |
| Spot leases % | **2,2** | 2,7 |

## TAC

(The amounts presented in this TAC review are in accordance with US GAAP.)

TAC Limited, an investor in marine cargo containers since 1993, and its wholly-owned subsidiary Leased Assets Pool Company Limited ("LAPCO"), at 31 December 2018 owned 177 139 TEU (2017: 173 137 TEU) of dry freight containers of various types and 10 (2017: 934) tank containers, which are managed by a number of equipment managers who lease these containers to shipping lines. Textainer continues to manage the largest portion of TAC's dry freight container fleet. 84% of the fleet measured on a TEU basis is on long-term lease (2017: 81%).

During the year, the company purchased 15 327 TEU of containers of varying types at a total cost of US$30 million (2017: 5 190 TEU and US$10 million). 12 249 TEU of TAC's older containers were disposed of during the year (2017: 9 710 TEU) including most of TAC's tank container fleet, which had an average age of over 20 years, sold in July 2018.

Utilisation remained high at 98,5% at the end of 2018 (2017: 97,4%).

LAPCO determined that as at 31 December 2018 a US$3,7 million impairment was required to the carrying value of its 40-foot high cube refrigerated containers. This impairment resulted in a potential early amortisation event in its bank facility, but a waiver was subsequently obtained from its lenders.

LAPCO refinanced its bank facility in November 2017 and has funding in place for capital expenditure in 2019.

The uncertain global economic outlook and risk of "trade wars" may weigh on container shipping in 2019 and TAC expects to limit its purchasing of new containers until market conditions stabilise.

Containers are a long-term investment and TAC believes that it will continue to generate profits by accessing its competitive bank funding and its relationships with competent managers, including Textainer.

TAC has determined that under FASB 840 its management agreements should be deemed to be leases between the company and its equipment managers. As a result of this determination, the company's deemed operating lease income, previously presented on a gross basis, was reclassified and presented on a net basis called "leasing income". Leasing income consists of rental income less direct container expenses less management fees.

### Salient information

| | **2018** | 2017 |
|---|---|---|
| **Financial (US$ million)** | | |
| Leasing income | **26,5** | 27,2 |
| Net income | **0,6** | 2,4 |
| **Operational** | | |
| Fleet utilisation at year-end (%) | **98,5** | 97,4 |
| Analysis of fleet (TEU'000s) | **177** | 174 |
| Term leases (i.e. long-term) | **149** | 141 |
| Master leases (i.e. short-term) | **28** | 33 |

Had it not been for the US$3,7 million impairment the net income shown as US$0,6 million would have been US$4,3 million.

# 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 Medical aid R'000 | Contributions to Retirement funds R'000 | Retention compensation R'000 | Total remuneration 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 Medical aid R'000 | Contributions to Retirement funds R'000 | Share-based payments* R'000 | Total remuneration 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.

# Sustainability Report

Trencor is an investment holding company listed on the JSE. Its interests are in Textainer and TAC ("Operations") that focus on the container industry. It follows that Trencor must consider matters of sustainability at the level of the Operations in which it is invested and report accordingly.

## BUSINESS STRATEGIES

The Operations intend growing their businesses profitably and sustainably by pursuing the following strategies:

- Gain further leverage off Textainer's position as one of the world's largest intermodal container lessors, and consistent container purchaser in the container leasing industry;
- Pursue attractive acquisitions in their chosen industry;
- Offer innovative rental and/or purchase transactions;
- Grow container resales;
- Continue to focus on further increasing operating efficiency; and
- Ensure adequate access to appropriate sources of capital.

## ORIGINS AND HISTORY

Trencor started business as a General Motors dealership. In 1930 Trencor's founders converted a Buick sedan to a small truck and started a road transport business which in due course became a leading nationwide carrier in South Africa. Since then, the company and the group have undergone a number of changes to successfully adjust to changing circumstances.

In 1955 Trencor listed on the JSE. 1969/70 saw the branching out into road trailer manufacturing through the acquisition of Henred Trailer Manufacturing Company, which subsequently merged with Fruehauf South Africa to form Henred-Fruehauf Trailers.

1977 marked the beginning of manufacturing of dry freight marine cargo containers for the export market. This was later expanded to include the manufacture of folding flatrack containers and stainless steel tank containers. In 1979 Trencor commenced the sale of containers on long-term credit. The aggregate sales value of containers so exported from South Africa exceeded US$1 billion. The last of these export proceeds was collected in the 2016 financial year.

With the advent of globalisation and the freeing up of the South African economy, the focus shifted to the current interests described above. Today, Textainer, operating since 1979 and listed on the New York Stock Exchange since 2007, is one of the world's largest lessors of intermodal containers based on fleet size. Textainer leases containers to approximately 250 shipping lines and other lessees.

Textainer has provided an average of almost 240 000 TEU of new containers per year for the past five years, and has been one of the largest buyers of new containers over the same period. Sales of containers to more than 1 500 customers have averaged more than 140 000 containers per year for the last five years. Services are provided worldwide via a network of 14 regional and area offices and more than 500 independent depots.

## SUSTAINABILITY STRATEGY OF OPERATIONS

Trencor and the Operations recognise the interest of both internal and external stakeholders in their organisational and operational activities and performance. Comprising socially responsible entities, the group embraces the goal of sustainable development.

The non-financial aspects of sustainability may ultimately have a financial impact on the Operations and thus cannot be ignored. Sustainability is therefore important in enhancing shareholder value, quite apart from fulfilling social responsibility.

The sustainability strategy focuses on high level target areas, specific objectives and key performance indicators for each functional area.

## MANAGING SUSTAINABILITY

The Trencor board as a whole assumes responsibility for sustainable and socially responsible management through its own board committees and management and through feedback in respect of those Operations that are independently managed.

## SUSTAINABLE RISK AREAS

The main areas focused on to ensure the long-term success and sustainability of the Operations are shareholders, employees, customers, suppliers, regulatory requirements, environment and community.

## MEASURING PERFORMANCE

Sustainability is measured with reference to the "value add" and wealth created for the benefit of all stakeholders over the long-term, through the Operations.

Wealth created and distributed during the year ended 31 December 2018 was as follows:

| | Rm |
|---|---|
| **Wealth created:** | |
| Total revenue | 543 |
| Costs of goods and services | (281) |
| | 262 |
| **Wealth distributed:** | |
| Employees | 23 |
| Income tax | 9 |
| Dividends paid | 88 |
| Impairment of property, plant and equipment | 108 |
| Impairment of goodwill | 137 |
| Depreciation | 103 |
| Net loss on fair value adjustment | 766 |
| Wealth retained | (972) |
| | 262 |

| | Cents per share |
|---|---|
| **Shareholder wealth and returns:** | |
| Basic earnings | 1 610 |
| Dividends paid | 50 |
| Trencor share price at year-end | 2 855 |

## EMPLOYEES

Trencor and Textainer have succession plans approved by their respective corporate governance and nomination committees, as well as by their boards.

Both Trencor and Textainer promote an environment where employees have continuing opportunities for improving their professional skills and enhancing their personal growth through various training and development programmes. Employees are offered assistance in continuing their education.

Details of the employee benefits provided by Trencor are disclosed in the notes to the financial statements included in this integrated annual report.

The aim is to maintain an open and productive work environment that is responsive to the needs and concerns of the employees. We believe that communication is the key to building successful relationships. The aim is to foster an environment of mutual respect and confidence in which employees can develop their skills and talents.

The company is committed to a policy of non-discrimination. Employees with a disability or life-threatening illness will be allowed to continue working as long as they are able to meet the company's performance standards, and their work does not present a direct threat to their own health or safety, or that of others.

## REMUNERATION

The company's remuneration practices and policies are described in the corporate governance section of this integrated annual report.

## EMPLOYMENT EQUITY

In South Africa, the workforce at 31 December 2018 comprised the employees of Trencor Services Proprietary Limited at Trencor's corporate office consisting of 12 people: two white male executive directors, three white males in senior management, one white disabled and one coloured male and one white female in junior management, one white and two coloured semi-skilled females and one unskilled African woman.

## CUSTOMERS

The customers of the Operations are mainly international shipping lines, but the Operations also lease containers to freight forwarding companies and the US military.

Textainer leases containers to more than 250 shipping lines and other lessees, including each of the world's top 20 container lines, as measured by the total TEU capacity of their container vessels. Textainer has a long track record in the industry, operating since 1979, and has developed long-standing relationships with key industry participants. Its top twenty customers, as measured by revenues, have leased containers from it for an average of almost 30 years.

Global sales and customer service forces are responsible for developing and maintaining relationships with senior management staff at the shipping line customers, negotiating lease contracts and maintaining day to day coordination with operations staff. This close customer communication often assists in negotiating lease contracts that satisfy both Textainer's financial return requirements and the customers' operating needs. In addition it also allows for an awareness of the customers' potential shortages and makes customers more likely to be aware of Textainer's available container inventories.

Senior sales people in the Operations have considerable industry experience and the quality of their customer relationships and level of communication with their customers represents an important advantage. Currently Textainer has a global sales and customer service group consisting of approximately 86 people, with 18 in North America, 43 in Asia and Australia, 19 in Europe and 6 in Africa.

## SUPPLIERS

To remain competitive and offer a comprehensive product range, goods and services need to be sourced globally by the Operations. This includes establishing business relations with suppliers and manufacturers in developing countries where production cannot always be monitored by the Operations. Textainer and TAC currently purchase almost all their containers in China. The Operations will not tolerate any violation of human rights and basic social standards of which they may become aware. At the same time the Operations respect local laws, norms and culture provided these are not in conflict with fundamental ethical and human rights. Workplace standards of suppliers are monitored by the Operations, where possible, and corrective action proposed when deemed appropriate, although the ability to influence change is often limited.

## REGULATORY MATTERS

Trencor and other group entities are subject to rules and regulations established and monitored by the regulatory bodies in the jurisdictions in which these entities are registered, listed and/or operate. Such entities are in compliance with these rules and regulations, save for the matter referred to in the simplification of interests section in the directors' report.

## PROPRIETARY INFORMATION TECHNOLOGY

Textainer has developed proprietary IT systems that allow for the monitoring of container status offering its customers a high level of service. The systems include internet-based updates regarding container availability and booking status.

## ENVIRONMENT

Textainer is subject to federal, state, local and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants to air and water, the management of hazardous substances and wastes and the cleanup of contaminated sites.

In addition to environmental regulations affecting container movement, shipping, movement and spillage, environmental regulations also impact container production and operation, including regulations on the use of chemical refrigerants due to their ozone depleting and global warming effects.

Containers are made essentially of steel and timber and are re-usable for 10 to 20 years per container, depending on the container type. This contrasts with break-bulk where packaging material is typically only used once resulting in much more depletion of natural resources such as timber, for crates and cardboard, and other packaging material. Furthermore, break-bulk results in the damage and deterioration of the environment because of the indiscriminate discarding of waste and packaging material. Huge quantities of world trade are involved and so the benefits to the environment and the preservation of natural resources resulting from the use of containers are immense.

The floors of dry containers are plywood made from timber that may include tropical hardwoods. Due to concerns regarding de-forestation and climate change, many countries have implemented severe restrictions on the cutting and exporting of this wood. Accordingly, container manufacturers have switched a significant portion of production to alternatives such as birch, bamboo and other farm grown wood.

The insulation foam used in the walls of certain refrigerated containers requires the use of a blowing agent that involves chlorofluorocarbons. Manufactures are phasing out the use of this blowing agent in manufacturing.

The container industry in China has always used solvent-based paint. New regulations in China for the container industry require solvent-based paint systems to be phased out, due to restrictions on volatile organic components used in solvent paints. To comply with these new regulations, new waterborne paint systems have been developed for use by container manufacturers. This change was implemented in all factories in Southern China as of July 2016. The remaining container factories in China were required to use waterborne paint systems since 1 April 2017.

The use of waterborne paint systems has required significant factory investment and is problematic to apply waterborne paint during the winter in colder parts of China. The conversion to waterborne paint may impact factory capacity, increase the cost of containers and require greater investment in container inspection and factory supervision.

It is accepted that the use of shipping containers has promoted world trade because of the efficiency and effective logistics of their deployment as opposed to break-bulk. With Textainer being one of the world's largest lessors of shipping containers, we believe that we make a major contribution to more environment friendly and sustainable growth in world trade.

The factors mentioned above not only benefit the world community but because of their extensive benefits to the Operations' customers and their customers, in turn, all the way down the supply chain and the logistic framework, the company and the interest of its stakeholders are strengthened and sustainability enhanced.

## COMMUNITY

During the year under review, monetary assistance was granted to the Community Chest Western Cape, an organisation which provides assistance to various community and welfare organisations, which the group has supported since 1974. Financial support was also provided to The Red Cross War Memorial Children's Hospital, a highly specialised children's health care facility in the Cape well known for its excellence in child care and treatment on the African continent. Other organisations supported include St. Luke's Hospice, National Sea Rescue Institute, Afrika Tikkun, FoodForward SA, WWF South Africa, SPCA, BirdLife South Africa, Carte Blanche Making a Difference Trust, The Darling Trust, Cape Philharmonic Orchestra, SA Institute for Race Relations, Sani Sistas, SmartStart, Sparklekids and the Abagold Development Trust. In addition, donations were made to the University of the Western Cape, Stellenbosch University, University of Cape Town and the Cape Peninsula University of Technology.

## BROAD-BASED BLACK ECONOMIC EMPOWERMENT ("B-BBEE")

Trencor's B-BBEE certification is available on the company's website.

## EXTERNAL ASSURANCE

No external assurance has been sought on any of the elements of this report. The board confirms, to the best of its knowledge and belief, the accuracy and integrity of the information provided in this report.

# Annual Financial Statements

Trencor Limited and subsidiaries

## DIRECTORS' RESPONSIBILITY STATEMENT

The board of directors ("the board" or "directors") is responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Trencor Limited, which comprise the statements of financial position at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, as well as the directors' report.

The directors are responsible for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these annual financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that these businesses will not be going concerns in the year ahead (refer to note 33).

The auditor is responsible for reporting on whether the consolidated and separate annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

## PREPARATION OF ANNUAL FINANCIAL STATEMENTS

These annual financial statements have been prepared by management under the supervision of the financial director, Ric Sieni CA(SA), and have been audited in accordance with the requirements of the Companies Act of South Africa.

## APPROVAL OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The consolidated and separate annual financial statements of Trencor Limited, as identified in the first paragraph of the directors' responsibility statement, have been approved by the board of directors, are attached:



Signed on behalf of the board

David Nurek
Chairman

Eddy Oblowitz
Director and chairman of the audit committee

Cape Town
30 April 2019

# Declaration by the Company Secretary

It is hereby certified that for the year ended 31 December 2018, the company has lodged with the Companies and Intellectual Property Commission all returns as are required by a public company in terms of the Companies Act of South Africa and that such returns are true, correct and up to date.

Trencor Services Proprietary Limited
Secretaries
Per Guy Norval
Company Secretary

Cape Town
30 April 2019

# Directors' Report

## GENERAL REVIEW

The nature of the company's interests is described on page 3. The financial results are reflected in the financial statements on pages 32 to 79.

The profit/(loss) attributable to equity holders of the company from the various classes of businesses was as follows:

| | **2018 Rm** | 2017 Rm |
|---|---|---|
| Textainer | | |
| Fair value adjustment | **(3 345)** | – |
| Gain on deconsolidation | **5 767** | – |
| Container operations | **(73)** | (207) |
| Interest and other corporate items | **499** | (114) |
| | **2 848** | (321) |

## DIRECTORS AND SECRETARY

The names of the directors appear on page 2 and that of the secretary on page 92.

On 17 May 2018, Ric Sieni and Hennie van der Merwe were appointed as additional members of the risk committee.

In terms of the memorandum of incorporation Jimmy McQueen, Ric Sieni and Hennie van der Merwe retire by rotation at the forthcoming annual general meeting but, being eligible, offer themselves for re-election. The board recommends the re-election of these directors.

Brief résumés of the directors are presented on page 81.

## DIRECTORS' INTERESTS

The aggregate of the direct and indirect beneficial interests of the directors in the issued shares of the company at 31 December 2018 was 0,1% (2017: 0,1%).

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

## DIVIDENDS 2018

### INTERIM DIVIDEND

In view of the substantial discount in Trencor's listed share price compared to its prevailing NAV per share at the time of considering the interim results for the six months ended 30 June 2018, the board deemed it appropriate to undertake a general repurchase of shares rather than the payment of an interim dividend. Details of the said repurchase of shares appear below.

### FINAL DIVIDEND

Following the distributions described in note 7 to the financial statements and in further simplification of Trencor's interests, at the 2018 annual general meeting the chairman envisaged the potential unbundling of Trencor's shares in Textainer, subject to Textainer resolving to proceed with an inward listing of Textainer's shares held by Trencor on the JSE. In considering any distribution, such as the said unbundling or a dividend, the board would have to be satisfied that post distribution Trencor will retain adequate assets and liquidity to cover the maximum potential exposure under the indemnity referred to in note 31.1. The board decided to earmark mainly its cash resources for this purpose to enable the envisaged unbundling of as many as possible of its Textainer shares to Trencor's shareholders. Accordingly, the board resolved to preserve Trencor's cash resources for this purpose rather than paying a dividend and accordingly no final dividend was declared in respect of the year ended 31 December 2018.

## CASH DIVIDENDS 2017

| | Payment number | Record date | Payment date | Cents per share (gross) | Total Rm |
|---|---|---|---|---|---|
| Interim | 104 | 27/10/17 | 30/10/17 | 50 | 89 |
| Final | 105 | 15/06/18 | 18/06/18 | 50 | 89 |

## GENERAL REPURCHASE OF SHARES

In terms of the general authority granted by shareholders at the annual general meeting held on 14 August 2018, between 4 October 2018 and 6 December 2018, the company cumulatively repurchased from shareholders through the order book operated by the JSE Limited, and in a series of unrelated transactions without any prior understanding or arrangement between the company and these shareholders, 3 390 178 ordinary shares in the aggregate, representing 1,91% of the company's issued share capital at the time of the granting of the general authority. The total value of shares repurchased amounted to R100 million at an average price of R29,50 per share.

The repurchased shares were withdrawn from listing on the JSE on 18 December 2018 and cancelled.

## ISSUED SHARE CAPITAL

As a result of the above general repurchase of shares, the issued share capital of the company was reduced from R885 340 comprising 177 068 011 ordinary shares of 0,5 cent each to R868 389 comprising 173 677 833 ordinary shares of 0,5 cent each.

## 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. Differences in accounting treatment between US GAAP and IFRS, in the areas of impairment testing and a revision of the residual values of the container fleets, cause significant differences in financial results reported under the respective accounting conventions.

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

| | **2018 US$ million** | 2017 US$ million |
|---|---|---|
| US GAAP profit attributable to Trencor | **0,6** | 2,5 |
| Adjustments: | | |
| Non-cash IFRS net impairment loss | **(3,8)** | (3,3) |
| IFRS reduction in depreciation | **8,2** | 2,1 |
| IFRS tax effect of the above, and other | **0,8** | 0,2 |
| IFRS profit attributable to Trencor | **5,8** | 1,5 |

## SIMPLIFICATION OF INTERESTS

At 31 December 2017, Trencor had a 47,8% beneficiary interest in Textainer through Halco Holdings Inc ("Halco") under the Halco Trust ("Trust"). At Halco's request, Textainer and Halco entered into a Voting Limitation Deed ("VLD"), on 1 January 2018, whereby Halco agreed to limit or restrict its shareholder voting rights in Textainer, solely in respect of the appointment and/or removal of directors and then only to the extent necessary to ensure that Trencor would be regarded for purposes of IFRS as being neither in control of nor having significant influence over Textainer. All Halco's voting rights, save for the said limitation or restriction, were unaffected by the VLD.

Following the entering into of the VLD, the financial results of Textainer, reporting under US GAAP, are no longer required to be converted into IFRS for inclusion in the results of Trencor. Textainer is now accounted for by Trencor as an investment measured at fair value through profit or loss. These results of Textainer were previously included in the segment Containers – owning, leasing, management and trading.

The financial impact of the VLD and of the consequential deconsolidation of Textainer in terms of IFRS is set out in note 7.

On 20 February 2018, Trencor, as a nominated beneficiary of the Trust, received a vesting and distribution from the Trust of the entire issued share capital of Halco. At that date, Halco was the holder of 47,8% of the shares in Textainer and 100% of the shares in TAC. This vesting and distribution have had no financial consequences on the consolidated financial statements of Trencor.

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 indemnity terminates on 31 December 2024. The maximum exposure under such indemnity is potentially US$62 million.

On 11 May 2018, Halco declared to its sole shareholder, Trencor, three dividends, namely 47,8% of the shares in Textainer, 100% of the shares in TAC (these dividends constituting the entirety of Halco's shareholdings in Textainer and TAC) and a cash amount of US$8 million. As a result, Trencor then owned 47,8% of Textainer and 100% of TAC. Trencor assumed the same contractual rights and obligations *vis-à-vis* Textainer as Halco had under the VLD and Textainer continues to be accounted for by Trencor at fair value through profit or loss. These dividends have had no financial consequences on the consolidated financial statements of Trencor.

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 VLD 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 during that period.

## LAPCO CREDIT AGREEMENT

At 31 December 2018, Leased Asset Pool Company Limited ("LAPCO"), a TAC subsidiary, breached the earnings before interest and tax ("EBIT') ratio as defined in the credit agreement it entered into with the banks providing it with funding. This could have triggered an early amortisation event which could have continued unless remedied or waived by a majority of the banks. Accordingly, R512 million has been disclosed in Trencor's statement of assets and liabilities as the current portion of interest-bearing borrowings. The final maturity date would have been the sixth anniversary of the date on which the early amortisation event occurred and the revolving loans would have converted into term loans.

LAPCO's banks subsequently agreed to an amendment to the credit agreement whereby the EBIT ratio breach has been waived for a four quarter period. This results in the bank loans being reinstated to revolving loans (the same status as before the breach). LAPCO agreed to make a voluntary loan repayment of US$10 million on 23 April 2019 thereby averting any margin increases. A fee of US$240 000 is payable by LAPCO. Had such waiver been in place at 31 December 2018, the current portion of the interest-bearing borrowings in Trencor's statement of assets and liabilities would have been reflected as R263 million, instead of the R512 million currently disclosed in current liabilities.

## INTEREST IN SIGNIFICANT SUBSIDIARIES

| | Currency | Share capital and premium | Effective interest 2018 % | Effective interest 2017 % | Shares at cost 2018 Rm | Shares at cost 2017 Rm | Amount owing to company 2018 Rm | Amount owing to company 2017 Rm |
|---|---|---|---|---|---|---|---|---|
| **Direct:** | | | | | | | | |
| TAC Limited<br>(2017: indirect beneficiary interest)<br>(Incorporated in Bermuda)<br>Owning of marine cargo containers | US$m | 93 | **100** | 100 | **1 392** | – | **–** | – |
| Halco Holdings Inc<br>(2017: indirect beneficiary interest)<br>(Deregistered, previously incorporated in the British Virgin Islands) | US$ | 500 | **–** | 100 | **–** | – | **–** | – |
| Trencor Services Proprietary Limited<br>(Incorporated in the Republic of South Africa)<br>Corporate administration | Rm | 1 012 | **100** | 100 | **1 017** | 1 017 | **(862)** | (824) |
| | | | | | **2 409** | 1 017 | **(862)** | (824) |
| **Indirect beneficiary interest:** | | | | | | | | |
| Textainer Group Holdings Limited*<br>(Incorporated in Bermuda)<br>Owning, leasing, managing and trading of marine cargo containers | | | **–** | 47,8 | **–** | – | **–** | – |
| | | | | | **2 409** | 1 017 | **(862)** | (824) |
| Aggregate of all other subsidiaries | | | | | **404** | 404 | **–** | – |
| | | | | | **2 813** | 1 421 | **(862)** | (824) |
| Impairment loss | | | | | **(351)** | (351) | **–** | – |
| | | | | | **2 462** | 1 070 | **(862)** | (824) |

* In terms of the VLD effects referred to elsewhere in the integrated annual report, Textainer is no longer considered to be a subsidiary, but accounted for as an investment measured at fair value through profit or loss.

A complete list of subsidiary companies is available on request. The interest of the company in their aggregate profits and losses after tax is as follows:

| | 2018 Rm | 2017 Rm |
|---|---|---|
| Profits | **749** | 15 |
| Losses | **–** | (205) |
| | **749** | (190) |

## SPECIAL RESOLUTIONS

At the annual general meeting held on 14 August 2018, shareholders passed special resolutions to approve the following:

- the provision of financial assistance, as contemplated in section 45 of the Companies Act, by the company to related or inter-related companies and others;
- the non-executive directors' remuneration, in their capacities as directors of the company, from 1 July 2018; and
- general authority granted to the company for the acquisition by the company or any of its subsidiaries of shares issued by the company. This authority is valid until the earlier of the next annual general meeting or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the company, provided that it shall not extend beyond fifteen months from the date of passing of the resolution.

## SPECIAL RESOLUTIONS OF SUBSIDIARIES

During the period under review, no special resolutions were passed by the company's South African subsidiaries. No shareholder resolutions of material interest were passed by the company's non-South African subsidiaries other than those to give effect to the simplification of Trencor's interests.

## ANALYSIS OF SHAREHOLDERS

An analysis of shareholders and a list of the holders who held 5% or more of the issued shares at 31 December 2018 is presented on page 80.

# Audit Committee Report

### Membership

The audit committee, comprising three independent non-executive directors, was appointed by shareholders at the previous annual general meeting and the board of directors appointed Eddy Oblowitz as chairman of the committee for the 2018 financial year.

Shareholders will be requested to vote on and approve the appointment of the members of the audit committee for the 2019 financial year at the forthcoming annual general meeting.

The committee's operation is guided by its detailed terms of reference that are principally informed by the Companies Act of South Africa, the JSE Listings Requirements and the King IV Report and approved by the board.

The committee met with the external auditors on two occasions. In addition, the chairman of the committee met from time to time with the auditors, with and without management being present.

### Purpose

The primary purpose of the committee is to:

- assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control and reporting processes, and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards;
- meet with the external auditors at least on an annual basis;
- review the company and group annual financial statements and reports as well as reports from subsidiary companies; and
- conduct reviews of the committee's work and terms of reference and make recommendations to the board to ensure that the committee operates at maximum effectiveness.

### Execution of functions

The audit committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the group's accounting, internal control and financial reporting practices.

During the year under review:

- In respect of the external auditor and the external audit, the committee amongst other matters:
  - nominated KPMG Inc to the shareholders for appointment as external auditor for the financial year ended 31 December 2018, and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an auditor. The committee undertook the relevant procedures to enable it to confirm that the auditor is accredited by the JSE and that the designated auditor is not on the JSE list of disqualified auditors;
  - approved the external audit engagement letter, the audit plan and the budgeted audit fees payable to the external auditor;
  - reviewed the relevant auditor communications detailing their audit process and the implementation thereof, evaluated the effectiveness of the auditor and its independence and evaluated the external auditor's internal quality control procedures;
  - obtained an annual written statement from the auditor confirming that its independence was not impaired throughout the conduct of the audit; and
  - determined the nature and extent of all non-audit services provided by the external auditor and pre-approved all non-audit services undertaken.
- In respect of the financial statements, the committee among other matters:
  - considered and satisfied itself that adequate financial reporting procedures were in place to ensure accurate preparation of the financial statements, free from material error and that these procedures were operating as intended;
  - confirmed the going concern status as the basis of preparation of the interim and annual financial statements;
  - examined and reviewed the interim and annual financial statements, as well as all financial information disclosed to the public, prior to submission and approval by the board;
  - ensured that the interim and annual financial statements fairly present the financial position of the company and of the group as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which the company and the group were determined to be going concerns;
  - considered accounting treatments, significant unusual transactions and accounting judgements and estimates;
  - considered the appropriateness of the accounting policies adopted and any changes thereto;
  - reviewed the external auditor's audit report;
  - considered any issues identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements;
  - considered the JSE report for 2018 on proactive monitoring of financial statements; and
  - met separately with management and the external auditor.
- In respect of other matters:
  - satisfied itself as to the competence, expertise and experience of the financial director and the finance function as a whole;

- received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof; and
- based on the above, formed the opinion that there were no material breakdowns in internal control, including financial controls, business risk management and maintaining effective material control systems.

### Suitability of audit firm and designated auditor

As required by section 3.84(g)(iii) of the JSE Listings Requirements, the committee obtained information listed in paragraph 22.15(h) of the JSE Listings Requirements in the appointment of the external auditors, KPMG Inc, and satisfied itself that the external auditor and the audit partner, H du Plessis, have the necessary accreditation and are suitable for appointment.

### Independence of external auditor

The audit committee is satisfied that KPMG Inc is independent of the group.

### Annual financial statements

Having achieved its objectives, the committee recommended the audited annual financial statements for the year ended 31 December 2018 for approval by the board. The board subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

# Independent Auditor's Report

to the shareholders of Trencor Limited

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

### OPINION

We have audited the consolidated and separate financial statements of Trencor Limited (the group and company) set out on pages 32 to 79, which comprise the statements of financial position at 31 December 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Trencor Limited at 31 December 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (IRBA Code),* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters below relate to our audit of the consolidated financial statements and separate financial statements.

**1. Impairment of property, plant and equipment, specifically the container fleet**

Property, plant and equipment – R3 058 million

Impairment of property, plant and equipment – R108 million

*Refer to the Accounting estimates and judgements (Marine cargo containers) in note 32.2 and note 4 to the consolidated financial statements.*

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| Impairments were recognised in respect of the container fleet in the prior and current years. This was in response to market conditions and changes in the cost of capital which is used to discount future cash flows. Furthermore, the container fleet experienced slightly weaker utilisations and renewal lease rates in the second half of 2018 resulting in the impairment in the current year amounting to R107 million.<br><br>The impairment assessment was performed using discounted cash flow models to determine the value in use for each cash-generating unit ("CGU"), which has been identified by container type. In addition, where appropriate, the fair value less costs of disposal was determined in respect of these CGUs. There are a number of key estimates and assumptions made in determining the inputs into these discounted cash flow models, refer to note 4.<br><br>The impairment of the container fleet is a significant area of judgement due to the inherent uncertainty in forecasting and discounting future cash flows, which form the basis of determining the recoverable amount for each of the CGUs used in the impairment analysis.<br><br>Due to the abovementioned factors, impairment of the container fleet is considered a key audit matter in our audit of the consolidated financial statements. | For the CGUs identified:<br>• we tested the integrity of the cash flow projections and discount rates;<br>• we tested the mathematical accuracy of the cash flow model, as well as challenged the appropriateness of the assumptions used in the preparation thereof. We evaluated this with reference to our knowledge of the industry and assessed the potential risk of management bias; and<br>• we involved our own valuation specialists in assessing the appropriateness of the impairment assessments performed by management.<br><br>Specifically, for the key estimates and assumptions made, we:<br>• evaluated the appropriateness of the identification of CGUs by container type, based on our understanding of the nature of TAC Limited's ("TAC") business and economic environment in which the segments operate;<br>• evaluated the reasonableness of the projected future cash flows by comparing the estimated future lease rates to contractually stipulated *per diem* rates and other key assumptions to internal and external market data; and<br>• evaluated the appropriateness of the discount rate used to calculate the net present value of the future estimated cash flows of the CGUs with reference to acceptable discount rate we derived from comparable market data.<br><br>We considered the adequacy of the group's disclosures in respect of property, plant and equipment carrying values and impairment assessment, including those disclosures related to significant accounting judgements and estimates. |

**2. Deconsolidation of Textainer Group Holdings Limited and simplification of Trencor's interests**

*Refer to the Accounting estimates and judgements (No control of or significant influence over Textainer) in note 32.1 and note 7 to the consolidated and separate financial statements.*

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| At 31 December 2017, Trencor had a 47,8% beneficial interest in Textainer Group Holdings Limited ("Textainer") through Halco Holdings Inc ("Halco") under the Halco Trust ("Trust"). At Halco's request, Textainer and Halco entered into a Voting Limitation Deed ("VLD"), effective 1 January 2018, whereby Halco agreed to limit or restrict its shareholder voting rights in Textainer, solely in respect of the appointment and/or removal of directors and then only to the extent necessary to ensure that Trencor would be regarded for the purposes of IFRS as being neither in control of nor having significant influence over Textainer. With effect from 1 January 2018, Textainer was deconsolidated and is now accounted for as an equity investment measured at fair value through profit or loss. The gain on deconsolidation of Textainer amounted to R5 767 million.<br><br>Significant judgements are involved in the determination that, for the purposes of IFRS, Trencor neither controls nor has significant influence over Textainer and whether the deemed disposal needs to be disclosed as an asset held for sale and treated as a discontinued operation.<br><br>On 20 February 2018, the Trust vested and distributed the issued share capital of Halco to Trencor. On 11 May 2018, the shareholdings in Textainer and TAC were distributed by Halco to Trencor, its sole shareholder.<br><br>Due to the abovementioned factors, the deconsolidation of Textainer is considered a key audit matter in our audit of the consolidated and separate financial statements. | We involved experienced members on the audit team including our own accounting and tax specialists to assess the accounting and taxation implications of the VLD.<br><br>This included an assessment of whether the VLD gave rise to a loss of control in accordance with IFRS 10 *Consolidated Financial Statements* or gave rise to significant influence being exercised in terms of IAS 28 *Investments in Associates and Joint Ventures.*<br><br>We assessed whether a deemed disposal required Textainer to be disclosed as an asset held for sale or a discontinued operation in terms of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*<br><br>We evaluated the appropriateness of the basis upon which the fair value of the Textainer shares were determined and reviewed management's calculation of the gain on deconsolidation of Textainer.<br><br>We evaluated the appropriateness of management's accounting entries to recognise the deconsolidation and the subsequent distributions to Trencor Limited.<br><br>We evaluated the tax consequences of the deconsolidation and subsequent distributions to Trencor Limited. |

## OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Declaration by the Company Secretary, the Directors' Report and the Audit Committee Report as required by the Companies Act of South Africa, the Directors' Responsibility Statement as well as all other information included in the Integrated Annual Report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the group and/or company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group's and company's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Trencor Limited for 18 years.

KPMG Inc.
Registered Auditor

| | |
|---|---|
| Per H du Plessis | The Halyard |
| Chartered Accountant (SA) | 4 Christiaan Barnard Street |
| Registered Auditor | Cape Town City Centre |
| Director | 8000 |

30 April 2019

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# Statements of Financial Position

at 31 December 2018

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm |
| **Assets** | | | | | |
| Property, plant and equipment | 4 | **3 058** | 44 793 | **–** | – |
| Intangible assets and goodwill | 5 | **–** | 282 | **–** | – |
| Investment in equity accounted investee | 6 | **–** | 114 | **–** | – |
| Investment in subsidiaries | 7 | **–** | – | **2 462** | 1 070 |
| Investment in equity shares | 8 | **3 910** | – | **3 910** | – |
| Net investment in finance leases | 9 | **–** | 496 | **–** | – |
| Derivative financial instruments | 10 | **9** | 100 | **–** | – |
| Deferred tax assets | 11 | **2** | 19 | **–** | – |
| Restricted cash | 12 | **–** | 1 105 | **–** | – |
| **Total non-current assets** | | **6 979** | 46 909 | **6 372** | 1 070 |
| Inventories | 13 | **19** | 403 | **–** | – |
| Trade and other receivables | 14 | **127** | 1 440 | **1** | – |
| Current portion of net investment in finance leases | 9 | **–** | 427 | **–** | – |
| Cash and cash equivalents | 16 | **1 280** | 3 134 | **–** | – |
| **Total current assets** | | **1 426** | 5 404 | **1** | – |
| **Total assets** | | **8 405** | 52 313 | **6 373** | 1 070 |
| **Equity** | | | | | |
| Issued capital | 17 | **1** | 1 | **1** | 1 |
| Share premium | | **–** | 43 | **–** | 43 |
| Reserves | 17 | **6 230** | 7 004 | **5 500** | 183 |
| **Equity attributable to equity holders of the company** | | **6 231** | 7 048 | **5 501** | 227 |
| Non-controlling interests | | **–** | 5 387 | **–** | – |
| **Total equity** | | **6 231** | 12 435 | **5 501** | 227 |
| **Liabilities** | | | | | |
| Interest-bearing borrowings | 18 | **1 622** | 35 008 | **–** | – |
| Amount due to subsidiary | 7 | **–** | – | **862** | 824 |
| Deferred revenue | | **–** | 25 | **–** | – |
| Deferred tax liabilities | 11 | **–** | 28 | **–** | – |
| **Total non-current liabilities** | | **1 622** | 35 061 | **862** | 824 |
| Trade and other payables | 19 | **29** | 2 080 | **10** | 18 |
| Current tax liabilities | 15 | **11** | 123 | **–** | 1 |
| Current portion of interest-bearing borrowings | 18 | **512** | 2 611 | **–** | – |
| Current portion of deferred revenue | | **–** | 3 | **–** | – |
| **Total current liabilities** | | **552** | 4 817 | **10** | 19 |
| **Total liabilities** | | **2 174** | 39 878 | **872** | 843 |
| **Total equity and liabilities** | | **8 405** | 52 313 | **6 373** | 1 070 |

# Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | Notes | **Rm** | Restated Rm | **Rm** | Rm |
| Revenue | 20, 28 | **543** | 9 625 | **7 078** | 400 |
| Other operating income | | **18** | 2 | **–** | – |
| Gain on deconsolidation of subsidiary | 7 | **5 767** | – | **–** | – |
| Accumulated foreign currency translation gains recycled to profit or loss on liquidation of subsidiaries | | **526** | – | **–** | – |
| Cost of containers sold | | **(151)** | (1 489) | **–** | – |
| Direct leasing expenses | | **–** | (794) | **–** | – |
| Distributions to managed fleet owners | | **–** | (1 281) | **–** | – |
| Employee benefits expense | | **(23)** | (369) | **–** | – |
| Depreciation | | **(103)** | (3 048) | **–** | – |
| Impairment of property, plant and equipment | | **(108)** | (1 222) | **–** | – |
| Impairment of goodwill | | **(137)** | – | **–** | – |
| Other operating expenses | | **(108)** | (407) | **(48)** | (129) |
| Net long-term receivables fair value adjustment | | **–** | (15) | **–** | – |
| Fair value adjustment of investment in equity shares | 8 | **(3 345)** | – | **(1 567)** | – |
| Operating profit before net finance expenses | 20 | **2 879** | 1 002 | **5 463** | 271 |
| Net finance expenses | 21 | **(22)** | (1 586) | **–** | – |
| Finance expenses: Interest expense | | **(88)** | (1 704) | **–** | – |
| Realised and unrealised gains on derivative financial instruments | | **4** | 50 | **–** | – |
| Finance income: Interest income | | **62** | 68 | **–** | – |
| Share of profit of equity accounted investee (net of tax) | | **–** | 4 | **–** | – |
| Profit/(Loss) before tax | | **2 857** | (580) | **5 463** | 271 |
| Income tax expense | 22 | **9** | 30 | **1** | 2 |
| Profit/(Loss) for the year | | **2 848** | (610) | **5 462** | 269 |
| Other comprehensive loss | | | | | |
| Items that are or may be reclassified subsequently to profit or loss | | | | | |
| Foreign currency translation differences | | **237** | (1 239) | **–** | – |
| Accumulated foreign currency translation gains recycled from other comprehensive income on deconsolidation and liquidation of subsidiaries | | **(3 714)** | – | **–** | – |
| Total comprehensive (loss)/income for the year | | **(629)** | (1 849) | **5 462** | 269 |
| Total comprehensive (loss)/income for the year attributable to: | | | | | |
| Equity holders of the company | | **(629)** | (983) | **5 462** | 269 |
| Non-controlling interests | | **–** | (866) | **–** | – |
| | | **(629)** | (1 849) | **5 462** | 269 |
| Profit/(Loss) for the year attributable to: | | | | | |
| Equity holders of the company | | **2 848** | (321) | **5 462** | 269 |
| Non-controlling interests | | **–** | (289) | **–** | – |
| | | **2 848** | (610) | **5 462** | 269 |
| Basic earnings/(loss) per share (cents) | 23 | **1 610** | (182) | | |
| Diluted earnings/(loss) per share (cents) | 23 | **1 610** | (182) | | |

# Statements of Changes in Equity

for the year ended 31 December 2018

| | Notes | Attributable to equity holders of the company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital Rm | Share premium Rm | Foreign currency translation reserve Rm | Share-based payment reserve Rm | Gain/(Loss) on changes in ownership interests in subsidiaries Rm | Retained income Rm | Total Rm | Non-controlling interests Rm | Total equity Rm |
| **Group** | | | | | | | | | | |
| Balance at 1 January 2017 | | 1 | 43 | 4 483 | 408 | 504 | 2 760 | 8 199 | 6 218 | 14 417 |
| **Total comprehensive loss for the year** | | | | | | | | | | |
| Loss for the year | | – | – | – | – | – | (321) | (321) | (289) | (610) |
| Other comprehensive loss for the year | | | | | | | | | | |
| Foreign currency translation differences | | – | – | (662) | – | – | – | (662) | (577) | (1 239) |
| Total other comprehensive loss for the year | | – | – | (662) | – | – | – | (662) | (577) | (1 239) |
| Total comprehensive loss for the year | | – | – | (662) | – | – | (321) | (983) | (866) | (1 849) |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | | |
| Contributions by/(Distributions to) owners | | | | | | | | | | |
| Share-based payments | | – | – | – | 31 | – | – | 31 | 34 | 65 |
| Share options exercised | | – | – | – | – | – | – | – | 13 | 13 |
| Dividends paid | 17 | – | – | – | – | – | (177) | (177) | (34) | (211) |
| Total contributions by/(distributions to) owners | | – | – | – | 31 | – | (177) | (146) | 13 | (133) |
| Changes in ownership interests in subsidiaries | | – | – | – | – | (22) | – | (22) | 22 | – |
| Total transactions with owners | | – | – | – | 31 | (22) | (177) | (168) | 35 | (133) |
| Balance at 31 December 2017 | | 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 | 17 | **–** | **(43)** | **–** | **–** | **–** | **(57)** | **(100)** | **–** | **(100)** |
| Dividends paid | 17 | **–** | **–** | **–** | **–** | **–** | **(88)** | **(88)** | **–** | **(88)** |
| Total distributions to owners | | **–** | **(43)** | **–** | **–** | **–** | **(145)** | **(188)** | **–** | **(188)** |
| Changes in ownership interests in subsidiaries | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(5 387)** | **(5 387)** |
| Total transactions with owners | | **–** | **(43)** | **–** | **–** | **–** | **(145)** | **(188)** | **(5 387)** | **(5 575)** |
| **Transfer of reserves** | | | | | | | | | | |
| Transfer to retained income | 17 | **–** | **–** | **–** | **(439)** | **(482)** | **921** | **–** | **–** | **–** |
| **Balance at 31 December 2018** | | **1** | **–** | **344** | **–** | **–** | **5 886** | **6 231** | **–** | **6 231** |

| | Notes | Share capital Rm | Share premium Rm | Share-based payment reserve Rm | Retained income Rm | Total Rm |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| Balance at 1 January 2017 | | 1 | 43 | 2 | 89 | 135 |
| **Total comprehensive income for the year** | | | | | | |
| Profit for the year | | – | – | – | 269 | 269 |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Distributions to owners | | | | | | |
| Dividends paid | 17 | – | – | – | (177) | (177) |
| Total distributions to owners | | – | – | – | (177) | (177) |
| Balance at 31 December 2017 | | 1 | 43 | 2 | 181 | 227 |
| **Total comprehensive income for the year** | | | | | | |
| Profit for the year | | **–** | **–** | **–** | **5 462** | **5 462** |
| **Transactions with owners, recorded directly in equity** | | | | | | |
| Distributions to owners | | | | | | |
| Shares bought back by the company | 17 | **–** | **(43)** | **–** | **(57)** | **(100)** |
| Dividends paid | 17 | **–** | **–** | **–** | **(88)** | **(88)** |
| Total distributions to owners | | **–** | **(43)** | **–** | **(145)** | **(188)** |
| **Transfer of reserves** | | | | | | |
| Transfer to retained income | 17 | **–** | **–** | **(2)** | **2** | **–** |
| **Balance at 31 December 2018** | | **1** | **–** | **–** | **5 500** | **5 501** |

# Statements of Cash Flows

for the year ended 31 December 2018

| | Notes | Group 2018 Rm | Group 2017 Rm | Company 2018 Rm | Company 2017 Rm |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 24 | **351** | 6 920 | **152** | 270 |
| Increase in container leasing equipment | | **(399)** | (4 156) | **–** | – |
| Finance income received | | **62** | 68 | **–** | – |
| Finance lease income received | | **–** | 94 | **–** | – |
| Finance expenses paid | | **(79)** | (1 430) | **–** | – |
| Decrease in finance leases | | **–** | 430 | **–** | – |
| Payments to third parties in respect of long-term receivables | | **–** | (36) | **–** | – |
| Dividends paid to shareholders of the company | | **(88)** | (177) | **(88)** | (177) |
| Dividends paid to non-controlling interests | | **–** | (34) | **–** | – |
| Income taxes paid | 15 | **(12)** | (62) | **(2)** | (1) |
| Net cash (outflow)/inflow from operating activities | | **(165)** | 1 617 | **62** | 92 |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | | **–** | (14) | **–** | – |
| Proceeds on disposal of property, plant and equipment | | **26** | – | **–** | – |
| Increase in restricted cash | | **–** | (466) | **–** | – |
| Decrease in cash on deconsolidation of subsidiary (refer to note 7) | | **(1 701)** | – | **–** | – |
| Net cash outflow from investing activities | | **(1 675)** | (480) | **–** | – |
| **Cash flows from financing activities** | | | | | |
| Interest-bearing borrowings repaid | 18 | **–** | (23 244) | **–** | – |
| Interest-bearing borrowings raised | 18 | **–** | 22 988 | **–** | – |
| Shares bought back by the company | 17, 18 | **(100)** | – | **(100)** | – |
| Debt issuance costs incurred | 18 | **–** | (393) | **–** | – |
| Proceeds on issue of shares by subsidiary | 18 | **–** | 13 | **–** | – |
| Amounts advanced by/(repaid to) subsidiary | | **–** | – | **38** | (92) |
| Net cash outflow from financing activities | | **(100)** | (636) | **(62)** | (92) |
| **Net (decrease)/increase in cash and cash equivalents before exchange rate fluctuations** | | **(1 940)** | 501 | **–** | – |
| Cash and cash equivalents at the beginning of the year | | **3 134** | 2 837 | **–** | – |
| Effect of exchange rate fluctuations on cash and cash equivalents | | **86** | (204) | **–** | – |
| Cash and cash equivalents at the end of the year | 16 | **1 280** | 3 134 | **–** | – |

# Notes to the Financial Statements

for the year ended 31 December 2018

**1. Reporting entity**

Trencor Limited ("Trencor" or "the company") is a company incorporated in the Republic of South Africa. The address of the company's registered office is 13th Floor, The Towers South, Heerengracht, Cape Town, 8001. The consolidated financial statements of the company as at and for the year ended 31 December 2018 comprise the company and its subsidiaries, as defined by IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), together referred to as the "group" and individually as "group entity/ies", and the group's interest in associates. The group interests are owning, leasing, managing and trading marine cargo containers worldwide.

**2. Basis of preparation**

**2.1 Statement of compliance**

The consolidated and separate financial statements or otherwise referred to as "group" and "company" financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board, the South African Institute of Chartered Accountants *Financial Reporting Guides* and *Financial Reporting Pronouncements* as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The financial statements were approved by the board of directors on 30 April 2019.

**2.2 Basis of measurement**

The consolidated and separate financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date:

- investment in equity shares is measured at fair value; and
- derivative financial instruments are measured at fair value.

**2.3 Functional and presentation currency**

These consolidated and separate financial statements are presented in South African rand ("SA rand"), which is the company's functional currency. All financial information has been rounded to the nearest million, unless otherwise indicated.

**2.4 Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 32.

**2.5 Adoption of new accounting standards**

The group has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018.

*2.5.1* IFRS 15 did not have an impact on the group as services are delivered daily or monthly (i.e. time basis) and consequently revenue has also been recognised on this basis in terms of IAS 18, in prior years. This treatment is in line with IFRS 15 requirements. There was no impact on retained income at 1 January 2018. Refer to note 3.9 for additional information about the group's accounting policies with respect to revenue.

***2.5.2 IFRS 9***

*Classification and measurement*

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 *Financial Instruments: Recognition and Measurement* categories of held to maturity, loans and receivables and available for sale.

The existing requirements in IAS 39 for classification and measurement of financial liabilities are largely retained.

The adoption of IFRS 9 has not had a significant effect on the group's accounting policies related to financial liabilities and derivative financial instruments.

Refer to note 3.3 for an explanation of how the group classifies and measures and accounts for related gains and losses under IFRS 9.

*Impairment losses of financial assets*

The impact of IFRS 9 on the financial statements is not material as the expected credit loss model did not result in a significantly different provision when compared to the provision raised for the year ended 31 December 2017, accordingly no additional impairment loss was recognised at 1 January 2018. This assessment was based on the group's historical low levels of credit losses.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements, and have been applied consistently by group entities except for IFRS 15 and IFRS 9.

## 3. Significant accounting policies (continued)

### 3.1 Basis of consolidation

#### *3.1.1 Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date in accordance with IFRS 3 *Business Combinations*. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately.

Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

#### *3.1.2 Subsidiaries*

Subsidiaries are entities controlled by the group.

The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date that control ceases.

In the case of the company, investments in subsidiaries are carried at cost, less accumulated impairment losses.

#### *3.1.3 Changes in control*

Changes in the group entity's interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. Accordingly, gains or losses which arise from acquisitions or disposals of non-controlling interests, calculated based on the carrying value of the assets and liabilities of the subsidiary, are recognised in equity (refer to note 17). When the relative interests of the parent and non-controlling interest change, the equity reserves are reallocated between the parent and the non-controlling interest to reflect the new ownership interests. When there is a loss of control by the group over a subsidiary, the assets and liabilities and any related non-controlling interest and other components of equity of the subsidiary are derecognised. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### *3.1.4 Non-controlling interests*

Non-controlling interests are measured at fair value at date of acquisition.

#### *3.1.5 Interests in equity-accounted investees*

The group's interests in equity-accounted investees comprise an interest in an associate.

Associates are those entities in which the group has significant influence, but not control, over the financial and operating policies. Interests in associates are accounted for using the equity method and are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition the consolidated financial statements include the group's share of profit or loss, other comprehensive income and equity movements of equity accounted investees, until the date on which significant influence ceases.

When the group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments that form part thereof is reduced to nil and recognition of further losses is discontinued except to the extent that the group entity has an obligation or made payments on behalf of the investee. Gains or losses arising on the dilution of investments in associates while maintaining equity accounting, are recognised in profit or loss and the net gain or loss attributable to the group is transferred to the appropriate reserve in equity (refer to note 17).

#### *3.1.6 Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 3.2 Foreign currency

#### *3.2.1 Foreign currency transactions*

Transactions in foreign currencies are translated into the respective functional currencies of group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in profit or loss.

*3.2.2 Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into SA rand at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into SA rand at the rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of, partially or in its entirety, such that control or significant influence is lost, the related cumulative amount in the foreign currency translation reserve is reclassified to profit or loss as part of the gain or loss on disposal. If only part of an interest is disposed in a subsidiary while retaining control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When only part of an associate is disposed while retaining significant influence, the related proportion of the cumulative amount is reclassified to profit or loss.

**3.3 Financial instruments**

*3.3.1 Non-derivative financial instruments*

*Recognition and initial measurement*

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

*Classification and subsequent measurement*

*Financial assets – Classification policy from 1 January 2018*

On initial recognition a financial asset is classified as measured at:

- amortised cost; or
- FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held with a business model with the objective of collecting contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost as described above are measured at FVTPL. This includes all derivative financial assets.

Non-derivative financial liabilities are classified into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

*Financial assets – Subsequent measurement policy from 1 January 2018*

*Financial assets at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

*Financial assets at FVTPL*

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognised in profit or loss.

*Financial assets – Classification of financial assets: Policy applicable from 1 January 2018*

The following information is considered by the group in determining the classification of financial assets:

- The group's business model for managing financial assets; and
- The contractual cash flow characteristics of the financial assets.

The business model assessment of the financial assets is based on the group's strategy and rationale for holding the financial assets. When considering the strategy, the following is considered:

- whether the financial assets are held to collect contractual cash flows;
- whether the financial assets are held for sale; or
- whether the financial assets are held for both collecting contractual cash flows and to be sold.

*Financial assets – Assessment of contractual cash flows: Policy applicable from 1 January 2018*

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

## 3. Significant accounting policies (continued)

### 3.3 Financial instruments (continued)

*3.3.1 Non-derivative financial instruments (continued)*

*Financial assets – Classification policy before 1 January 2018*

The group classified its financial assets into one of the following categories:
- loans and receivables; and
- at FVTPL, and within this category as either held for trading or designated as at FVTPL.

*Financial assets – Subsequent measurement policy before 1 January 2018*

Loans and receivables were measured at amortised cost using the effective interest method.

Financial assets at FVTPL were measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.

*Financial liabilities – Classification, subsequent measurement and gains and losses*

Financial liabilities are classified as measured at amortised cost or FVTPL. If it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss. Debt issuance costs are capitalised and amortised over the term of the debt as required by application of the effective interest method.

***Cash and cash equivalents***
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are carried at amortised cost which is deemed to be fair value as they have a short-term maturity.

***Investment in equity shares***
The investment in equity shares comprises listed share and is designated at FVTPL and is accounted for at fair value, with fair value adjustments subsequent to initial recognition recognised in profit or loss. The fair value of listed investments is based on quoted bid prices. Profit or loss realised when the investment is sold is recognised in profit or loss.

***Trade receivables***
Trade receivables are carried at amortised cost less expected credit losses using the group's business model for managing its financial assets.

***Trade and other payables***
Trade payables are recognised at amortised cost using the effective interest method.

***Borrowings***
Borrowings are recognised initially at fair value, net of transaction costs incurred, where applicable, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Interest payable on borrowings is recognised in as finance expense in profit or loss over the term of the borrowings using the effective interest method. Transaction costs are capitalised and amortised over the term of the debt as required by application of the effective interest method.

Cash flows from interest paid are classified under operating activities in the statement of cash flows.

***3.3.2 Derivative financial instruments***
The group may from time to time establish currency and/or interest rate financial instruments to protect underlying cash flows. Derivative financial instruments are initially recognised at fair value and subsequently remeasured to their fair value with changes therein recognised in profit or loss.

***3.3.3 Offsetting***
Financial assets and liabilities are off-set and the net amount presented in the statement of financial position when a group entity has a legally enforceable right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

***3.3.4 Share capital***
*Ordinary shares*
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

*Dividends*
Dividends (treated as distributions within equity) are recognised as a liability in the period in which they are declared.

## 3.4 Property, plant and equipment

### *3.4.1 Recognition and measurement*

Items of property, plant and equipment, which include improvements made to leasehold premises are measured at cost less accumulated depreciation (refer to note 3.4.3) and accumulated impairment losses (refer to note 3.8.3). Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property, plant and equipment (other than containers in the leasing fleet) are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis within other income in profit or loss. When containers in the leasing fleet cease to be rented or become held for sale they are transferred to inventory at their carrying amounts. On disposal the proceeds on the sale of these assets are recognised in revenue in accordance with IFRS 15 *Revenue* (refer to note 3.9.2) and the carrying value is included in changes in inventories.

### *3.4.2 Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to a group entity and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

### *3.4.3 Depreciation*

Depreciation is calculated on the depreciable amount, which is the cost of an asset, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of property, plant and equipment. Leasehold improvements are depreciated over the shorter of the lease term or their useful lives. The estimated useful lives are as follows for the current and comparative periods:

| | Years |
|---|---|
| Container leasing equipment | |
| Non-refrigerated containers other than open top and flat rack containers | 13 – 14 |
| Refrigerated containers | 12 |
| Tank containers | 20 |
| Open top and flat rack containers | 14 – 16 |
| Plant and machinery | 9 |
| Other equipment | 3 – 10 |

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

## 3.5 Intangible assets and goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Intangible assets consist of exclusive rights to manage various fleets of containers and are measured at cost less accumulated amortisation (refer to note 3.5.2) and accumulated impairment losses (refer to note 3.8.3).

### *3.5.1 Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

### *3.5.2 Amortisation*

Intangible assets with finite useful lives are amortised over their useful lives. Container management contracts are amortised on a straight-line basis over their useful lives. Goodwill is not amortised.

The estimated useful lives are as follows for the current and comparative periods:

| | Years |
|---|---|
| Container management contracts | 11 – 13 |

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## 3.6 Net investment in finance leases

Amounts due from lessees under finance leases are recorded as finance lease receivables at the amount of the group entities' net investment, which comprises the present value of the minimum lease payments and any unguaranteed residual value accruing to the lessor.

The present value is calculated by discounting the minimum lease payments due and any unguaranteed residual value, at the interest rate implicit in the lease. Initial direct costs are included in the calculation of the finance lease receivable, because the interest rate implicit in the lease, used for discounting the minimum lease payments, takes initial direct costs incurred into consideration. Contingent rentals are excluded from the minimum lease payments and are recognised as they are incurred.

## 3.7 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling costs.

## 3. Significant accounting policies (continued)

### 3.8 Impairment

*3.8.1 Financial assets (Policy applied from 1 January 2018)*

The group recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the group's historical experience and informed credit assessment and including forward-looking information. The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive). At each reporting date, the group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

*3.8.2 Financial assets (Policy applied before 1 January 2018)*

At each reporting date it is assessed whether there is objective evidence that financial assets not carried at fair value through profit or loss, are impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to a group entity on terms that a group entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers and the disappearance of an active market for a security or observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Evidence of impairment for receivables is considered at both an individual asset and collective level. All individually significant receivables are assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, consideration is given to historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a group entity considers that there are no realistic prospects of recovery of the receivable, the relevant amounts are written off. When a subsequent event causes the amount of impairment loss to decrease, and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

*3.8.3 Non-financial assets*

At each reporting date, the carrying amounts of non-financial assets (other than inventories and deferred tax assets) are reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. Such losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9 Revenue

The group generates revenue primarily from the leasing and sale of marine cargo containers. Other sources of revenue include dividends received from the investment in equity shares.

*3.9.1 Leasing income*

Leasing income represents the net amount receivable from equipment managers in relation to the lease of the group's container leasing equipment to various international shipping lines. The net amount receivable is made up of the revenues distributed by the equipment managers less the direct expenses incurred and management fees charged by the managers.

The management agreements convey to the equipment managers the right to control the managed fleet, therefore meeting the definition of a lease. The management agreements are accordingly deemed to be leases between the group entity and its equipment managers.

Revenue earned by the equipment managers is recorded when earned according to the terms of the container rental contracts usually based on a *per diem* daily rate. The majority of the containers are on long-term operating leases between the equipment managers and the shipping lines, which are typically for five or more years.

Some of the containers are on finance leases between the equipment managers and the shipping lines. Under the agreements between the group entity and the equipment managers, the group entity is entitled to the rental payable in the leases between the equipment managers and the shipping lines, less direct container expenses incurred and management fees charged by the managers. The finance leases are treated as operating leases.

*3.9.2 Goods sold*

The equipment managers are responsible for the sale of containers when they reach the end of their useful lives or when it is financially viable to do so. Revenue from the sale of marine cargo containers, is measured at the fair value of the consideration received or receivable, less direct costs and management fees charged by the managers.

Revenue is recognised following the transfer of control of the containers to the customers, which typically occurs upon delivery to, or pick-up by, the customers and payment is assured.

***3.9.3 Revenue recognition prior to the deconsolidation of Textainer***

*Container equipment owned and managed by group entities.*

Leasing income arises principally from the renting of containers to various international shipping lines under operating and finance leases. Total fleet lease rental income includes the entire rental income collected from the lessee including rental income for the managed fleet as the management agreements with the owners convey to the group entity the right to control the use of the managed containers.

Under operating leases, container equipment owned by group entities is rented to various shipping lines and revenue is earned and recognised evenly over the period that the equipment is on lease, according to the terms of the contracts. These contracts are typically for terms of five years or less. Leases generally do not include step-rent provisions, nor do they depend on indices or rates. Revenue is recognised on leases that include lease concessions in the form of free-rent periods using the straight-line method over the minimum terms of the leases.

The revenue recognised at the commencement of a finance lease, where a group entity is the lessor, is the fair value of the asset or if lower, the present value of the minimum lease payments accruing to the group entity, computed at a market rate of interest. The revenue associated with the sale of goods which are subject to finance leases is accounted for in terms of the accounting policy for goods sold (refer to note 3.9.1). The cost of sales recognised at the commencement of the lease term is the cost, or carrying amount if different, of the leased item less the present value of the unguaranteed residual value.

## 3. Significant accounting policies (continued)

### 3.9 Revenue (continued)

***3.9.3 Revenue recognition prior to the deconsolidation of Textainer (continued)***

Leasing income in respect of finance lease receivables is earned and recognised over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.

The leases generally require the lessee to pay for any damage to the container beyond normal wear and tear at the end of the lease term. A Damage Protection Plan ("DPP") is offered to certain lessees. In terms of the DPP, an amount is charged, in addition to lease rentals, primarily on a daily basis and the lessees are no longer obligated for certain future repair costs for containers subject to the DPP. These revenues are recognised as earned on a daily basis over the related term of the lease.

Revenue and related expense has not been recognised under the DPP for customers who are charged at the end of the lease term or for other lessees who do not participate in the DPP. Based on past history, there is uncertainty as to the collectability of these amounts from lessees who are billed at the end of the lease term because the amounts due under the DPP are typically renegotiated at the end of the lease term or the lease term is extended.

***3.9.4 Management fees***

Management fees are earned for the acquisition of containers under management and are earned under management agreements on an as-earned basis. Fees are calculated as a fixed percentage of the cost of the managed containers purchased.

***3.9.5 Dividend income and capital distributions from trust***

In the case of the company, revenue comprises dividend income and capital distributions from trust and is recognised when the right to receive payment is established.

### 3.10 Expenses

***3.10.1 Operating lease payments***

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

***3.10.2 Net finance expenses***

Interest expense comprises the effective interest expense on financial liabilities measured at amortised cost. Capitalised debt issuance costs which are amortised over the term of the debt are included in interest expense as required by application of the effective interest method.

Interest income, other than that arising in respect of finance lease receivables (refer to note 3.9.3), is recognised in profit or loss as it accrues, using the effective interest method.

Fair value gains or losses on interest rate swaps are included in finance expenses.

### 3.11 Employee benefits

***3.11.1 Short-term employee benefits***

The cost of all short-term employee benefits is recognised during the year in which the employee renders the related service. The accruals for employee entitlements to remuneration and annual leave represent the amount which a group entity has a present obligation to pay as a result of employees' services provided to the reporting date. The accruals have been calculated at undiscounted amounts based on current remuneration rates.

***3.11.2 Retirement benefits***

Certain of the group entities contribute to defined contribution retirement funds. A defined contribution fund is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to these funds are recognised in profit or loss in the period during which services are rendered by employees.

***3.11.3 Share-based payments transactions***

The company and certain group entities grant share options to certain employees under share option plans which are all classified as equity-settled. The grant date fair value of share-based awards granted is recognised as an expense with a corresponding increase in equity over the vesting period of the awards. The fair value is measured at grant date using the Black-Scholes Merton ("Black-Scholes") option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted for service and non-market performance conditions, so as to reflect the actual number of share-based awards that vest.

### 3.12 Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the estimated taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and associates to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on the tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are off-set if there is a legally enforceable right to off-set current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 3.13 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to shareholders of the company by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit or loss attributable to shareholders of the company by the weighted average number of shares outstanding, after adjustment for the effects of all dilutive potential ordinary shares.

### 3.14 Accounting standards and interpretations in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. The standards and interpretations which may be relevant to the company and group entities are set out below, although early adoption is not anticipated. These will be adopted in the period that they become mandatory unless otherwise indicated.

***Effective for the financial year commencing 1 January 2019:***

IFRS 16 *Leases*

IFRS 16 was published in January 2016. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, 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 standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard.

The group has completed an initial assessment of the potential impact of IFRS 16 on its consolidated financial statements, but has not yet completed its detailed assessment. Thus far, the most significant impact identified is that the group will recognise a new asset and liability in respect of the operating lease of Trencor's Cape Town Head Office premises. As at 31 December 2018, the group's future minimum lease payments under non-cancellable operating leases amounted to R4 million, on an undiscounted basis. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use asset and interest expense on the lease liability. The group has no finance leases.

| | Group | | | | |
|---|---|---|---|---|---|
| | Leasehold improvements Rm | Container leasing equipment Rm | Plant and machinery Rm | Other equipment Rm | Total Rm |
| **4. Property, plant and equipment** | | | | | |
| **Cost** | | | | | |
| **2017** | | | | | |
| Balance at the beginning of the year | 28 | 67 411 | 15 | 146 | 67 600 |
| Additions | 1 | 5 736 | – | 13 | 5 750 |
| Effect of movements in exchange rates | (2) | (6 226) | – | (14) | (6 242) |
| Transfer to container inventory and finance leases | – | (2 555) | – | – | (2 555) |
| Disposals | – | – | (13) | (3) | (16) |
| Balance at the end of the year | 27 | 64 366 | 2 | 142 | 64 537 |
| **2018** | | | | | |
| Additions | **–** | **399** | **–** | **–** | **399** |
| Effect of movements in exchange rates | **–** | **553** | **–** | **–** | **553** |
| Transfer to container inventory | **–** | **(498)** | **–** | **–** | **(498)** |
| Disposals | **(6)** | **–** | **(2)** | **–** | **(8)** |
| Derecognised on deconsolidation of subsidiary (refer to note 7) | **(21)** | **(60 923)** | **–** | **(136)** | **(61 080)** |
| Balance at the end of the year | **–** | **3 897** | **–** | **6** | **3 903** |
| **Accumulated depreciation and impairment losses** | | | | | |
| **2017** | | | | | |
| Balance at the beginning of the year | 20 | 18 387 | 11 | 122 | 18 540 |
| Depreciation for the year | 1 | 3 037 | – | 10 | 3 048 |
| Effect of movements in exchange rates | (2) | (1 760) | – | (10) | (1 772) |
| Impairment loss for the year | – | 1 133 | – | – | 1 133 |
| Transfer to container inventory and finance leases | – | (1 192) | – | – | (1 192) |
| Disposals | – | – | (10) | (3) | (13) |
| Balance at the end of the year | 19 | 19 605 | 1 | 119 | 19 744 |
| **2018** | | | | | |
| Depreciation for the year | **–** | **103** | **–** | **–** | **103** |
| Effect of movements in exchange rates | **–** | **119** | **–** | **–** | **119** |
| Impairment loss for the year | **–** | **108** | **–** | **–** | **108** |
| Transfer to container inventory | **–** | **(384)** | **–** | **–** | **(384)** |
| Disposals | **(1)** | **–** | **(1)** | **–** | **(2)** |
| Derecognised on deconsolidation of subsidiary (refer to note 7) | **(18)** | **(18 712)** | **–** | **(113)** | **(18 843)** |
| Balance at the end of the year | **–** | **839** | **–** | **6** | **845** |
| **Carrying amounts:** | | | | | |
| At 1 January 2017 | 8 | 49 024 | 4 | 24 | 49 060 |
| At 31 December 2017 | 8 | 44 761 | 1 | 23 | 44 793 |
| At 31 December 2018 | **–** | **3 058** | **–** | **–** | **3 058** |
| Net book value of assets encumbered as security for interest-bearing borrowings (refer to note 18): | | | | | |
| At 31 December 2017 | – | 44 761 | – | – | 44 761 |
| At 31 December 2018 | **–** | **2 984** | **–** | **–** | **2 984** |

| | | Group | |
|---|---|---|---|
| | | **2018 Rm** | 2017 Rm |
| 4.1 | Container leasing equipment impairment | | |
| | Impairment recognised at end of the year | **107** | 1 209 |
| | Impairment recognised in respect of containers on operating leases not recovered from defaulting customers | **4** | 33 |
| | Reversal of impairment provided on containers on operating leases with defaulting customers | **(3)** | (109) |
| | Impairment prior to reversal of compensation from third parties | **108** | 1 133 |
| | Reversal of compensation from third party in respect of additional containers recovered from defaulting customers | **–** | 89 |
| | | **108** | 1 222 |

For the purposes of calculating the impairment loss, the container fleets were grouped by cash-generating units ("CGUs"). CGUs were defined as containers grouped by container type, as cash flows for the same type of containers are independent of cash flows of different container types, and are interchangeable with any other container of the same type within the container fleet.

The recoverable amounts and impairment amounts of the CGUs which were impaired are as follows:

| | Group | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| Container type | **Recoverable amount Rm** | **Impairment Rm** | Recoverable amount Rm | Impairment Rm |
| Non-refrigerated containers other than open top and flatrack containers: | | | | |
| 20' Dry freight | **1 125** | **44** | 14 189 | 48 |
| 40' Hi cube | **1 435** | **63** | 17 613 | 16 |
| 40' Dry freight | **–** | **–** | 1 902 | (14) |
| 45' Hi cube | **12** | **(2)** | 240 | 18 |
| Refrigerated containers: | | | | |
| 20' Refrigerated | **–** | **–** | 204 | 23 |
| 40' Refrigerated | **169** | **1** | 8 390 | 1 120 |
| Open top and flatrack containers: | | | | |
| 20' Flatrack | **10** | **1** | 177 | (2) |
| | **2 751** | **107** | 42 715 | 1 209 |

The recoverable amount of a CGU has been calculated based on its value in use. The discount rate used to discount the future estimated cash flows of TAC Limited ("TAC") was 7,44% (2017: 7,66%).

Projected future cash flows were estimated using the assumptions that are part of the long-term planning forecasts of TAC. These projected future cash flow assumptions are determined with reference to current market conditions. Some of the significant estimates and assumptions used to determine future expected cash flows were: expected future lease rates, expected utilisation, remaining useful lives, remaining on-hire periods for expired fixed term leases, expected future lease rates, direct container expenses and expected disposal prices of containers. In performing the impairment analysis, assumptions used reflected the contractually stipulated *per diem* rates, with renewal based on current market rates.

4.2 For capital commitments in respect of property, plant and equipment refer to note 26.

| | Group | | |
|---|---|---|---|
| | Goodwill Rm | Container management contracts Rm | Total Rm |
| **5. Intangible assets and goodwill** | | | |
| **Cost** | | | |
| **2017** | | | |
| Balance at the beginning of the year | 150 | 731 | 881 |
| Effect of movements in exchange rates | (13) | (65) | (78) |
| Balance at the end of the year | 137 | 666 | 803 |
| **2018** | | | |
| Impairment of goodwill | **(137)** | **–** | **(137)** |
| Derecognised on deconsolidation of subsidiary (refer to note 7) | **–** | **(666)** | **(666)** |
| Balance at the end of the year | **–** | **–** | **–** |
| **Accumulated amortisation** | | | |
| **2017** | | | |
| Balance at the beginning of the year | – | 514 | 514 |
| Amortisation for the year | – | 56 | 56 |
| Effect of movements in exchange rates | – | (49) | (49) |
| Balance at the end of the year | – | 521 | 521 |
| **2018** | | | |
| Derecognised on deconsolidation of subsidiary (refer to note 7) | **–** | **(521)** | **(521)** |
| Balance at the end of the year | **–** | **–** | **–** |
| **Carrying amounts:** | | | |
| At 1 January 2017 | 150 | 217 | 367 |
| At 31 December 2017 | 137 | 145 | 282 |
| At 31 December 2018 | **–** | **–** | **–** |

5.1 The amortisation charge in respect of intangible assets was recognised in other operating expenses in the statement of profit or loss and other comprehensive income in prior periods.

5.2 The goodwill arose on the step-up to control for TAC as at 1 July 2013 and, for the purposes of impairment testing, was allocated to the container owning, leasing, management and trading segment in line with synergies expected to be obtained from the business combination. As Textainer no longer forms part of the segment, the operational synergies expected from the combined segment are not likely to be obtained, therefore goodwill has been impaired during the current year.

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| **6. Investment in equity accounted investee** | | |
| The carrying amount and share of profit of Textainer's 25% investment in unlisted TW Container Leasing Limited consolidated at 31 December 2017 was as follows: | | |
| Carrying value of associate | **–** | 114 |
| Share of profit | **–** | 4 |
| Extract from associate's statement of cash flow: | | |
| Cash inflow from operating activities | **–** | 425 |
| Cash outflow from financing activities | **–** | (340) |

| | Company | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| **7. Interest in subsidiaries** | | |
| Ordinary shares at cost | **1 800** | 408 |
| Preference shares | **1 013** | 1 013 |
| Investment in subsidiaries before impairment loss | **2 813** | 1 421 |
| Impairment loss | **(351)** | (351) |
| Investment in subsidiaries | **2 462** | 1 070 |
| Amount due to subsidiary – long-term | **(862)** | (824) |
| | **1 600** | 246 |
| 7.1 Amount due to subsidiary is unsecured and interest free and is repayable at 367 days' notice. | | |
| 7.2 Income earned from subsidiaries during the year included in profit or loss: | | |
| Dividends received (refer to note 20) | **6 910** | 400 |

7.3 The impairment loss arose on impairment of the company's investment in certain subsidiaries to net asset value.

7.4 List of material subsidiaries:

| | Company | | |
|---|---|---|---|
| | **2018 %** | 2017 % | Place of registration |
| **Direct interests:** | | | |
| TAC Limited (2017: indirect beneficiary interest under the Halco Trust) (refer to note 7.4.4) | **100** | 100 | Bermuda |
| Trencor Services Proprietary Limited | **100** | 100 | Republic of South Africa |
| Halco Holdings Inc (2017: indirect beneficiary interest, deregistered in 2018) (refer to note 7.4.3) | **–** | 100 | British Virgin Islands |
| **Indirect beneficiary interests (under the Halco Trust):** | | | |
| Textainer Group Holdings Limited (refer to notes 7.4.1, 7.4.2, 7.4.4 and 7.4.5) | **–** | 47,8 | Bermuda |

7.4.1 At 31 December 2017, Trencor had a 47,8% beneficiary interest in Textainer Group Holdings Limited ("Textainer") through Halco Holdings Inc ("Halco") under the Halco Trust ("Trust"). At Halco's request, Textainer and Halco entered into a Voting Limitation Deed ("VLD"), on 1 January 2018, whereby Halco agreed to limit or restrict its shareholder voting rights in Textainer, solely in respect of the appointment and/or removal of directors and then only to the extent necessary to ensure that Trencor would be regarded for purposes of IFRS as being neither in control of nor having significant influence over Textainer. All Halco's voting rights, save for the said limitation or restriction, were unaffected by the VLD.

7.4.2 Following the entering into of the VLD, the financial results of Textainer, reporting under US GAAP, are no longer required to be converted into IFRS for inclusion in the results of Trencor as Textainer is no longer considered to be a subsidiary for the purposes of IFRS 10 (refer to note 32.1). Textainer is now accounted for by Trencor as an investment in equity shares measured at fair value through profit or loss (refer to note 8). The results of Textainer were previously included in the segment Containers – owning, leasing, management and trading (refer to note 28).

7.4.3 On 20 February 2018, Trencor, as a nominated beneficiary of the Trust, received a vesting and distribution from the Trust of the entire issued share capital of Halco. At that date, Halco was the holder of 47,8% of the shares in Textainer and 100% of the shares in TAC.

## 7 Interest in subsidiaries (continued)

7.4.4 On 11 May 2018, Halco declared to its sole shareholder, Trencor, three dividends, namely 47,8% of the shares in Textainer, 100% of the shares in TAC (these dividends constituting the entirety of Halco's shareholdings in Textainer and TAC) and a cash amount of US$8 million. As a result, Trencor then owned 47,8% of Textainer (refer to note 8) and 100% of TAC. Trencor elected to record the investment in TAC at the cost the investment was carried at in Halco.

| | Group 2018 Rm |
|---|---|
| **7.4.5 Gain on deconsolidation of subsidiary** | |
| Upon entering into the VLD (refer to note 7.4.1) a gain on deconsolidation of Textainer as at 1 January 2018 was recorded: | |
| Property, plant and equipment | **42 237** |
| Intangible assets and goodwill | **145** |
| Investment in equity accounted investee | **114** |
| Net investment in finance leases | **481** |
| Derivative financial instruments | **93** |
| Deferred tax assets | **19** |
| Restricted cash | **1 104** |
| Current assets (including cash and cash equivalents of R1 701 million) | **3 832** |
| Total assets | **48 025** |
| Interest-bearing borrowings | **(33 180)** |
| Deferred tax liabilities | **(31)** |
| Deferred revenue | **(25)** |
| Current liabilities | **(4 726)** |
| Total liabilities | **(37 962)** |
| Subsidiary net asset value | **10 063** |
| Non-controlling interests | **(5 387)** |
| Subsidiary net asset value attributable to Trencor's equity holders | **4 676** |
| Investment in equity shares at fair value through profit or loss (refer to note 8) | **7 255** |
| Gain on deconsolidation of subsidiary before recycling accumulated foreign currency translation gains | **2 579** |
| Accumulated foreign currency translation gains transferred from other comprehensive income to profit or loss | **3 188** |
| Gain on deconsolidation of subsidiary | **5 767** |

| | Group Ownership interests held by non-controlling interests (%) | |
|---|---|---|
| | **2018** | 2017 |
| **7.5 Non-controlling interests:** | | |
| Non-controlling interests in Textainer | **–** | 52,2 |

| | Group 2017 Restated Rm |
|---|---|
| **7.5 Non-controlling interests** (continued) | |
| The following is the summarised financial information of Textainer for the year ended 31 December 2017, prepared in accordance with IFRS, modified for fair value adjustments on acquisition and before inter-company eliminations with other group entities. | |
| Revenue | 9 076 |
| Loss | (522) |
| Loss attributable to non-controlling interests* | (289) |
| Other comprehensive loss | (1 048) |
| Total comprehensive loss | (1 570) |
| Total comprehensive loss attributable to non-controlling interests* | (866) |
| Non-current assets | 44 193 |
| Current assets | 3 832 |
| Non-current liabilities | (33 235) |
| Current liabilities | (4 726) |
| Indirect non-controlling interest | (285) |
| Net assets | 9 779 |
| Net assets attributable to non-controlling interests | 5 102 |
| Cash inflow from operating activities | 1 743 |
| Cash outflow from investing activities | (480) |
| Cash outflow from financing activities | (551) |
| Net increase in cash and cash equivalents | 712 |
| Dividends paid to non-controlling interest during the year included in cash flow from operating activities | 34 |

* Including indirect non-controlling interest.

## 8. Investment in equity shares

| | Group 2018 Rm | Group 2017 Rm | Company 2018 Rm | Company 2017 Rm |
|---|---|---|---|---|
| Investment in Textainer measured at fair value through profit or loss | | | | |
| 27 278 802 common shares listed on the New York Stock Exchange at US$9,96 each, translated at US$1=R14,39 | **3 910** | – | **3 910** | – |
| **8.1** Fair value adjustment of investment in equity shares: | | | | |
| Fair value at 31 December 2018 | **3 910** | – | **3 910** | – |
| Less: Fair value at 11 May 2018 | | | **5 477** | – |
| Less: Fair value at 1 January 2018 | **7 255** | – | | |
| Fair value adjustment of investment in equity shares | **(3 345)** | – | **(1 567)** | – |
| Fair value adjustment of investment in equity shares is made up as follows: | | | | |
| Decrease in fair value due to movement in share price | **(4 530)** | – | **(2 508)** | – |
| Increase in fair value due to movement in exchange rate | **1 185** | – | **941** | – |
| | **(3 345)** | – | **(1 567)** | – |

## 8. Investment in equity shares (continued)

8.2 The investment in Textainer is now accounted for by the group as an investment in equity shares measured at fair value through profit or loss (refer to note 7).

8.3 The shares in Textainer were previously held by Halco. On 11 May 2018, Halco declared to Trencor, all of the shares it previously held in Textainer. As a result, Trencor then acquired 47,8% of Textainer and Trencor assumed the same contractual rights and obligations *vis-à-vis* Textainer as Halco had under the VLD (refer to note 7).

## 9. Net investment in finance leases

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| Present value of minimum lease payments analysed as follows: | | |
| Non-current finance lease receivables | **–** | 496 |
| Current finance lease receivables included in current assets | **–** | 427 |
| | **–** | 923 |

## 10. Derivative financial instruments

| | Group | | | | |
|---|---|---|---|---|---|
| | | | Notional amount of contracts outstanding | Fair value | |
| | Final maturity | Underlying | Rm | Assets Rm | Liabilities Rm |
| Derivative financial instruments at 31 December comprise: | | | | | |
| **2018** | | | | | |
| Type of contract | | | | | |
| Interest rate swap contracts | December 2023 | Interest rates | **1 569** | **9** | **–** |
| | | | | **9** | **–** |
| **2017** | | | | | |
| Type of contract | | | | | |
| Interest rate cap contracts | December 2019 | Interest rates | 1 707 | – | – |
| Interest rate swap contracts | July 2023 | Interest rates | 14 313 | 100 | – |
| | | | | 100 | – |

10.1 The interest rate cap and swap contracts have been recorded at fair value and the related fair value adjustments recorded in profit or loss.

10.2 The variable interest rate debt principal outstanding amounted to R2 170 million at 31 December 2018 (2017: R27 131 million) of which R1 569 million (2017: R16 020 million) in notional value was covered by interest rate cap and swap contracts.

10.3 The value of the interest rate swaps is based on a discounted cash flow analysis utilising forecasted interest rate yield curves.

## 11. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Assets | | Liabilities | | Net | |
| | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm |
| Property, plant and equipment | **–** | – | **11** | 239 | **11** | 239 |
| Inventories | **–** | – | **–** | 2 | **–** | 2 |
| Trade and other receivables | **–** | – | **–** | 8 | **–** | 8 |
| Trade and other payables | **(2)** | (19) | **–** | – | **(2)** | (19) |
| Share-based payments | **–** | (9) | **–** | – | **–** | (9) |
| Tax losses carried forward | **(11)** | (212) | **–** | – | **(11)** | (212) |
| Tax (assets)/liabilities | **(13)** | (240) | **11** | 249 | **(2)** | 9 |
| Set-off of tax balances in same entity | **11** | 221 | **(11)** | (221) | **–** | – |
| Net tax (assets)/liabilities | **(2)** | (19) | **–** | 28 | **(2)** | 9 |

Movement in temporary differences during the year:

| | Group | | | | |
|---|---|---|---|---|---|
| | Balance at the beginning of the year Rm | Recognised in profit or loss Rm | Exchange adjustment in equity Rm | Derecognised on deconsolidation of subsidiary Rm | Balance at the end of the year Rm |
| **2018** | | | | | |
| Property, plant and equipment | **239** | **2** | **(2)** | **(228)** | **11** |
| Inventories | **2** | **–** | **–** | **(2)** | **–** |
| Trade and other receivables | **8** | **–** | **–** | **(8)** | **–** |
| Trade and other payables | **(19)** | **1** | **–** | **16** | **(2)** |
| Share-based payments | **(9)** | **–** | **–** | **9** | **–** |
| Tax losses carried forward | **(212)** | **(2)** | **2** | **201** | **(11)** |
| | **9** | **1** | **–** | **(12)** | **(2)** |
| **2017** | | | | | |
| Property, plant and equipment | 354 | (88) | (27) | – | 239 |
| Net investment in long-term receivables | 47 | (47) | – | – | – |
| Inventories | 5 | (3) | – | – | 2 |
| Trade and other receivables | 5 | 4 | (1) | – | 8 |
| Trade and other payables | (12) | (8) | 1 | – | (19) |
| Share-based payments | (18) | 8 | 1 | – | (9) |
| Tax losses carried forward | (333) | 98 | 23 | – | (212) |
| | 48 | (36) | (3) | – | 9 |

11.1 Deferred tax assets of R11 million (2017: R212 million) relate to tax losses carried forward which will begin to expire beginning in 2036 (2017: will expire between 2018 and 2037) if not utilised.

11.2 An amount of R92 million (2017: R77 million) in respect of losses has not been recognised as a deferred asset, as it is not probable that future taxable income will be available against which benefits will accrue.

11.3 In the case of the company, there were no temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised (2017: nil).

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| **12. Restricted cash** | | |
| The restricted cash was held by lenders in interest-bearing cash accounts as additional collateral for Textainer's secured debt facilities, a revolving credit facility and bonds payable. | **–** | 1 105 |
| **13. Inventories** | | |
| Container equipment held for sale | **19** | 270 |
| Trading containers | **–** | 133 |
| | **19** | 403 |

In terms of IAS 16, when containers in the leasing fleet cease to be rented, they are transferred to inventory at carrying value. The containers are then written down to their net realisable values, which are the estimated selling prices in the ordinary course of business, less costs to sell. The net realisable values of containers are updated as selling prices of containers change. During the year there was a net write-down of containers of R3 million (2017: R14 million net write-up).

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm |
| **14. Trade and other receivables** | | | | |
| Trade receivables | **96** | 1 019 | **–** | – |
| Prepayments | **10** | 158 | **1** | – |
| Insurance receivables | **7** | 160 | **–** | – |
| Other receivables | **14** | 103 | **–** | – |
| | **127** | 1 440 | **1** | – |
| **15. Income tax paid** | | | | |
| Amounts payable at the beginning of the year | **123** | 136 | **1** | – |
| Amounts receivable at the beginning of the year | **–** | (18) | **–** | – |
| Effect of movements in exchange rates | **2** | (12) | **–** | – |
| Recognised in profit or loss | | | | |
| South African normal | **7** | 52 | **1** | 2 |
| Foreign normal | **1** | 27 | **–** | – |
| Derecognised on deconsolidation of subsidiary | **(110)** | – | **–** | – |
| Amounts payable at the end of the year | **(11)** | (123) | **–** | (1) |
| Amounts paid during the year | **12** | 62 | **2** | 1 |
| **16. Cash and cash equivalents** | | | | |
| Bank balances | **336** | 2 008 | **–** | – |
| Call and term deposits | **944** | 1 126 | **–** | – |
| | **1 280** | 3 134 | **–** | – |

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm |
| **17. Capital and reserves** | | | | |
| Share capital | | | | |
| Authorised | | | | |
| Ordinary shares of 0,5 cent each | | | | |
| 200 000 000 (2017: 200 000 000) | **1** | 1 | **1** | 1 |
| Issued | | | | |
| Ordinary shares of 0,5 cent each | | | | |
| 173 677 833 (2017: 177 068 011) | **1** | 1 | **1** | 1 |
| 17.1 Number of ordinary shares in issue (in thousands) | | | | |
| Shares in issue at the beginning of the year | **177 068** | 177 068 | **177 068** | 177 068 |
| Shares bought back by the company | **(3 390)** | – | **(3 390)** | – |
| Shares in issue at the end of the year | **173 678** | 177 068 | **173 678** | 177 068 |

In the aggregate 3 390 178 ordinary shares, representing 1,91% of the company's issued share capital were repurchased in terms of the shareholders' authority granted. The total value of the shares repurchased amounted to R100 million at an average price of R29,50 per share, ranging between R27,66 and R31,00 per share. Share premium was reduced by R43 million and R57 million was charged against retained income.

17.2 Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the company.

17.3 No authorisation has been sought from shareholders to place the unissued shares of the company under the control of the directors.

17.4 Dividends

| | Group 2018 Rm | Group 2017 Rm | Company 2018 Rm | Company 2017 Rm |
|---|---|---|---|---|
| Dividends declared and paid during the year are as follows: | | | | |
| Final dividend in respect of the financial year 2017 – 50 cents per share (2016: 50 cents per share) | **88** | 88 | **88** | 88 |
| Interim dividend in respect of the financial year 2018 – nil (2017: 50 cents per share) | **–** | 88 | **–** | 88 |
| | **88** | 177 | **88** | 177 |

No dividend was declared in respect of the year under review.

17.5 Reserves

***Foreign currency translation reserve***

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The accumulated foreign currency translation gains in respect of Textainer (refer to note 7) and other liquidated subsidiaries were transferred to retained income during the year.

***Share-based payment reserve***

The share-based payment reserve comprised the cumulative value of equity-settled share-based payments. These reserves were transferred to retained income during the year.

***Gain/Loss on changes in ownership interests in subsidiaries***

This reserve represented the cumulative net gain in changes in ownership interests in subsidiaries. These net gains were transferred to retained income during the year on deconsolidation of Textainer.

## 18. Interest-bearing borrowings

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Interest rate 31 Dec 2018 % p.a. | Interest fixed or indexed to | Foreign amount **2018 US$m** | Foreign amount 2017 US$m | **2018 Rm** | 2017 Rm |
| Credit facility: | | | | | | |
| Leased Assets Pool Company Limited ("LAPCO") credit facility (refer to notes 18.2 and 34) | 4,57 | LIBOR | **151** | 151 | **2 170** | 1 866 |
| Bonds: | | | | | | |
| 2017 – 1 Bonds | – | Fixed | **–** | 394 | **–** | 4 877 |
| 2017 – 2 Bonds | – | Fixed | **–** | 480 | **–** | 5 944 |
| Term loan: | | | | | | |
| Textainer term loan | – | US prime or LIBOR | **–** | 354 | **–** | 4 379 |
| Debt facilities: | | | | | | |
| Textainer debt facility | – | LIBOR | **–** | 665 | **–** | 8 223 |
| Textainer debt facility | – | LIBOR | **–** | 133 | **–** | 1 645 |
| Revolving credit facilities: | | | | | | |
| Textainer revolving credit facility | – | LIBOR | **–** | 574 | **–** | 7 100 |
| Textainer revolving credit facility | – | LIBOR | **–** | 152 | **–** | 1 880 |
| Textainer revolving credit facility | – | LIBOR | **–** | 165 | **–** | 2 038 |
| Total | | | **151** | 3 068 | **2 170** | 37 952 |
| Unamortised debt issuance costs | | | | | **(36)** | (333) |
| | | | | | **2 134** | 37 619 |
| Current portion included in current liabilities | | | | | **(512)** | (2 611) |
| | | | | | **1 622** | 35 008 |

18.1 The borrowings are secured by way of a pledge against certain of the group entities' property, plant and equipment. In prior years the asset pledges included investments in finance leases as well as requirements by lenders that the group entities hold restricted cash as additional collateral for borrowings (refer to notes 4, 9 and 12 respectively).

18.2 Under the terms of the credit facility granted to LAPCO, a TAC subsidiary, payment of dividends and the redemption of shares subject to mandatory redemption can only be made from surplus cash flows after any payments due under the facility. The facility also contains covenants regarding senior funded indebtedness, interest coverage and tangible net worth. The facility includes under the definition of an early amortisation event, which will be triggered if LAPCO's earnings before interest and taxes ratio is equal to or less than (a) 1,0 for the calendar quarter ended 30 September 2017 or (b) 1,2 for each calendar quarter ending subsequent 30 September 2017. With respect to (b), the measurement period shall be the number of quarters that have elapsed since the calendar quarter 30 September 2017 until four quarters and thereafter a rolling four quarter basis.

At 31 December 2018 LAPCO was in breach of the interest rate ratio covenant thereby triggering an early amortisation event. The revolving nature of the facility changes to a term facility until the breach is remedied or waived by the majority of the lenders. Accordingly, on that basis, US$35,6 million would have become payable in the 2019 financial year. The SA rand equivalent of R512 million is disclosed as the current portion of long-term borrowings. The final maturity date is the sixth anniversary of the date on which the early amortisation event occurs.

On 2 April 2019 an amendment to the credit facility agreement was concluded whereby LAPCO obtained the consent of the lenders to exclude for the four consecutive quarters ending 30 September 2019, the impairment to the container fleet, reported in terms of US Generally Accepted Accounting Principles, which contributed to the breach. This has resulted in the facility reverting to a revolving credit facility. A R3,5 million (US$240 000) waiver fee was incurred and it was agreed that a voluntary loan repayment of R144 million (US$10 million) be paid on 23 April 2019 thereby averting any margin increases. The effect of the above is that R263 million will be repaid to the lenders during 2019 instead of the abovementioned R512 million.

Under the credit facility no repayments are made within the two-year revolving period. The facility will convert to a six-year amortising note if it is not extended by agreement between the banks and LAPCO in November 2019. Final repayment estimated in November 2025.

18.3 No debt issuance costs (2017: R393 million) were capitalised during the year.

18.4 In terms of the memorandum of incorporation, the company's borrowing powers are unlimited. The company's borrowings are disclosed in note 7.

18.5 Details of borrowing facilities are as follows:

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| Total borrowing facilities | **2 302** | 39 939 |
| Actual borrowings at the end of the year | **2 170** | 37 952 |
| Unutilised facilities | **132** | 1 987 |

## 18. Interest-bearing borrowings (continued)

18.6 Reconciliation of movements of liabilities to cash flows arising from financing activities:

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Interest-bearing borrowings Rm | Debt issuance costs Rm | Derivative financial instruments Rm | Share premium Rm | Retained income Rm | Non-controlling interests Rm | Total Rm |
| Balance at 1 January 2017 | 41 926 | (258) | (46) | 43 | 2 262 | 6 218 | 50 145 |
| **Changes from financing cash flows** | | | | | | | |
| Proceeds from loans and borrowings | 22 988 | – | – | – | – | – | 22 988 |
| Proceeds from exercise of share options | – | – | – | – | – | 13 | 13 |
| Capitalised debt issuance costs | – | (393) | – | – | – | – | (393) |
| Repayment of borrowings | (23 244) | – | – | – | – | – | (23 244) |
| **Total changes from financing cash flows** | 41 670 | (651) | (46) | 43 | 2 262 | 6 231 | 49 509 |
| Debt issuance costs amortised | – | 187 | – | – | – | – | 187 |
| Debt issuance costs written-off | – | 100 | – | – | – | – | 100 |
| Effect of exchange rate fluctuations | (3 718) | 31 | 9 | – | – | (577) | (4 255) |
| Changes in fair value | – | – | (63) | – | – | – | (63) |
| | 37 952 | (333) | (100) | 43 | 2 262 | 5 654 | 45 478 |
| Non-controlling other equity related changes | – | – | – | – | – | (267) | (267) |
| **Balance at 31 December 2017** | 37 952 | (333) | (100) | 43 | 2 262 | 5 387 | 45 211 |
| **Changes from financing cash flows** | | | | | | | |
| Shares bought back by the company | **–** | **–** | **–** | **(43)** | **(57)** | **–** | **(100)** |
| **Total changes from financing cash flows** | **37 952** | **(333)** | **(100)** | **–** | **2 205** | **5 387** | **45 111** |
| Debt issuance costs amortised | **–** | **5** | **–** | **–** | **–** | **–** | **5** |
| Interest-bearing borrowings derecognised on deconsolidation of subsidiary | **(36 087)** | **298** | **93** | **–** | **–** | **(5 387)** | **(41 083)** |
| Effect of exchange rate fluctuations | **305** | **(6)** | **(2)** | **–** | **–** | **–** | **297** |
| | **2 170** | **(36)** | **(9)** | **–** | **2 205** | **–** | **4 330** |
| Other changes in retained income | **–** | **–** | **–** | **–** | **3 681** | **–** | **3 681** |
| **Balance at 31 December 2018** | **2 170** | **(36)** | **(9)** | **–** | **5 886** | **–** | **8 011** |

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm |
| **19. Trade and other payables** | | | | |
| Trade payables | **4** | 86 | **–** | – |
| Accrued expenses | **21** | 244 | **7** | 14 |
| Amounts due to container owners | **–** | 124 | **–** | – |
| Amounts due in respect of container acquisitions | **–** | 1 622 | **–** | – |
| Other payables | **4** | 4 | **3** | 4 |
| | **29** | 2 080 | **10** | 18 |
| **20. Operating profit before net finance expenses** | | | | |
| Operating profit before net finance expenses is arrived at after taking into account: | | | | |
| **Income** | | | | |
| Capital distribution from trust | **–** | – | **168** | – |
| Compensation reversal from third party in respect of impairment of property, plant and equipment | **–** | (89) | **–** | – |
| Dividends received | **–** | – | **6 910** | 400 |
| **Expenses** | | | | |
| Amortisation of intangible assets | **–** | 56 | **–** | – |
| Auditors' remuneration | **5** | 58 | **2** | 25 |
| Audit fee – current year | **9** | 42 | **6** | 19 |
| – (over)/under provision prior year | **(4)** | 16 | **(4)** | 6 |
| Directors' remuneration and benefits | **14** | 14 | **3** | 3 |
| Executive directors | | | | |
| Short-term employee benefits | **11** | 9 | **–** | – |
| Non-executive directors | | | | |
| Remuneration | **3** | 4 | **3** | 3 |
| Share-based payments – equity-settled | **–** | 1 | **–** | – |
| Remeasurement of loss allowance – financial assets | | | | |
| Trade and other receivables | **4** | 15 | **–** | – |
| Write-down/(Write-up) of container leasing equipment held for sale | **3** | (14) | **–** | – |
| Operating leases – premises | **2** | 49 | **–** | – |
| Share-based payments included in employee benefits expense – equity-settled | **–** | 58 | **–** | – |
| Share-based payments to suppliers – equity-settled | **–** | 6 | **–** | – |
| Retirement benefit contributions included in employee benefits expense | **–** | 8 | **–** | – |
| **21. Net finance expenses** | | | | |
| Finance expenses | **84** | 1 654 | **–** | – |
| Interest expense | **88** | 1 704 | **–** | – |
| Realised and unrealised gains on derivative financial instruments | **(4)** | (50) | **–** | – |
| Finance income | | | | |
| Interest income received on cash and cash equivalents | **(62)** | (68) | **–** | – |
| | **22** | 1 586 | **–** | – |

## 22. Income tax expense

| | Group 2018 Rm | Group 2017 Rm | Company 2018 Rm | Company 2017 Rm |
|---|---|---|---|---|
| South African normal | **7** | 52 | **1** | 2 |
| Current | **7** | 51 | **1** | 1 |
| Adjustment for prior years | **–** | 1 | **–** | 1 |
| Foreign normal | **1** | 27 | **–** | – |
| Current | **1** | 21 | **–** | – |
| Adjustment for prior years | **–** | 6 | **–** | – |
| Associated tax credit | | | | |
| Adjustment for prior years | **–** | (13) | **–** | – |
| South African deferred | | | | |
| Origination and reversal of temporary differences | **1** | (48) | **–** | – |
| Foreign deferred | **–** | 12 | **–** | – |
| Origination and reversal of temporary differences | **–** | 32 | **–** | – |
| Adjustment for prior years | **–** | (11) | **–** | – |
| Reduction in tax rate | **–** | (9) | **–** | – |
| | **9** | 30 | **1** | 2 |
| The income tax expense is reconciled as follows: | | | | |
| Profit/(Loss) before tax | **2 857** | (580) | **5 463** | 271 |
| Income tax expense/(credit) at applicable rate of 28% (2017: 28%) | **800** | (163) | **1 530** | 76 |
| Operating losses not recognised | **3** | – | **–** | – |
| Over provided in prior years | **–** | (12) | **–** | 1 |
| Foreign loss inclusion differential | **(23)** | 132 | **–** | – |
| Foreign tax rate differential | **(1)** | 3 | **–** | – |
| Provision for tax exposures | **(1)** | 42 | **–** | – |
| Non-taxable income – capital distribution from trust | **–** | – | **(47)** | – |
| Non-taxable income – dividends received | **–** | – | **(1 934)** | (111) |
| Non-deductible expenses in relation to dividends received | **8** | 36 | **8** | 36 |
| Fair value adjustment of investment in equity shares | **936** | – | **439** | – |
| Gain on deconsolidation of subsidiary | **(1 615)** | – | **–** | – |
| Accumulated foreign currency translation gains recycled to profit or loss on liquidation of subsidiaries | **(147)** | – | **–** | – |
| Impairment of goodwill | **39** | – | **–** | – |
| Other non-deductible expenses | **11** | – | **5** | – |
| Capital gain | **(1)** | – | **–** | – |
| Profit from equity accounted investee | **–** | (1) | **–** | – |
| Effect of reduction in tax rate on recognised temporary differences | **–** | (7) | **–** | – |
| Income tax expense at effective tax rate | **9** | 30 | **1** | 2 |

22.1 Certain group entities are not subject to tax in their countries of incorporation. However, these entities are subject to tax in certain other jurisdictions due to the nature of their operations. These entities estimate the tax liability based upon their interpretation of the tax laws of the various jurisdictions in which they operate and include a provision for uncertain tax exposures. Deferred income taxes reflect temporary differences attributable to various jurisdictions at the appropriate statutory tax rates.

22.2 Certain group entities participated in export partnerships. As these entities were liable to the partnerships for the tax effect in the first year of their participation, the amount thereof was disclosed as an associated tax charge. In subsequent years, the partnerships become liable to the entities for the tax arising as the underlying receivables are collected. The amount thereof is disclosed as an associated tax credit.

22.3 Foreign loss inclusion differential: A portion of TAC's profit/loss is treated as effectively connected with its conduct of a trade or business within the United States of America ("US"), and is accordingly subject to US federal income tax. Since only a portion of the profit/loss is taxed at the US federal income tax rate, the portion not included is either not taxable or not deductible.

## 23. Earnings/(Loss) per share

| | Group | | | |
|---|---|---|---|---|
| | **Gross** | **Net*** | Gross | Net* |
| | **2018** | | 2017 | |
| | **Rm** | **Rm** | Rm | Rm |
| **Basic earnings/(loss) per share** | | | | |
| Profit/(Loss) for the year attributable to equity holders of the company | | **2 848** | | (321) |
| Weighted average number of shares in issue (million) | | **176,9** | | 177,1 |
| Basic earnings/(loss) per share (cents) | | **1 610** | | (182) |
| Diluted earnings/(loss) per share (cents) | | **1 610** | | (182) |
| **Headline (loss)/earnings per share** | | | | |
| Profit/(Loss) for the year attributable to equity holders of the company | | **2 848** | | (321) |
| Impairment of property, plant and equipment | **108** | **108** | 1 133 | 544 |
| Compensation recovery from third party in respect of impairment of property, plant and equipment | **–** | **–** | 89 | 42 |
| Gain on deconsolidation of subsidiary | **(5 767)** | **(5 767)** | – | – |
| Accumulated foreign currency translation gains recycled to profit or loss on liquidation of subsidiaries | **(526)** | **(526)** | – | – |
| Impairment of goodwill | **137** | **137** | – | – |
| Profit on sale of property, plant and equipment | **(18)** | **(15)** | – | – |
| Headline (loss)/earnings attributable to equity holders of the company | | **(3 215)** | | 265 |
| Weighted average number of shares in issue (million) | | **176,9** | | 177,1 |
| Headline (loss)/earnings per share (cents) | | **(1 818)** | | 149 |
| Diluted (loss)/earnings per share (cents) | | **(1 818)** | | 149 |

* Net of tax and non-controlling interests.

## 24. Cash generated from operations

| | Group 2018 Rm | Group 2017 Rm | Company 2018 Rm | Company 2017 Rm |
|---|---|---|---|---|
| Reconciliation of profit/(loss) for the year to cash generated from operations: | | | | |
| Profit/(Loss) for the year | **2 848** | (610) | **5 462** | 269 |
| Adjusted for: | | | | |
| Finance expenses | **84** | 1 654 | **–** | – |
| Finance income | **(62)** | (68) | **–** | – |
| Gain on deconsolidation of subsidiary | **(5 767)** | – | **–** | – |
| Gain on disposal other property, plant and equipment | **(18)** | – | **–** | – |
| Other non-cash flow adjustments to the net investment in long-term receivables | **–** | (16) | **–** | – |
| Accumulated foreign currency translation gains recycled to profit or loss on liquidation of subsidiaries | **(526)** | – | **–** | – |
| Depreciation | **103** | 3 048 | **–** | – |
| Carrying value of container leasing equipment disposed | **134** | 1 375 | **–** | – |
| Write-down/(Write-up) of container leasing equipment held for sale | **3** | (14) | **–** | – |
| Net impairment losses incurred | **248** | 1 148 | **–** | – |
| Share-based payments | **–** | 65 | **–** | – |
| Amortisation of intangible assets | **–** | 56 | **–** | – |
| Finance lease income | **–** | (94) | **–** | – |
| Deferred revenue recognised in profit or loss | **–** | (3) | **–** | – |
| Dividend in-specie received | **–** | – | **(6 869)** | – |
| Fair value adjustment of investment in equity shares | **3 345** | – | **1 567** | – |
| Share of profit from equity accounted investee | **–** | (4) | **–** | – |
| Income tax expense | **9** | 30 | **1** | 2 |
| Operating profit before working capital changes | **401** | 6 567 | **161** | 271 |
| Working capital changes | **(50)** | 353 | **(9)** | (1) |
| Increase in inventories | **(2)** | (8) | **–** | – |
| Decrease/(Increase) in trade and other receivables | **16** | 413 | **(1)** | – |
| Decrease in trade and other payables | **(64)** | (52) | **(8)** | (1) |
| Cash generated from operations | **351** | 6 920 | **152** | 270 |

## 25. Operating lease commitments

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| Non-cancellable operating lease rentals are payable as follows: | | |
| Within one year | **3** | 28 |
| Between one and five years | **1** | 106 |
| After five years | **–** | 115 |
| | **4** | 249 |

The current year commitments relate to the lease of Trencor's head office premises and runs for a period of one and half years. There is no contingent rental included in the lease.

## 26. Capital commitments

| | Group 2018 Rm | Group 2017 Rm |
|---|---|---|
| For container leasing equipment | | |
| Contracted | **–** | 3 030 |

## 27. Employee benefits

27.1 Share-based payments

Trencor has a dormant Share Plan. In terms of the Plan, options were previously granted to certain executive directors and employees amounting in aggregate to 6 470 000 shares in the unissued share capital of the company. The maximum number of shares available for utilisation under the Plan is 8 884 209.

27.2 The amounts included in profit or loss in respect of share-based payments are:

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| Equity-settled | **–** | 65 |

The expense in the prior year related to the Textainer 2015 Share Plan. Since Textainer is no longer consolidated, the information previously provided in respect of Textainer's share-based payments is no longer disclosed.

27.3 Retirement benefit funds

Membership of the Alexander Forbes Retirement Fund, an umbrella fund arrangement which provides member investment choice from a range of portfolios, was compulsory for all eligible employees in South Africa. Effective 1 June 2018 the Trencor employee members joined the Allan Gray Umbrella Retirement Fund.

Up until 1 June 2014, eligible employees were members of the Trencor Pension Fund. This Fund has no liability in respect of pensioners and currently holds unclaimed benefits in respect of untraced former members and is in the process of being liquidated.

## 28. Segment reporting

### Business segments

28.1 There is one (2017: two) operating segment (i.e. strategic business unit) namely container owning, leasing, management and trading. In 2017 the two segments were managed separately as they offered entirely different services. The reportable segments were: container finance and container owning, leasing, management and trading. The executive committee (regarded as the chief operating decision maker) reviews internal management reports on at least a quarterly basis.

28.2 Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before interest and income tax, as included in the internal management reports. Segment profit before net finance expenses and income tax is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate within these industries. There was no inter-segment activity.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Container finance | | Container owning, leasing, management and trading | | Consolidated | |
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **Rm** | Rm | **Rm** | Restated Rm | **Rm** | Restated Rm |
| Revenue | **–** | – | **543** | 9 625 | **543** | 9 625 |
| Goods sold | **–** | – | **184** | 2 303 | **184** | 2 303 |
| Leasing income | **–** | – | **359** | 7 265 | **359** | 7 265 |
| Management fees | **–** | – | **–** | 57 | **–** | 57 |
| Reportable segment (loss)/profit before net finance expenses and income tax | **–** | (23) | **148** | 1 191 | **148** | 1 168 |
| Finance income | **–** | – | **5** | 8 | **5** | 8 |
| Finance expenses | **–** | – | **(84)** | (1 654) | **(84)** | (1 654) |
| Depreciation and amortisation | **–** | – | **(103)** | (3 104) | **(103)** | (3 104) |
| Share of profit of equity accounted investee | **–** | – | **–** | 4 | **–** | 4 |
| Income tax (credit)/expense | **–** | (18) | **–** | 40 | **–** | 22 |
| Other material non-cash items: | | | | | | |
| Net long-term receivable valuation adjustment | **–** | (16) | **–** | – | **–** | (16) |
| Impairment losses incurred: | | | | | | |
| Property, plant and equipment | **–** | – | **(108)** | (1 133) | **(108)** | (1 133) |
| Trade receivables | **–** | – | **(4)** | (15) | **(4)** | (15) |
| (Write-down)/Write-up of container leasing equipment held for sale | **–** | – | **(3)** | 14 | **(3)** | 14 |
| Share-based payments | **–** | – | **–** | (65) | **–** | (65) |
| Reportable segment assets | **–** | 7 | **3 575** | 51 068 | **3 575** | 51 075 |
| Capital expenditure | **–** | – | **399** | 5 750 | **399** | 5 750 |
| Reportable segment liabilities | **–** | – | **2 146** | 39 694 | **2 146** | 39 694 |

28.3 Reconciliations of reportable segment profit/(loss) before net finance expenses and income tax, finance income, income tax, assets and liabilities:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Reportable segment total | Unallocated | Consolidated total | Reportable segment total | Unallocated | Consolidated total |
| | **2018** | | | 2017 | | |
| | **Rm** | **Rm** | **Rm** | Rm | Rm | Rm |
| Profit/(Loss) before net finance expenses and income tax | **148** | **2 731** | **2 879** | 1 168 | (166) | 1 002 |
| Finance income | **5** | **57** | **62** | 8 | 60 | 68 |
| Income tax expense | **–** | **9** | **9** | 22 | 8 | 30 |
| Assets | **3 575** | **4 830** | **8 405** | 51 075 | 1 238 | 52 313 |
| Liabilities | **2 146** | **28** | **2 174** | 39 694 | 184 | 39 878 |

| | Group | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm |
| The following is an analysis of the unallocated assets and liabilities: | | | | |
| Investment in equity accounted investee | **–** | 114 | **–** | – |
| Investment in equity shares | **3 910** | – | **–** | – |
| Deferred tax assets/liabilities | **2** | 19 | **–** | 28 |
| Income tax liabilities | **–** | – | **11** | 123 |
| Trade and other receivables/payables | **4** | 9 | **17** | 33 |
| Cash and cash equivalents | **914** | 1 096 | **–** | – |
| | **4 830** | 1 238 | **28** | 184 |

28.4 Major customers

Leasing revenue from one customer in the container owning, leasing, management and trading operating segment amounted to 14% (2017: two customers 28%) of leasing revenue. No other customer individually accounted for more than 10% of revenue.

28.5 Geographic segment information

Container lessees use containers for their global trade utilising many worldwide trade routes. Revenue is earned from international carriers when the containers are in use and carrying cargo around the world. Substantially all leasing related revenue is denominated in US dollars. As all of the containers are used internationally, where no one container is domiciled in one particular place for a prolonged period of time, all of long-lived assets are considered to be international with no single country of use.

## 29. Financial instruments and risk management

29.1 Classification and measurement financial assets and financial liabilities

The carrying amounts and fair values of each category of financial assets and liabilities are as follows:

The analysis of financial assets and liabilities of the group's businesses into their categories as defined in IFRS 9 *Financial Instruments* is set out in the tables below. The group has taken advantage of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of IFRS 9's classification and measurement (including impairment) requirements. The following tables analyse financial assets and liabilities in accordance with the categories of financial instruments as defined by IFRS 9 at 31 December 2018 and as defined by IAS 39 at 31 December 2017. Assets and liabilities outside the scope of these standards are excluded.

| | Group | | | | |
|---|---|---|---|---|---|
| | Designated at fair value through profit or loss Rm | Financial assets at amortised cost Rm | Other financial liabilities Rm | Total carrying amount Rm | Fair value Rm |
| **2018** | | | | | |
| **Financial assets** | | | | | |
| Investment in equity shares | **3 910** | **–** | **–** | **3 910** | **3 910** |
| Derivative financial instruments | **9** | **–** | **–** | **9** | **9** |
| Trade and other receivables | **–** | **117** | **–** | **117** | **117** |
| Cash and cash equivalents | **–** | **1 280** | **–** | **1 280** | **1 280** |
| | **3 919** | **1 397** | **–** | **5 316** | **5 316** |
| **Financial liabilities** | | | | | |
| Interest-bearing borrowings | **–** | **–** | **2 170** | **2 170** | **2 170** |
| Trade and other payables | **–** | **–** | **29** | **29** | **29** |
| | **–** | **–** | **2 199** | **2 199** | **2 199** |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Held for trading Rm | Financial assets at amortised cost Rm | Other financial liabilities Rm | Other Rm | Total carrying amount Rm | Fair value Rm |
| **2017** | | | | | | |
| **Financial assets** | | | | | | |
| Net investment in finance leases | – | – | – | 923 | 923 | 938 |
| Derivative financial instruments | 100 | – | – | – | 100 | 100 |
| Restricted cash | – | 1 105 | – | – | 1 105 | 1 105 |
| Trade and other receivables | – | 1 282 | – | – | 1 282 | 1 282 |
| Cash and cash equivalents | – | 3 134 | – | – | 3 134 | 3 134 |
| | 100 | 5 521 | – | 923 | 6 544 | 6 559 |
| **Financial liabilities** | | | | | | |
| Interest-bearing borrowings | – | – | 37 952 | – | 37 952 | 38 013 |
| Trade and other payables | – | – | 2 080 | – | 2 080 | 2 080 |
| | – | – | 40 032 | – | 40 032 | 40 093 |

The following table reflects the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets and financial liabilities as at 1 January 2018.

| | Group | | |
|---|---|---|---|
| | Original classification under IAS 39 | New classification under IFRS 9 | Change in carrying value |
| **Financial assets** | | | |
| Derivative financial instruments | Fair value – Held for trading | Mandatorily at FVTPL | – |
| Trade and other receivables | Loans and receivables | Amortised cost | – |
| Cash and cash equivalents | Loans and receivables | Amortised cost | – |
| Net investment in finance leases | Other | Not applicable | – |
| Restricted cash | Loans and receivables | Not applicable | – |
| **Financial liabilities** | | | |
| Interest-bearing borrowings | Other financial liabilities | Other financial liabilities | – |
| Trade and other payables | Other financial liabilities | Other financial liabilities | – |

| | Company | | |
|---|---|---|---|
| | Designated at fair value through profit or loss Rm | Other financial liabilities Rm | Fair value Rm |
| **2018** | | | |
| **Financial assets** | | | |
| Investment in equity shares | **3 910** | **–** | **3 910** |
| | **3 910** | **–** | **3 910** |
| **Financial liabilities** | | | |
| Amount due to subsidiary | **–** | **862** | **862** |
| Trade and other payables | **–** | **10** | **10** |
| | **–** | **872** | **872** |
| **2017** | | | |
| **Financial liabilities** | | | |
| Amount due to subsidiary | – | 824 | 824 |
| Trade and other payables | – | 18 | 18 |
| | – | 842 | 842 |

29.2 Overview

The risks arising from the use of financial instruments include:

- credit risk;
- liquidity risk; and
- market risk (including currency risk and interest rate risk).

This note presents information about the exposure to each of the above risks, objectives, policies and the process for measuring and managing risk, and the management of capital.

The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

The directors have overall responsibility for the establishment and oversight of the risk management framework. Risk management is carried out by the executive committee and management at an operational level under policies approved by the directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

## 29. Financial instruments and risk management (continued)

### 29.2 Overview (continued)

The risk management policies are established to identify and analyse the risks in order to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk policies and systems are reviewed regularly.

The audit and risk committees oversee how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework. Regular *ad hoc* reviews of risk management controls and procedures are undertaken, the results of which are reported to the audit and risk committees.

### 29.3 Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

#### 29.3.1 Credit risk exposure

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk from financial assets at 31 December was as follows:

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| Financial assets at fair value through profit or loss: | | |
| Derivative financial instruments | **9** | 100 |
| Financial assets at amortised cost: | | |
| Net investment in finance leases | **–** | 923 |
| Trade receivables | **96** | 1 019 |
| Restricted cash | **–** | 1 105 |
| Insurance receivables | **7** | 160 |
| Other receivables | **14** | 103 |
| Cash and cash equivalents | **1 280** | 3 134 |
| | **1 406** | 6 544 |

Credit risk arises principally from derivative financial instruments, trade and other receivables, and cash and cash equivalents.

*Derivative financial instruments*

Derivative financial instruments are entered into with reputable financial institutions. The fair valuation of interest rate swap contracts are derived from the discounting of future net cash flows utilising the US dollar swap curve and incorporating an appropriate credit risk adjustment.

*Trade and other receivables*

Credit risk with respect to trade and other receivables is mitigated by a customer base that comprise mainly international shipping lines and is managed by the container managers managing the container fleet. The credit policy relating to the trade receivables sets different maximum exposure limits for container lessees. Various credit criteria are used to set maximum exposure limits rather than a standardised internal credit rating. Credit criteria to set maximum exposure limits may include, but is not limited to, container lessee trade route, country, social and political climate, assessments of net worth, asset ownership, bank and trade credit references, credit bureau reports (i.e. from common credit reporting agencies used in the maritime sector), operational history and financial strength. The container lessees' performance and the group's exposures to the lessee are monitored on an ongoing basis, and the credit management processes are aided by the long payment experienced with most of the container lessees and the broad network of long-standing relationships in the shipping industry that provide current information about container lessees. At 31 December 2018, one customer accounted for 21% of trade receivables (2017: two customers 26%) and no other customer exceeding 10% of the balance.

The maximum group exposure to credit risk for trade receivables in respect of container leasing customers at the reporting date was R96 million (2017: R1 019 million).

*Insurance receivables*

Credit risk with respect to insurance receivables is mitigated by insurance policies being placed with insurers with acceptable credit ratings.

*Restricted cash, cash and cash equivalents*

Restricted cash, cash and cash equivalents are placed with financial institutions which have acceptable credit ratings.

29.3.2 Impairment losses

Trade receivables inherently expose the group to credit risk, being the risk that the group will incur financial loss if customers fail to make payments as they fall due.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

The group measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables.

The group's historical credit loss experience does not show significantly different loss patterns for different customer segments since there is only one class of customer. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

| | Group | |
|---|---|---|
| | 2018 | |
| | Estimated gross carrying amount at default Rm | Loss allowance/(lifetime expected credit loss) carrying amount at default Rm |
| Expected credit loss rate: | | |
| Not passed due (0%) | **–** | **–** |
| Past due 0 – 30 days (3%) | **40** | **1** |
| Past due 31 – 120 days (2%) | **56** | **1** |
| Past due 121 – 180 days (33%) | **3** | **1** |
| More than 180 days (100%) | **2** | **2** |
| | **101** | **5** |

## 29. Financial instruments and risk management (continued)

### 29.3 Credit risk (continued)

#### 29.3.2 Impairment losses (continued)

The movement in the loss allowance in respect of trade receivables during the year was as follows:

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| Balance at the beginning of the year (No adjustment was required for application of IFRS 9) | **75** | 409 |
| Remeasurement of loss allowance | **4** | 15 |
| Irrecoverable amounts written-off | **(3)** | (342) |
| Effect of movements in exchange rates | **–** | (7) |
| Amount derecognised on deconsolidation of subsidiary | **(71)** | – |
| Balance at the end of the year | **5** | 75 |

*Credit risk disclosures for comparatives under IAS 39*

The following section provides comparative information for trade and other receivables which have not been restated. The information is provided in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

| | Group | | | |
|---|---|---|---|---|
| | Gross[1] | Gross[2] | Total impairment | Net trade receivables |
| | 2017 | | | |
| | Rm | Rm | Rm | Rm |
| The ageing of trade receivables at the reporting date was: | | | | |
| Not past due | 1 | – | – | 1 |
| Past due 0 – 30 days | 574 | – | – | 574 |
| Past due 31 – 120 days | 442 | – | (9) | 433 |
| Past due 121 – 180 days | 14 | – | (3) | 11 |
| More than 180 days | – | 63 | (63) | – |
| | 1 031 | 63 | (75) | 1 019 |

[1] Gross receivables not subject to specific impairment.
[2] Gross receivables subject to specific impairment.

### 29.4 Liquidity risk

Liquidity risk is the risk that group entities will not be able to meet their financial obligations as they fall due. The approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking reputational damage.

The risk is managed through cash flow forecasts and ensuring that adequate borrowing facilities are maintained. In terms of the company's memorandum of incorporation, its borrowing powers are unlimited.

The following are the contractual maturities of financial liabilities including estimated interest payments.

| | Group | | | | |
|---|---|---|---|---|---|
| | Carrying amount Rm | Contractual cash flows Rm | One year or less Rm | One to five years Rm | Over five years Rm |
| **2018** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Revolving debt facilities | **2 170** | **2 439** | **606** | **1 738** | **95** |
| Trade and other payables | **29** | **29** | **29** | **–** | **–** |
| | **2 199** | **2 468** | **635** | **1 738** | **95** |
| **2017** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Bonds payable | 10 821 | 12 688 | 1 360 | 6 136 | 5 192 |
| Debt facilities | 9 868 | 11 917 | 944 | 4 254 | 6 719 |
| Revolving debt facilities | 12 884 | 14 296 | 1 023 | 12 679 | 594 |
| Term loan | 4 379 | 4 570 | 640 | 3 930 | – |
| Trade and other payables | 2 080 | 2 080 | 2 080 | – | – |
| | 40 032 | 45 551 | 6 047 | 26 999 | 12 505 |

29.5 Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates will affect income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Group entities buy and sell derivatives, and also incur financial liabilities, in order to manage market risks.

29.5.1 Equity prices

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm |
| Financial assets carried at fair value through profit or loss: | | | | |
| Investment in equity shares | **3 910** | – | **3 910** | – |

A change of US$0,01 in the listed share price of Textainer at 31 December 2018 would have increased or decreased profit for the year by R4 million. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

29.5.2 Currency risk

Group entities are exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of those entities, primarily the US dollar and SA rand. The currency in which these transactions are primarily denominated is the US dollar.

Group entities enter into forward exchange contracts from time to time, and as required, to buy and sell specified amounts of various foreign currencies in the future at predetermined exchange rates. The contracts are entered into in order to manage their exposure to fluctuations in foreign currency exchange rates. The contracts are generally matched with anticipated future cash flows in foreign currencies primarily from sales and purchases. As at 31 December 2018 there was no exposure to forward exchange contracts (2017: nil).

## 29. Financial instruments and risk management (continued)

29.5 Market risk (continued)

29.5.2 Currency risk (continued)

The following is an analysis of the financial instruments in terms of the currencies in which they are held, expressed in SA rand at 31 December:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | SA rand Rm | US$ Rm | Total Rm | SA rand Rm | US$ Rm | Total Rm |
| **Assets** | | | | | | |
| Investment in equity shares | **–** | **3 910** | **3 910** | – | 923 | 923 |
| Derivative financial instruments | **–** | **9** | **9** | – | 100 | 100 |
| Restricted cash | **–** | **–** | **–** | – | 1 105 | 1 105 |
| Trade and other receivables | **2** | **115** | **117** | 6 | 1 277 | 1 283 |
| Cash and cash equivalents | **667** | **613** | **1 280** | 690 | 2 444 | 3 134 |
| | **669** | **4 647** | **5 316** | 696 | 5 849 | 6 545 |
| **Liabilities** | | | | | | |
| Interest-bearing borrowings | **–** | **2 170** | **2 170** | – | 37 952 | 37 952 |
| Trade and other payables | **18** | **11** | **29** | 31 | 2 049 | 2 080 |
| | **18** | **2 181** | **2 199** | 31 | 40 001 | 40 032 |
| The following exchange rates applied during the year: | | | | | | |
| Year-end rate: US$1= | | **R14,39** | | | R12,37 | |
| Average rate: US$1= | | **R13,11** | | | R13,29 | |

Other than the investment in equity shares, the financial instruments denominated in US dollars above, represent the financial assets and liabilities of foreign operations translated into SA rand and consequently no sensitivity analysis is disclosed in respect of these items.

A change of R0,01 in the foreign currency exchange rate used to translate the US dollar listed share price of Textainer at 31 December 2018 would have increased or decreased profit for the year by R3 million. This analysis assumes that all other variables, in particular the share price, remain constant.

29.5.3 Interest rate risk

As manager of 99% of the TAC container fleet, Textainer has a firm policy that term lease (i.e. long-term) business should be financed with fixed rate debt, and master lease (i.e. short-term) business should be financed with floating rate debt. Interest on loans raised to purchase containers leased out for term leases (usually of five years' duration at fixed rates) is swapped into fixed interest rate contracts of a similar term, while loans raised to purchase containers for master leases are at variable rates. Furthermore, the company enters into interest rate cap contracts to guard against unexpected increases in interest rates on a portion of such variable interest rate loans. TAC does not apply hedge accounting to the interest rate swaps, notwithstanding that such swaps may be economically effective. It accounts on the basis that the net result of the marked-to-market valuation of these instruments is flowed through profit or loss. This may result in volatility of earnings.

Group entities are exposed to interest rate risk as they place funds in the money market. This risk is managed by maintaining an appropriate mix of term and daily call deposits with registered financial institutions which are subject to compliance with the relevant regulatory bodies.

At 31 December the interest rate profile of interest-bearing financial instruments was:

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| **Fixed rate** | | |
| Financial liabilities | **–** | (10 821) |
| | **–** | (10 821) |
| **Variable rate instruments** | | |
| Financial assets | **1 280** | 4 239 |
| Financial liabilities | **(2 170)** | (27 131) |
| | **(890)** | (22 892) |

Based on the derivative and non-derivative financial asset and liability balances as at 31 December 2018, it is estimated that a 100 basis points increase/decrease in interest rates would result in an increase/decrease in net after tax interest expense on non-derivative financial assets and liabilities of R11 million (2017: R272 million) and a increase/decrease in interest expense after tax on interest rate swap derivative instruments of R15 million (2017: R156 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

29.6 Capital management

Capital is regarded as total equity. The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board determines dividends paid to shareholders.

The company may purchase its own shares on the market, if there are good grounds for doing so. In this regard the directors will ensure the requirements of the Companies Act of South Africa including the performance of the solvency and liquidity test are satisfied and will take account of, *inter alia*, an appropriate capitalisation structure for the company, the long-term cash needs and the interests of the company.

Capital is monitored on the basis of the ratio of interest-bearing borrowings to total equity. This ratio is calculated as interest-bearing borrowings divided by total equity as follows:

| | Group | |
|---|---|---|
| | **2018 Rm** | 2017 Rm |
| Interest-bearing borrowings, net of debt issuance costs | **2 134** | 37 619 |
| Total equity | **6 231** | 12 435 |
| Ratio of interest-bearing borrowings to total equity % | **34** | 303 |

The ratio has mainly been affected by the weakening of the SA rand against the US dollar from US$1=R12,37 to US$1=R14,39 as at 31 December 2017 and 2018 respectively and the deconsolidation of Textainer.

There were no changes in the approach to capital management during the year.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

29.7 Fair values

The fair values of financial instruments (refer to note 29.1) have been arrived at after taking into account current market conditions. All of the fair value measurements are recurring in nature.

## 29. Financial instruments and risk management (continued)

### 29.7 Fair values (continued)

#### 29.7.1 Fair value hierarchy

Fair values are measured using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted in an active market for an identical instrument) that can be assessed at the measurement date.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices that are similar to instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses the instruments, measured at fair value at 31 December, by the level in the fair value hierarchy into which the value measurement is categorised:

| | Group | | | |
|---|---|---|---|---|
| | Level 1 Rm | Level 2 Rm | Level 3 Rm | Total Rm |
| **2018** | | | | |
| **Assets** | | | | |
| Investment in equity shares | **3 910** | **–** | **–** | **3 910** |
| Interest rate swap contracts | **–** | **9** | **–** | **9** |
| | **3 910** | **9** | **–** | **3 919** |
| **2017** | | | | |
| **Assets** | | | | |
| Interest rate swap contracts | – | 100 | – | 100 |
| | – | 100 | – | 100 |

Valuation techniques for interest rate swap contracts are referred to in note 10.

## 30. Related parties

### 30.1 Identity of related parties

The company has related party relationships with its subsidiaries (refer to the directors' report), associates, directors, executive officers and with key management personnel.

### 30.2 Intra-group transactions and balances

Amount due to subsidiaries (refer to note 7).

Capital distribution from trust (refer to note 20).

Dividends received from subsidiaries (refer to notes 7 and 20).

Administration fee paid to subsidiary R6 million (2017: R6 million).

### 30.3 Transactions with directors and key management personnel

Eddy Oblowitz and Roddy Sparks are non-executive directors of certain South African listed companies, some of whose subsidiaries are partners in export partnerships with the group entities. No new export partnerships have been concluded with these companies since March 1999.

Certain non-executive directors are also directors of other companies which have transactions with the group entities. The relevant directors do not believe they have the capacity to control or significantly influence the financial or operating policies of those companies. All material related party transactions are noted in these financial statements.

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:

| | Company | | |
|---|---|---|---|
| | Direct | Indirect* | Total |
| **2018** | | | |
| Jimmy McQueen | **49 649** | **102 133** | **151 782** |
| David Nurek | **–** | **10 000** | **10 000** |
| Eddy Oblowitz | **10 000** | **–** | **10 000** |
| Roddy Sparks | **–** | **4 000** | **4 000** |
| Herman Wessels | **–** | **27 859** | **27 859** |
| | **59 649** | **143 992** | **203 641** |
| **2017** | | | |
| Jimmy McQueen | 49 649 | 102 133 | 151 782 |
| David Nurek | – | 10 000 | 10 000 |
| Eddy Oblowitz | 10 000 | – | 10 000 |
| Roddy Sparks | – | 4 000 | 4 000 |
| 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 interests between the financial year-end and the date of this report.

The key management personnel compensation included in employee benefit expense is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 Rm** | 2017 Rm | **2018 Rm** | 2017 Rm |
| Short-term employee benefits | **14** | 24 | **3** | 3 |
| Share-based payments | **–** | 15 | **–** | – |
| | **14** | 39 | **3** | 3 |
| Paid to: | | | | |
| Directors | **14** | 14 | **3** | 3 |
| Executive officer (Textainer) | **–** | 25 | **–** | – |
| | **14** | 39 | **3** | 3 |

The number of Textainer executive officers at 31 December 2017 was one.

## 30. Related parties (continued)

30.3 Transactions with directors and key management personnel (continued)

The remuneration paid to the directors during the years ended 31 December 2018 was as follows:

| | Group | | | | |
|---|---|---|---|---|---|
| | | Contributions to | | | |
| | Guaranteed remuneration | Medical aid | Retirement funds | Retention compensation | Total remuneration |
| | R'000 | R'000 | R'000 | R'000 | 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 (including by Textainer where applicable) during the year ended 31 December 2017 was as follows:

| | Group | | | | |
|---|---|---|---|---|---|
| | | Contributions to | | | |
| | Guaranteed remuneration | Medical aid | Retirement funds | Share-based payments* | Total remuneration |
| | R'000 | R'000 | R'000 | R'000 | 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 by Textainer for services rendered as directors of Textainer.

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

## 31. Indemnities and warranties

31.1 Indemnities

On 20 February 2018 Trencor, as a nominated beneficiary of the Halco Trust, received a vesting and distribution from the Trust of the entire issued share capital of Halco Holdings Inc (refer to note 7). Before the vesting and distribution were effected, as is customary in the Trust's jurisdiction, Trencor was required to provide an indemnity to, *inter alia*, the Trustees of the Trust. The indemnity terminates on 31 December 2024 and the maximum potential exposure under such indemnity is US$62 million. Currently as there is nothing to suggest any claim under the indemnity, no contingent liability exists as the directors believe that the possibility of any such claim is remote.

On 11 May 2018 Trencor provided jointly with Textainer and Halco an indemnity in favour of, *inter alia*, Computershare Trust Company, the share transfer agent of Textainer, and Computershare Inc for stipulated liabilities and related costs in relation to Halco's mislaid share certificates of 5 503 556 common shares in Textainer. Furthermore, Trencor provided jointly with Halco a further indemnity in favour of Textainer for stipulated liabilities and related costs in relation to the indemnity referred to directly above. These indemnities became effective from the time that Trencor was registered as the holder of Halco's entire holding of common shares in Textainer. Currently as there is nothing to suggest any claim under the indemnity, no contingent liability exists as the directors believe that the possibility of any such claim is remote.

31.2 Warranties

The company has warranted the performance and obligations of certain subsidiary companies in terms of a number of partnership agreements entered into with third parties. The partnerships were established for the purposes of purchasing and selling marine cargo containers. All amounts attributable to third parties in terms of these arrangements had been settled by 31 December 2017.

## 32. Accounting estimates and judgements

Management determines the development, selection and disclosure of critical accounting policies and estimates and the application of these policies and estimates. Certain critical judgements in applying these accounting policies are described below:

32.1 No control of or significant influence over Textainer

Following the entering into of the VLD (refer to note 7) on 1 January 2018, shareholder voting rights in Textainer now held by Trencor are limited or restricted, solely in respect of the appointment and/or removal of directors and then only to the extent necessary to ensure that Trencor would be regarded for purposes of IFRS as being neither in control of nor having significant influence over Textainer. The corresponding relevant exercisable voting rights in Textainer are not equivalent to Trencor's percentage equity shareholding in Textainer.

The directors assessed all relevant considerations and guidance in terms of IFRS 10 to determine whether control by Trencor exists over Textainer and in terms of IAS 28 *Investments in Associates and Joint Ventures* to determine whether any significant influence by Trencor exists over Textainer.

An area of significant judgement is the assessment of whether the limitations or restrictions imposed by the VLD are substantive as the VLD is only valid for a defined timeframe up to and including 30 June 2022. The directors have applied their judgement in relation to all the relevant considerations and concluded that despite Trencor holding 47,52% of the equity shares in Textainer at 31 December 2018, Trencor is neither in control of nor has significant influence over Textainer for purposes of IFRS. Therefore, Textainer is not consolidated and not equity accounted, but has been classified under IFRS 9 as an investment in equity shares measured at fair value through profit or loss.

32.2 Marine cargo containers

32.2.1 *Residual values and useful lives of containers*

IFRS requires the reassessment of the residual values and useful lives of containers at each reporting period, which are then used to determine the amount by which containers are depreciated. In accordance with IFRS, residual values are determined using current market conditions and are therefore likely to fluctuate over time as market prices fluctuate (i.e. will reflect market volatility). IFRS defines the residual value of a container as the estimated amount that would currently be obtained from the disposal of a container, after deducting the estimated costs of disposal, as if the container were already of the age and in the condition expected at the end of its useful life. The resale values of containers can vary significantly depending on, among other factors, location at time of sale, the condition of the container, customer demand and overall market conditions. Recent average sales prices for containers were considered by major asset type and the residual values were adjusted accordingly at 30 June 2018 and again at 31 December 2018.

## 32. Accounting estimates and judgements (continued)

### 32.2 Marine cargo containers (continued)

#### 32.2.1 *Residual values and useful lives of containers* (continued)

Due to the fact that the resale prices of containers at end of useful life (i.e. residual value) represent a significant proportion of original cost (i.e. resale prices have shown to be 50-60% of original cost based on a 10-year historical average), the prospective depreciation charge is therefore highly sensitive to movements in residual values.

Useful lives are also reassessed at each reporting period with reference to the average age at disposal date according to historical internal sales data, by container type. No changes were made to useful lives of containers during 2017 and 2018.

#### 32.2.2 *Impairment*

Impairment exists when the estimated future discounted cash flows to be generated by a CGU are less than the net book value of that CGU. At each reporting date management of the relevant operating entities assesses whether there is evidence that the containers held for use in the leasing operation are impaired. Such evidence would include a decline in the results of operations or the container residual values. In estimating the future discounted cash flows to be generated by a CGU, management uses assumptions that are part of the long-term planning forecasts of the entities concerned. Some of the significant estimates and assumptions used to determine future expected cash flows were: expected future lease rates, expected utilisation, remaining useful lives, remaining on-hire periods for expired fixed term leases, direct container expenses and expected disposal prices of containers. In performing the impairment analysis assumptions used reflected the contractually stipulated *per diem* rates, with renewal based on current market rates.

## 33. Going concern

The company's approach to managing liquidity by managing its working capital, capital expenditure and cash flows, is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. Ultimate responsibility for liquidity risk management rests with the board of directors. Typically the company ensures that it has sufficient cash on hand to meet operational expenses, including the servicing of financial obligations. At 31 December 2018, the company's current liabilities exceeded its current assets by R9 million (2017: R19 million). The company, however, has access to cash reserves throughout the group to ensure that the company can meet its financial obligations.

The going concern principle requires that the group's and company's financial statements be prepared on the basis that Trencor will remain in business for the foreseeable future.

In assessing the ability of the group and company to continue as a going concern, the board considered:

- the group's financial budgets and cash flow forecast;
- the performance of underlying business operations and their ability to make a positive contribution to the group's objectives; and
- the ability of the subsidiaries to declare dividends.

The board is of the view that, based on its knowledge of the group and the company, the group and the company have adequate resources at their disposal to settle obligations as they fall due and the group and the company will continue as going concerns for the foreseeable future and have thus prepared the group and the company financial statements on the going concern basis.

## 34. Events after the reporting period

On 2 April 2019 LAPCO obtained a waiver from its lenders for the breach in covenant triggering an early amortisation event on its credit facility (refer to note 18).

No other material events have occurred between 31 December 2018 and the date of this report.

## 35. Restatement of the group's prior year consolidated statement of profit or loss and other comprehensive income

Textainer has restated its financial statement presentation of the operating results from its container management business as a result of re-evaluating the accounting treatment of its fleet management agreements for managed fleet containers. These agreements convey to Textainer the right to control the use of the managed fleet containers. It was determined by Textainer that these agreements, irrespective of legal ownership, should be deemed to be leases for accounting purposes in terms of IAS 17 *Leases*. As a result of the restatement by Textainer, Trencor is required to restate its previously published results for the year ended 31 December 2017.

Lease management fee income, previously presented on a net basis, has been reclassified and is now presented on a gross basis. Further to this restatement by Textainer, and in terms of IAS 16 *Property, Plant and Equipment*, the group accordingly is also required to gross up the revenue in respect of the disposal of the managed fleet containers which was previously presented on a net basis. The result is an increase in deemed lease rental income and sales income and a corresponding increase in separately reported distribution expenses to managed fleet owners, with no effect on the group's consolidated statement of financial position, consolidated statement of cash flows, loss for the year in the consolidated statement of profit or loss and other comprehensive income, basic loss per share and headline earnings per share.

The impact of the required restatement of the financial statement presentation in the group's consolidated statement of profit or loss and other comprehensive income for the prior year ended 31 December 2017 is as follows:

| | Group | | |
|---|---|---|---|
| | Amount previously reported Rm | Change Rm | Restated amount Rm |
| Revenue | 8 344 | 1 281 | 9 625 |
| Distributions to managed fleet owners | – | (1 281) | (1 281) |
| Other income and expenses | (8 954) | – | (8 954) |
| Loss for the year | (610) | – | (610) |
| Total comprehensive loss for the year | (1 849) | – | (1 849) |
| Total comprehensive loss for the year attributable to: | | | |
| Equity holders of the company | (983) | – | (983) |
| Non-controlling interests | (866) | – | (866) |
| | (1 849) | – | (1 849) |
| Loss for the year attributable to: | | | |
| Equity holders of the company | (321) | – | (321) |
| Non-controlling interests | (289) | – | (289) |
| | (610) | – | (610) |
| Basic loss per share (cents) | (182) | – | (182) |
| Diluted loss per share (cents) | (182) | – | (182) |
| Headline earnings per share (cents) | 149 | – | 149 |
| Diluted headline earnings per share (cents) | 149 | – | 149 |

The restatement has no impact on the 2018 financial information due to the deconsolidation of Textainer.

# Analysis of Shareholders

at 31 December 2018

| | Number of holders | % of holders | Number of shares | % interest |
|---|---|---|---|---|
| **Size of shareholding** | | | | |
| 1 – 1 000 shares | 1 953 | 60,6 | 368 074 | 0,2 |
| 1 001 – 10 000 shares | 695 | 21,5 | 2 722 903 | 1,6 |
| 10 001 – 100 000 shares | 406 | 12,6 | 14 368 822 | 8,3 |
| 100 001 – 1 000 000 shares | 140 | 4,3 | 45 319 347 | 26,1 |
| 1 000 001 shares and over | 33 | 1,0 | 110 898 687 | 63,8 |
| **Total** | 3 227 | 100,0 | 173 677 833 | 100,0 |
| **Distribution of shareholders** | | | | |
| Mutual funds | 220 | 6,8 | 83 054 977 | 47,8 |
| Banks and insurance companies | 88 | 2,7 | 27 442 636 | 15,8 |
| Retirement funds | 226 | 7,0 | 40 567 454 | 23,4 |
| Other corporate bodies | 240 | 7,5 | 5 403 205 | 3,1 |
| Individuals | 2 154 | 66,8 | 4 778 433 | 2,7 |
| Nominee companies and trusts | 298 | 9,2 | 12 430 928 | 7,2 |
| Investment companies | 1 | 0,0 | 200 | 0,0 |
| **Total** | 3 227 | 100,0 | 173 677 833 | 100,0 |
| **Shareholder spread** | | | | |
| Public shareholders | 3 219 | 99,8 | 150 561 865 | 86,7 |
| Non-public shareholders | 8 | 0,2 | 23 115 968 | 13,3 |
| Directors and associates | 7 | 0,2 | 203 641 | 0,1 |
| Strategic holdings (more than 10%) | 1 | 0,0 | 22 912 327 | 13,2 |
| **Total** | 3 227 | 100,0 | 173 677 833 | 100,0 |

**Major shareholders**

The direct and indirect beneficial interests of shareholders who, in so far as is known, held 5% or more of the issued shares at 31 December 2018 was as follows:

| | Number of shares | % interest |
|---|---|---|
| Government Employees Pension Fund | 22 912 327 | 13,2 |
| Old Mutual Symmetry Satellite Equity Fund No 3 | 10 841 431 | 6,2 |
| Jowell family | 10 026 787 | 5,8 |
| Coronation Balanced Plus Fund | 9 705 991 | 5,6 |
| | 53 486 536 | 30,8 |

# Directorate: Brief Résumés

Ages at 31 December 2018

## EXECUTIVE

### RICARDO (RIC) ANTONIO SIENI (64)

B Com (UCT) CA(SA). Appointed as financial director and member of the executive committee on 1 March 2016. He serves on the social and ethics committee and the risk committee. He completed his articles at Deloitte before joining Trencor on 1 October 1982 where he served as group accountant and later as financial manager.

### HENDRIK (HENNIE) ROUX VAN DER MERWE (71)

BA Law LLB (Stellenbosch) LLM (Tax) (Wits). Appointed as chief executive officer and chairman of the executive committee on 10 August 2017. He serves on the social and ethics committee and the risk committee. He joined Trencor on 1 July 1997 and was appointed to the board on 20 May 1998 and as managing director on 4 April 2003. In April 2011 his role changed to that of a part-time executive director and member of the executive committee, until his said appointment as chief executive officer. He initially practised as an attorney at law followed by various senior executive positions in the banking and industrial sectors, both locally and internationally. He serves on the boards of various listed and unlisted companies in a non-executive capacity. He is a non-executive director of Textainer Group Holdings Limited.

## NON-EXECUTIVE

### JAMES (JIMMY) ERNEST MCQUEEN (74)

B Com (UCT) CA(SA). Retired from all executive positions on 10 August 2017 but remains on the board of the company in a non-executive capacity. He was previously in charge of finance and chairman of the executive committee of the company. He is a member of the risk committee. He was appointed as an alternate director of the company on 18 April 1984 and as a full director on 15 May 1996. He retired as a non-executive director of Textainer Group Holdings Limited on 23 May 2018.

## INDEPENDENT NON-EXECUTIVE

### DAVID MORRIS NUREK (68)

Dip Law (UCT) Grad Dip Company Law (UCT) is an executive of Investec Bank Limited. He was appointed as an alternate director of Trencor on 30 November 1992 and as a full director on 24 July 1995. On 5 August 2016 he was appointed as chairman of the board. Prior to joining Investec in June 2000, he practised as an attorney at law with Sonnenberg Hoffmann Galombik for 32 years. He is chairman of the nomination committee and a member of the social and ethics, risk, remuneration and governance committees and serves on the boards of a number of listed and unlisted companies in a non-executive capacity. He is a non-executive director of Textainer Group Holdings Limited.

### EDWIN (EDDY) OBLOWITZ (61)

B Com (UCT) CA(SA) CPA (Isr) was appointed as a non-executive director on 3 March 2004 and is chairman of the audit and risk committees. He was previously an international partner of Andersens in South Africa and now serves as the Executive Chairman of the Stonehage Fleming Group's operations in South Africa. He is a director of various listed and unlisted companies in a non-executive capacity and serves as a trustee of various trusts.

### RODERICK (RODDY) JOHN ALWYN SPARKS (59)

B Com Hons (UCT) CA(SA) MBA (UCT) was appointed as a non-executive director on 27 July 2009. He is the lead independent director and is a member of the audit, risk and nomination committees and chairman of the governance, social and ethics, and remuneration committees. He was previously managing director of Old Mutual South Africa and Old Mutual Life Assurance Company (SA) and chairperson of Old Mutual Unit Trust, Old Mutual Specialised Finance and Old Mutual Asset Managers (SA). He is a director of various listed and unlisted companies in a non-executive capacity and chairs the advisory board of the UCT College of Accounting.

### HERMAN WESSELS (74)

B Com CTA CA(SA) was appointed as a non-executive director on 1 April 2011. He serves on the audit, risk, nomination, remuneration, social and ethics and governance committees. He is a financial consultant having previously been a partner of PricewaterhouseCoopers in South Africa. He is a director of various listed and unlisted companies in a non-executive capacity.

# Notice to Shareholders

Trencor Limited
(Incorporated in the Republic of South Africa)
(Registration number 1955/002869/06)
("the company")
Share code: TRE
ISIN: ZAE000007506

Notice is hereby given that the sixty third annual general meeting of shareholders of the company ("the AGM") will be held at Trencor Limited, 13th Floor, The Towers South, Heerengracht, Cape Town on Tuesday, 25 June 2019 at 10:00.

## RECORD DATES

In terms of section 59 of the Companies Act, No 71 of 2008, as amended ("Companies Act") the record date for shareholders to be recorded in the register of members of the company in order to receive this notice of the AGM is Tuesday, 18 April 2019. The record date for shareholders to be recorded in the register of members of the company in order to be able to attend, participate and vote at the AGM is Friday, 14 June 2019, and the last day to trade in the company's shares in order to be recorded in the register of members of the company so as to be able to attend, participate and vote at the AGM is Tuesday, 11 June 2019.

## ELECTRONIC PARTICIPATION IN THE AGM

The company intends to make provision for shareholders of the company, or their proxies, to participate in the AGM by way of teleconference call. Should you wish to participate in the AGM by such means, you, or your proxy, will be required to contact info@trencor.net at least 48 hours (excluding Saturdays, Sundays and public holidays) before the AGM. Voting will not be possible via such facility and shareholders wishing to exercise their voting rights are required to be represented at the meeting in person, by proxy or by letter of representation.

Each of the ordinary and special resolutions set out below may be proposed and passed, with or without modification or amendment, at the AGM or at any postponement or adjournment thereof.

The purpose of the AGM is for the following business to be transacted and for the following ordinary and special resolutions to be proposed:

1. To present and consider the audited annual financial statements, the directors' report and the audit committee report of the company and the Trencor group for the year ended 31 December 2018.

   In terms of the Companies Act, the audited financial statements will be presented to the shareholders together with the directors' report and the audit committee report. The audited annual financial statements, the directors' report and the audit committee report of the company and its subsidiaries, are set out on pages 22 to 79 of the integrated annual report of which this notice of AGM forms part ("the integrated annual report").

2. In terms of the company's memorandum of incorporation Jimmy McQueen, Ric Sieni and Hennie van der Merwe retire by rotation at the AGM but, being eligible, offer themselves for re-election.

   Brief résumés of the directors of the company are presented on page 81 of the integrated annual report.

   Accordingly, shareholders are requested to consider and, if deemed fit, to re-elect the directors named above by way of passing the separate ordinary resolutions set out below:

   **Ordinary resolution number 1.1**
   "Resolved that Jimmy McQueen is elected as a director of the company."

   **Ordinary resolution number 1.2**
   "Resolved that Ric Sieni is elected as a director of the company."

   **Ordinary resolution number 1.3**
   "Resolved that Hennie van der Merwe is elected as a director of the company."

   **Explanatory note:**
   The board recommends the election of Jimmy McQueen, Ric Sieni and Hennie van der Merwe as directors of the company. The election of each director who retires by rotation is required at the company's AGM. The election will be conducted by a series of votes, each of which is on the candidacy of a single individual to fill a single vacancy, as required under section 68(2) of the Companies Act.

   The minimum percentage of votes required for these resolutions to be adopted is 50% plus one of the votes cast on the resolution.

3. To table the remuneration policy and implementation report of the company (as set out on pages 13 to 15 of the integrated annual report) for consideration and submit same for separate non-binding advisory votes by the shareholders.

   **Advisory vote 1:**
   "Resolved that the remuneration policy of the company, as set out on pages 13 and 14 of the integrated annual report of which this notice of AGM forms part, is endorsed through a non-binding advisory vote."

   **Advisory vote 2:**
   "Resolved that the remuneration implementation report of the company, as set out on page 15 of the integrated annual report of which this notice of AGM forms part, is endorsed through a non-binding advisory vote."

**Explanatory note:**
In terms of the King IV principles and the Listings Requirements of the JSE Limited, the company's remuneration policy and the implementation report should be tabled to the shareholders of the company for separate non-binding advisory votes at the annual general meeting. Accordingly, the shareholders are requested to endorse the company's remuneration policy and the implementation report by way of separate non-binding advisory votes in the same manner as an ordinary resolution.

In the event that either the policy or implementation report or both are voted against by 25% or more of the voting rights exercised then a shareholder engagement process will be undertaken to ascertain the reasons for the dissenting votes. All legitimate and reasonable objections and concerns will be appropriately addressed and full disclosure of the process followed will be included in the following year's remuneration report.

As this is not a matter that is required to be resolved or approved by shareholders, no minimum voting threshold is required. Nevertheless, to signify endorsement, the minimum percentage of votes required in favour of the remuneration policy is 50% plus one of the votes cast on the resolution.

4. To reappoint KPMG Inc as independent auditor of the company for the ensuing year.

**Ordinary resolution number 2:**
"Resolved that KPMG Inc is reappointed as the auditor of the company for the ensuing year."

**Explanatory note:**
In compliance with section 90(1) of the Companies Act, a public company must each year at its annual general meeting appoint an auditor.

Note that the audit committee recommends the reappointment of KPMG Inc as auditor of the company. Section 94(9) of the Companies Act entitles a company to appoint an auditor at its annual general meeting, other than one nominated by the audit committee, but if such an auditor is appointed, the appointment is valid only if the audit committee is satisfied that the proposed auditor is independent of the company.

The minimum percentage of votes required for this resolution to be adopted is 50% plus one of the votes cast on the resolution.

5. To appoint an audit committee to conduct the duties and responsibilities as outlined in section 94(7) of the Companies Act.

**Ordinary resolution number 3.1:**
"Resolved that Eddy Oblowitz is elected as a member of the audit committee of the company."

**Ordinary resolution number 3.2:**
"Resolved that Roddy Sparks is elected as a member of the audit committee of the company."

**Ordinary resolution number 3.3:**
"Resolved that Herman Wessels is elected as a member of the audit committee of the company."

**Explanatory note:**
In terms of the Companies Act, the audit committee is not a committee of the board but a committee elected by the shareholders at each AGM.

Section 94(2) of the Companies Act requires a public company, at each AGM, to elect an audit committee.

Section 94(4)(a) of the Companies Act requires, among other things, that each member of the audit committee must be a director of the company. Brief résumés of these directors are presented on page 81 of the integrated annual report. Each of the proposed nominees is an independent non-executive director of the company.

The minimum percentage of votes required for these resolutions to be adopted is 50% plus one of the votes cast on the resolution.

6. To provide financial assistance to related and/or inter-related companies.

**Special resolution number 1:**
"Resolved that in terms of and subject to the provisions of section 45 of the Companies Act, the shareholders of the company hereby approve of, as a general approval, the company providing (subject to the requirements of the company's memorandum of incorporation, the Companies Act and the Listings Requirements of the JSE Limited from time to time), at any time and from time to time, during the period of two years commencing on the date of passing of this special resolution, any direct or indirect financial assistance contemplated in the Companies Act to any one or more related and/or inter-related companies or corporations of the company on such terms and conditions as the board of directors of the company, or any one or more persons authorised by the board of directors of the company from time to time for such purpose, deems fit."

**Explanatory note:**
The reason for special resolution number 1 is to obtain approval from the shareholders for the company to provide financial assistance, when the need arises, in accordance with the provisions of section 45 of the Companies Act. The effect of special resolution number 1 is that the company will have the necessary authority to provide such financial assistance to any one or more related and/or inter-related companies or corporations of the company as contemplated in special resolution number 1 as and when required to do so. The board of the company undertakes that, in so far as the Companies Act requires, it will not

adopt a resolution to authorise such financial assistance, unless the directors are satisfied that (i) immediately after providing such financial assistance, the company will satisfy the solvency and liquidity test as referred to in section 45(3)(b)(i) of the Companies Act, and that (ii) the terms under which such financial assistance is to be given are fair and reasonable to the company as required by section 45(3)(b)(ii) of the Companies Act. The proposed resolution does not authorise the provision of financial assistance to any director or executive of the company.

The minimum percentage of votes required for this resolution to be adopted is 75% of the votes cast on the resolution.

7. To resolve as a special resolution that the non-executive directors' annual remuneration, in their capacity only as directors of the company, from 1 July 2019 be approved.

**Special resolution number 2:**
"Resolved that the non-executive directors' annual remuneration, in their capacities only as directors of the company, from 1 July 2019 be paid in accordance with the following, plus such amount of Value-Added Tax ("VAT") as may be attributable thereto:

For services as:

| | |
|---|---|
| Chairman of the board | R1 026 000 |
| Basic remuneration as director | R284 000 |
| Chairman of the audit/risk committees | R185 000 |
| Member of the audit/risk committee | R101 000 |
| Member of the governance committee | R26 000 |
| Member of the remuneration committee | R26 000 |
| Member of the nomination committee | R26 000 |
| Member of the social and ethics committee | R26 000" |

**Explanatory note:**
In terms of sections 66(8) and (9) of the Companies Act, remuneration may only be paid to directors for their service as directors in accordance with a special resolution approved by the shareholders within the previous two years.

It is noted that the remuneration payable to non-executive directors in their capacities as such and for their services as directors, as set out in the above special resolution, reflects an increase of approximately 5%.

It is noted that the remuneration referred to in this resolution is only in respect of remuneration payable to non-executive directors of the company in their capacities as such.

The minimum percentage of votes required for this resolution to be adopted is 75% of the votes cast on the resolution.

8. To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

**Special resolution number 3:**
"Resolved that the company hereby approves, as a general approval contemplated in section 48 of the Companies Act, the acquisition by the company and/or any of its subsidiaries from time to time of the issued shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, but subject to the memorandum of incorporation of the company, the provisions of the Companies Act and the Listings Requirements of the JSE Limited ("JSE Listings Requirements") as presently constituted and which may be amended from time to time, and provided that:

(a) any such acquisition of shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited);

(b) any such repurchase of shares is authorised by the company's memorandum of incorporation;

(c) at any point in time, the company may only appoint one agent to effect any repurchase(s) on its behalf;

(d) this general authority shall only be valid until the company's next annual general meeting, provided that it shall not extend beyond fifteen months from the date of passing of this special resolution;

(e) the board of directors pass a resolution authorising the repurchase, confirming that the company passes the solvency and liquidity test and that at the time that the test is done there are no material changes to the financial position of the company;

(f) a paid press announcement containing full details of the acquisitions will be published as soon as the company and/or its subsidiaries has/have acquired shares constituting, on a cumulative basis, 3% of the number of shares of that class in issue at the time of granting of this general authority, and for each 3% in aggregate of the initial number of that class acquired thereafter;

(g) acquisitions by the company and its subsidiaries of shares in the share capital of the company may not, in the aggregate, exceed in any one financial year 20% (or 10% where such acquisitions relate to the acquisition by a subsidiary) of the company's issued share capital of any class as at the beginning of the financial year;

(h) in determining the price at which the company's shares are acquired by the company or its subsidiaries in terms of this general authority, the maximum price at which such shares may be acquired may not be greater than 10% above the weighted average of the market price at which such shares are traded on the JSE, as determined over the five business days immediately preceding the date of the acquisition of such shares by the company or its subsidiaries;

(i) the company or its subsidiaries are not acquiring shares during a prohibited period as defined in the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of shares to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period. The company shall instruct an independent third party, which makes its investment decisions in relation to the company's securities independently of, and uninfluenced by, the company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE; and

(j) any acquisitions are made subject to any Exchange Control approval required at that point in time."

**Explanatory note:**
The reason for this special resolution is to grant the company a general authority in terms of the Companies Act for the acquisition by the company or any of its subsidiaries of shares issued by the company, which authority shall be valid until the earlier of the next annual general meeting of the company or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the company, provided that the general authority shall not extend beyond fifteen months from the date of this AGM. The effect of the passing of this special resolution will be to authorise the company or any of its subsidiaries to acquire shares issued by the company. If relevant in the circumstances, compliance with section 48(8)(b) of the Companies Act will be required if the company is to acquire more than 5% of its shares.

The directors are of the opinion that it would be in the best interests of the company to extend the current authority for the repurchase of shares by the company or its subsidiaries, allowing the company or any of its subsidiaries to be in a position to repurchase or purchase, as the case may be, the shares issued by the company through the order book of the JSE, should the market conditions and price, as well as the financial position of the company, justify such action, as determined by the directors.

Repurchases or purchases, as the case may be, will only be made after careful consideration, where the directors consider that such repurchase or purchase, as the case may be, will be in the best interests of the company and its shareholders.

The minimum percentage of votes required for this resolution to be adopted is 75% of the votes cast on the resolution.

## STATEMENT BY THE BOARD OF DIRECTORS OF THE COMPANY REGARDING SPECIAL RESOLUTION NUMBER 3

Pursuant to and in terms of the JSE Listings Requirements, the board of directors of the company hereby states that:

(a) the intention of the directors of the company is to utilise the general authority to acquire shares in the company if at some future date the cash resources of the company are in excess of its requirements and/or there are other good grounds for doing so. In this regard the directors will take account of, *inter alia*, an appropriate capitalisation structure for the company, the long-term cash needs of the company, and the interests of the company;

(b) in determining the method by which the company intends to repurchase its shares, the maximum number of shares to be acquired and the date on which such acquisition will take place, the directors of the company will only make the acquisition if at the time of the acquisition they are of the opinion that:

- the company and the group will be able to pay their debts as they become due in the ordinary course of business for the next 12 months after the date of the general repurchase;
- the assets of the company and the group, fairly valued in accordance with International Financial Reporting Standards and recognised and measured in accordance with the accounting policies used in the latest audited financial statements, will be in excess of the liabilities of the company and the group for the next 12 months after the date of the general repurchase;
- the issued share capital and reserves of the company and the group will be adequate for ordinary business purposes for the next 12 months after the date of the general repurchase; and
- the working capital available to the company and the group will be sufficient for ordinary business purposes for the next 12 months after the date of the general repurchase.

### OTHER DISCLOSURES IN TERMS OF SECTION 11.26 OF THE JSE LISTINGS REQUIREMENTS

The integrated annual report to which this notice of this AGM is attached provides details of:

- the major shareholders of the company on page 80; and
- the share capital of the company in note 17 on page 55, and an analysis of the shareholders (including beneficial shareholders who hold 5% or more of the issued share capital of the company and of which the company is aware, but who are not registered shareholders) on page 80.

There have been no material changes to the company and the group's financial or trading position (other than as disclosed in the accompanying integrated annual report).

The directors, whose names are given on page 2 of the integrated annual report, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the integrated annual report and this notice contains all information required by law and the JSE Listings Requirements.

9. To present and consider the report of the social and ethics committee of the company as set out on pages 15 and 16 of the integrated annual report of which this notice of AGM forms part.

10. To transact such other business as may be transacted at an annual general meeting.

## GENERAL INSTRUCTIONS AND INFORMATION

All shareholders are encouraged to attend, speak and vote at the AGM. On a show of hands, every shareholder of the company present in person or represented shall have one vote only. On a poll, every shareholder present in person, by proxy or represented shall have one vote for every share held.

If you hold certificated shares (i.e. have not dematerialised your shares in the company) or are registered as an own name dematerialised shareholder (i.e. have specifically instructed your Central Security Depository Participant ("CSDP") to hold your shares in your own name on the company's sub-register), then:

- you may attend and vote at the AGM; alternatively
- you may appoint a proxy (who need not also be a shareholder of the company) to represent you at the AGM by completing the attached form of proxy and, for administrative purposes, you are requested to return it to the office of the company's transfer secretaries not less than 24 hours before the time appointed for the holding of the AGM (excluding Saturdays, Sundays and public holidays). Any form of proxy not so lodged beforehand may be delivered to the company at any time before the AGM commences. Please note that your proxy may delegate his/her authority to act on your behalf to another person, subject to the restrictions set out in the attached form of proxy as stipulated in section 58(3)(b) of the Companies Act. Any form of proxy must be so delivered before your proxy may exercise any of your rights as a shareholder at the AGM.

Please note that if you are the owner of dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, Strate Limited ("Strate"), held through a CSDP or broker) and are not registered as an "own name" dematerialised shareholder, you are not registered as a shareholder of the company, but appear on the sub-register of the company held by your CSDP. Accordingly, in these circumstances subject to the mandate between yourself and your CSDP or broker, as the case may be:

- if you wish to attend the AGM you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from them; alternatively
- if you are unable to attend the AGM but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish them with your voting instructions in respect of the AGM and/or request them to appoint a proxy. You must then not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by them.

CSDPs, brokers or their nominees, as the case may be, recorded in the company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of Strate should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the company, vote by either appointing a duly authorised representative to attend and vote at the AGM or by completing the attached form of proxy in accordance with the instructions thereon and returning it, for administrative purposes, to the office of the company's transfer secretaries not less than 24 hours before the time appointed for the holding of the AGM (excluding Saturdays, Sundays and public holidays). Any form of proxy not so lodged beforehand may be delivered to the company at any time before the AGM commences.

Shareholders of the company, other than natural persons, that wish to participate in the AGM, may authorise any person to act as their representative at the annual general meeting.

Section 63(1) of the Companies Act requires that a person wishing to participate in the AGM (including any representative or proxy) must provide satisfactory identification (such as valid identity documents, driver's licences or passports) before they may attend or participate at such meeting.

By order of the board

Trencor Services Proprietary Limited
Secretaries
Per Guy Norval

Cape Town
30 April 2019

# Form of Proxy

**Trencor Limited**
(Incorporated in the Republic of South Africa)
(Registration number 1955/002869/06)
("the company")
Share code: TRE ISIN: ZAE000007506

For use at the annual general meeting of shareholders of the company to be held at Trencor Limited, 13th Floor, The Towers South, Heerengracht, Cape Town on Tuesday, 25 June 2019 at 10:00 ("the AGM").

Not to be used by beneficial owners of shares who have dematerialised their shares ("dematerialised shares") through a Central Securities Depository Participant ("CSDP") or broker, as the case may be, unless they are recorded on the sub-register as "own name" dematerialised shareholders ("own name dematerialised shareholders"). Generally, you will not be an own name dematerialised shareholder unless you have specifically requested the CSDP to record you as the holder of the shares in your own name in the company's sub-register.

Only for use by certificated, own name dematerialised shareholders and CSDPs or brokers (or their nominees) registered in the company's sub-register as the holder of dematerialised shares.

Each shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies (none of whom need be a shareholder of the company) to attend, speak and vote in place of that shareholder at the AGM and any adjournment or postponement thereof.

Please note the following:

- the appointment of your proxy may be suspended at any time and to the extent that you choose to act directly and in person in the exercise of your rights as a shareholder at the AGM;
- the appointment of the proxy is revocable;
- you may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy and to the company; and
- any shareholder of the company, other than natural person, may authorise any person to act as its representative at the AGM. Please also note that section 63(1) of the Companies Act, No 71 of 2008, as amended, ("Companies Act") requires that persons wishing to participate in the AGM (including the aforementioned representative) provide satisfactory identification before they may attend or participate at such meeting.

Note that voting will be performed by way of a poll so that each shareholder present or represented by way of proxy will be entitled to vote the number of shares held or represented by them.

My/our proxy may delegate to another person his/her authority to act on my/our behalf at the AGM, provided that my/our proxy:

- may only delegate his/her authority to act on my/our behalf at the AGM to a director of the company;
- must provide written notification to the transfer secretaries of the company, namely Computershare Investor Services Proprietary Limited of the delegation by my/our proxy of his/her authority to act on my/our behalf at the AGM by no later than 10:00 on Monday, 24 June 2019, being 24 hours (excluding Saturdays, Sundays and public holidays) before the AGM to be held at 10:00 on Tuesday, 25 June 2019; and
- must provide to his/her delegate a copy of his/her authority to act on my/our behalf at the AGM.

Refer to notes on page 91.

This form of proxy to be lodged with:

The Transfer Secretaries of Trencor Limited, namely
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
PO Box 61051 Marshalltown 2107

as soon as possible to be received, for administrative purposes, not later than 24 hours before the AGM. Any form of proxy not so lodged beforehand may be delivered to the company at any time before the AGM commences at 10:00 on Tuesday, 25 June 2019.

I/we (full names) ___

of (address) ___

Telephone: Work ___ Home ___ Mobile ___

being a shareholder(s) of the company, holding ___ shares in the company

hereby appoint (refer to note 1) ___

or failing him/her ___

or failing him/her ___

or failing him/her the chairperson of the AGM as my/our proxy to act for me/us on my/our behalf at the AGM and at any adjournment or postponement thereof in accordance with the following instructions:

Insert an "X" in the relevant spaces according to how you wish your votes to be cast. If you wish to cast less than all the votes in respect of the shares held by you, insert the number of votes in respect of which you desire to vote (refer to note 2). Unless otherwise instructed my/our proxy can vote as he/she deems fit.

| | For | Against | Abstain |
|---|---|---|---|
| Election of directors: | | | |
| Ordinary resolution number 1.1: Election of Jimmy McQueen as director. | | | |
| Ordinary resolution number 1.2: Election of Ric Sieni as director. | | | |
| Ordinary resolution number 1.3: Election of Hennie van der Merwe as director. | | | |
| Non-binding advisory vote 1: Endorsement of the remuneration policy of the company. | | | |
| Non-binding advisory vote 2: Endorsement of the remuneration implementation report of the company. | | | |
| Ordinary resolution number 2: Reappointment of KPMG Inc as independent auditor. | | | |
| To appoint an audit committee with the following members: | | | |
| Ordinary resolution number 3.1: Election of Eddy Oblowitz as audit committee member. | | | |
| Ordinary resolution number 3.2: Election of Roddy Sparks as audit committee member. | | | |
| Ordinary resolution number 3.3: Election of Herman Wessels as audit committee member. | | | |
| Special resolution number 1: To approve and authorise the provision of financial assistance, as contemplated in section 45 of the Companies Act, by the company to related or inter-related companies. | | | |
| Special resolution number 2: To approve the non-executive directors' remuneration, in their capacities as directors only, from 1 July 2019. | | | |
| Special resolution number 3: To approve the granting of a general authority to the company or its subsidiaries to acquire the issued shares of the company upon such terms and conditions and in such amounts as the directors may from time to time determine. | | | |

Signed at on this day of 2019

| | |
|---|---|
| Signature | Assisted by (where applicable) signature |
| Name of signatory | Name of assistant |
| Capacity | Capacity |

(Authority of signatory to be attached if applicable – refer to note 6)

**Summary of shareholders' rights in respect of proxy appointments as contained in section 58 of the Companies Act**

Please note that in terms of section 58 of the Companies Act:

- this proxy form must be dated and signed by the shareholder appointing the proxy;
- you may appoint an individual as a proxy, including an individual who is not a shareholder of the company, to participate in and speak and vote at a shareholders meeting on your behalf and may appoint more than one proxy to exercise voting rights attached to different securities held by you;
- your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this proxy form;
- this proxy form must be delivered to the transfer secretaries of the company, namely Computershare Investor Services Proprietary Limited, alternatively to the company before the commencement of the meeting before your proxy exercises any of your rights as a shareholder at the AGM;
- the appointment of your proxy or proxies will be suspended at any time and to the extent that you choose to act directly and in person in the exercise of any of your rights as a shareholder at the AGM;
- the appointment of your proxy is revocable unless you expressly state otherwise in this proxy form;
- as the appointment of your proxy is revocable, you may revoke the proxy appointment by (i) cancelling it in writing, or making a later inconsistent appointment of a proxy and (ii) delivering a copy of the revocation instrument to the proxy, and to the company. Please note the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the later of the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the company and the proxy as aforesaid;
- if this proxy form has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the company's Memorandum of Incorporation to be delivered by the company to you will be delivered by the company to you or your proxy or proxies, if you have directed the company to do so in writing and paid any reasonable fee charged by the company for doing so;
- your proxy is entitled to exercise, or abstain from exercising, any voting right of yours at the AGM, but only as directed by you on this proxy form; and
- the appointment of your proxy remains valid only until the end of the AGM or any adjournment or postponement thereof or for a period of six months, whichever is shorter, unless it is revoked by you before then on the basis set out above.

Refer to the notes opposite.

# Notes to the Form of Proxy

1. A certificated or own name dematerialised shareholder or nominee of a CSDP or broker registered as a shareholder in the company's sub-register may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting 'the chairperson of the annual general meeting', but any such deletion must be initialled by the shareholder. The person whose name stands first on the proxy form and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow thereafter. If no proxy is inserted in the spaces provided, then the chairperson shall be deemed to be appointed as the proxy.
2. A shareholder's instructions to the proxy must be indicated in the appropriate box provided. If there is no clear indication as to the voting instructions to the proxy, the proxy will be deemed to be authorised to vote or to abstain from voting at the AGM as he/she deems fit in respect of all of the shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder, but the total of the votes cast or abstained may not exceed the total of the votes exercisable by the shareholder.
3. Proxy forms should be lodged with the company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 or posted to Computershare Investor Services Proprietary Limited, PO Box 61051, Marshalltown, 2107. Forms of proxy are requested to be lodged, for administrative purposes, by no later than 24 hours (excluding Saturdays, Sundays and public holidays) before the AGM (i.e. 10:00 on Monday, 24 June 2019). Any form of proxy not so lodged beforehand may be delivered to the company at any time before the AGM commences at 10:00 on Tuesday, 25 June 2019.
4. The completion and lodging of this proxy form will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms thereof.
5. Where there are joint holders of shares, the vote of the senior joint holder who tenders a vote, as determined by the order in which the names stand in the register of shareholders, will be accepted.
6. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the company's transfer secretaries or waived by the chairperson of the AGM. CSDPs or brokers registered as shareholders in the company's sub-register voting on instructions from owners of shares registered in the company's sub-sub-register, are requested that they identify the owner in the sub-sub-register on whose behalf they are voting and return a copy of the instruction from such owner to the company's transfer secretaries together with this form of proxy.
7. Any alteration or correction made to this proxy form must be initialled by the signatory/ies, but the chairperson may nevertheless elect not to accept the alteration or correction.
8. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the company's transfer secretaries.
9. Certificated shareholders, other than natural persons, may by resolution of their directors, or other properly authorised body, in terms of section 57 of the Companies Act, authorise any person to act as their representative.
10. The chairperson of the AGM may, in his/her discretion, accept or reject any form of proxy which is completed other than in accordance with these notes.
11. If required, additional forms of proxy are available from the company's transfer secretaries or the registered office of the company.
12. If you are the owner of dematerialised shares held through a CSDP or broker (or its nominee) and are not an own name dematerialised shareholder, then you are not the registered shareholder of the company, but appear as the holder of a beneficial interest on the relevant sub-register of the company held by your CSDP. Accordingly, in these circumstances, do NOT complete this proxy form. Subject to the mandate between yourself and your CSDP or broker:
    - if you wish to attend the AGM you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from them; alternatively
    - if you are unable to attend the AGM but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish them with your voting instructions in respect of the AGM and/or request them to appoint a proxy. You must then not complete the attached form of proxy. Your instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of Strate should, when authorised in terms of their mandate or instructed to do by the person on behalf of whom they hold the dematerialised shares, vote by either appointing a duly authorised representative to attend and vote at the AGM or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the company's transfer secretaries to be received, for administrative purposes, not less than 24 hours (excluding Saturdays, Sundays and public holidays) prior to the time appointed for the holding of the AGM. Any form of proxy not so lodged beforehand may be delivered to the company at any time before the AGM commences at 10:00 on Tuesday, 25 June 2019.

# Corporate Information

**Company registration**
Trencor Limited
Incorporated in the Republic of South Africa
on 28 September 1955
Registration number 1955/002869/06

**Year listed**
1955

**Registered office and postal address**
13th Floor, The Towers South
Heerengracht
Cape Town 8001
Tel: 021 421 7310
Fax: 021 419 3692
International: +27 21

**Secretary**
Trencor Services Proprietary Limited

**Website**
www.trencor.net

**E-mail**
info@trencor.net

**Transfer secretaries**
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank 2196
(PO Box 61051 Marshalltown 2107)
Tel: 011 370 5000
Fax: 011 688 5200
Call Centre: 0861 100950 (within RSA)
or +27 11 370 5000 (outside RSA)
www.computershare.com

**Auditor**
KPMG Inc
The Halyard
4 Christiaan Barnard Street
Cape Town City Centre 8000
(PO Box 4609 Cape Town 8000)

**Designated auditor**
H du Plessis

**Attorneys**
Edward Nathan Sonnenbergs Inc

**Sponsors**
Rand Merchant Bank (A division of FirstRand Bank Limited)

**Industry Classification Benchmark**
Industry: Industrial
Supersector: Industrial goods and services
Sector: Industrial transportation
Subsector: Transportation services

**Market name**
Trencor

**JSE share code**
TRE

**ISIN**
ZAE000007506