

Joint Report by the Chairman and Chief Executive Officer

We have pleasure in presenting our joint report in respect of Trencor's 2020 financial year.

In the past, we have shared with stakeholders information in relation to the progress achieved in the simplification of Trencor's interests. In this report and the enclosed 2020 integrated annual report ("IAR"), we update stakeholders on the current status of the simplification as well as on developments in respect of the commercial availability of our cash resources and our estimates of net operating expenses into the future. For further information on these matters and on Trencor's 2020 financial results and related aspects, stakeholders are referred to the annual financial statements and other reports contained in this IAR.

SIMPLIFICATION OF INTERESTS

(Refer to note 6 to the financial statements)

When Trencor unbundled the bulk of its shareholding in Textainer to its shareholders as an *in specie* dividend during December 2019, Trencor retained 3 000 158 shares in Textainer to ensure that Trencor had adequate liquidity in applying the statutory solvency and liquidity test when undertaking the unbundling. The sale by Trencor's subsidiary, TAC Limited, of Leased Assets Pool Company Limited ("LAPCO") to Textainer Limited at the end of 2019, released an alternative cash resource with which to meet the said test. Accordingly, Trencor was able to distribute such retained shares to its shareholders by way of a further *in specie* dividend on 15 June 2020. This latter distribution completed the simplification of Trencor's interests to where it is now a cash company.

It is pleasing to note the substantial improvement in Textainer's share price since the unbundlings, which benefit has accrued directly to Trencor's shareholders.

COMMERCIAL AVAILABILITY OF CASH RESOURCES

Trencor's business strategy has been – and remains – to distribute its remaining cash resources to shareholders as and when these become commercially available. The commercial availability of the remaining cash resources has been restricted by certain matters, including, *inter alia*, the provision of certain indemnities and warranties pursuant to the simplification of Trencor's interests; providing for estimated future operating expenses until Trencor can be dissolved; and the need to retain a cash buffer against unforeseeable future expenses and events.

During September 2020, TAC secured the early release of TAC from all warranties, representations and indemnities given by TAC in respect of the sale of LAPCO, including the early release of US\$16,6 million which had been held in escrow in support thereof (refer to note 23.1.3 to the financial statements). That release from escrow was previously only scheduled for 30 June 2021. The early release of those funds enabled Trencor to distribute an equivalent amount to its shareholders by way of a special cash dividend of 160 cents per share on 2 November 2020.

The remaining indemnity restricting commercial availability of cash resources is that provided by Trencor to the Halco Trust indemnitees in a negotiated amount of US\$62 million, *in lieu* of the indemnity the trustee enjoyed under the Deed of Settlement of the Halco Trust at the time. Of this US\$62 million, US\$17 million is held in an escrow account in Liechtenstein and US\$45 million is held in cash in TAC (refer to notes 8, 10.2 and 23.1.1 to the financial statements). Trencor is contractually required, in terms of these arrangements, to retain sufficient cash and other liquid assets equal to the full face value of the maximum potential exposure under the indemnity in effecting any distribution or corporate reorganisation until the indemnity terminates. Thus far the indemnitees have been unwilling to agree to approaches aimed at curtailing the quantum and/or duration of the indemnity. We reiterate that had Trencor not agreed to this indemnity, the unlocking of value to Trencor's shareholders through the *in specie* distributions of Textainer shares to the combined value of R4 030 million would not have been possible.

In the interim, we continue to explore opportunities to increase the yield on our cash and other liquid assets with due conservatism to avoid any risk of losses.

ESTIMATED NET OPERATING EXPENSES AND BUFFER AGAINST UNFORESEEABLE FUTURE EXPENSES AND EVENTS

We have continued to focus our efforts on identifying potential for savings in relation to estimated net operating expenses through to March 2025 when it is projected that Trencor will be dissolved. In pursuance of this objective, and to allow the combination of the roles of CEO and financial director in a single executive, Hennie van der Merwe is not making himself available for re-election as director at the AGM and will retire as CEO at the conclusion of the meeting. We set out hereunder a table reflecting our prior estimate of these costs as set out in our 2019 IAR compared to the current estimate. The envisaged actions outlined as material assumptions in our 2019 IAR have been implemented although not all the cost saving measures could be implemented as early as originally envisaged.

	2020 IAR Actual Rm	2019 IAR Estimate Rm
Net operating expenses April to December 2020		
Operating expenses	(37)	(33)
Interest income	6	6
	(31)	(27)

	2020 IAR Estimate Rm	2019 IAR Estimate Rm
Net operating expenses 2021 to 31 March 2025		
Operating expenses		
2021 to 2024	(70)	(82)
1 January to 31 March 2025 (includes closure and retrenchment costs)	(11)	-
Interest income		
2021 to 2024	22	24
1 January to 31 March 2025 (assumes approximately US\$66 million then commercially available in SA rand early January 2025 and distributed March 2025)	10	-
	(49)	(58)

The table below reflects an updated estimate of free cash resources which have been prudently reserved as a cash buffer against unforeseeable future expenses and events. The amounts shown in the 2019 comparator were based on an exchange rate of R18,68 to US\$1. The current estimate is based on R15,25 to US\$1. The current estimate also takes into account the amount of R17 million in net dividends tax paid by Trencor on the *in specie* distribution of the remaining 3 000 158 retained Textainer shares. No provision had been made for this tax in the 2019 estimates, as at the stage those were prepared, the estimates were based on the sale of these shares and a cash dividend, which would not have attracted dividends tax payable by Trencor.

The net result is the following current estimate of free cash available as buffer:

	2020 IAR Estimate		2019 IAR Estimate	
	Rm	US\$	Rm	US\$
US\$ deposits	61	4	37	2
Rand deposits	124	8	144	8
Total deposits	185	12	181	10

The net increase in estimate of the US\$ deposits above comprises savings in estimated TAC expenses. The R20 million net decrease in estimate of the Rand deposits above primarily comprises the R17 million dividends tax referred to above.

DIVIDEND CONSIDERATION

In view of the considerations outlined above, the board has not declared a final dividend in respect of 2020.

COVID-19

At present, the impact of COVID-19 is not expected to have any material effect on the going concern status of Trencor. The situation will continue to be monitored and responded to, as necessary. Appropriate measures are in place to ensure a safe working environment and that Trencor remains operational during any lockdown period ordered in combating COVID-19.

COMBINING ROLES OF CEO AND FINANCIAL DIRECTOR

In view of Hennie van der Merwe's retirement as CEO, Trencor's financial director, Ric Sieni, has agreed to take on the combined role of CEO and financial director, effective following the AGM on 11 May 2021. As required under the Listings Requirements, this has been approved by the JSE.

We welcome Ric in this combined role.

APPRECIATION

The ongoing dedication, energy and unwavering attention of the Trencor team and our board colleagues in pursuing Trencor's objectives, in a somewhat unique corporate environment, are greatly valued. We express our appreciation for the support of our shareholders throughout the simplification of Trencor's interests.



David Nurek
Chairman



Hennie van der Merwe
Chief Executive Officer

31 March 2021

ACKNOWLEDGEMENT OF RETIRING CEO BY CHAIRMAN

In addition to our joint report, I wish to record my sincere thanks to Hennie van der Merwe for the enormous contribution he has made to Trencor over 23 years of excellent service.

More particularly, I wish to acknowledge the pivotal role he has played in the extremely complex and complicated simplification of Trencor's interests over the past few years. It is no exaggeration to say that this would not have come to fruition without his drive and determination.

In the pursuit of limiting the ongoing operating costs of the group, Hennie has decided not to make himself available for re-election as a director at the forthcoming AGM. However, I am pleased to note that we will continue to have access, on a consultancy basis, to his extensive knowledge of Trencor's affairs as we progress towards the final unwinding of the group.

The board wishes Hennie good health in his retirement from Trencor and everything of the best in his future undertakings.