Notes to the Financial Statements

for the year ended 31 December 2022

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 2022 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". For the years ended 31 December 2022 and 31 December 2021, the group held cash.

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 the South African Institute of Chartered Accountants *Financial Reporting Guides* as issued by the Accounting Practices Committee and *Financial 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 24 March 2023.

2.2 Basis of measurement

The consolidated and separate financial statements have been prepared on the historical cost basis.

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. Although there is a foreign operation transacting in foreign currency, the group has elected the presentation currency to be SA rand. 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.

2.5 Segmental reporting

During 2019, Trencor disposed of the group's last remaining operating segment. Accordingly, there are no segments to report and a segment analysis has not been prepared.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated and separate financial statements, and have been applied consistently by group entities.

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. The investment in TAC Limited ("TAC") is a SA rand based investment.

3.1.3 Transactions eliminated on consolidation

Intra-group balances and transactions are eliminated.

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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Foreign currency gains or losses on monetary items are recognised in profit or loss.

3. Significant accounting policies (continued)

3.2 Foreign currency (continued)

3.2.1. Foreign currency transactions (continued)

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.

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.

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 fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

Financial assets – Classification

On initial recognition a financial asset is classified as measured at amortised cost or at 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.

Financial assets – Subsequent measurement

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 losses 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

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

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.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost. 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.

Restricted cash

Restricted cash is classified as a non-current asset and comprises money-market and term deposits held by independent escrow agents in escrow accounts in relation to indemnities issued by the group (refer to note 20). Restricted cash is carried at amortised cost including interest, accrued using the effective interest method, which is included in profit or loss. The carrying value of restricted cash is deemed to be fair value as interest is earned at market related interest rates.

3. Significant accounting policies (continued)

3.3 Financial instruments (continued)

3.3.1 Non-derivative financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise money-market instruments, term and call deposits and bank balances. Cash and cash equivalents are subsequently measured at amortised cost which is deemed to be fair value as they have a short-term maturity.

Trade receivables

Trade receivables are subsequently measured at amortised cost less expected credit losses ("ECLs").

Trade and other payables

Trade payables are subsequently measured at amortised cost using the effective interest method.

Borrowings

In the case of the company, the amount due to the subsidiary is classified as a non-current liability as the company will not be required to repay the liability for at least 12 months. The liability is carried at amortised cost.

3.3.2 Derecognition

Financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which a group entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

A financial liability is derecognised when its contractual obligations are discharged or cancelled, or expire. A group entity also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

3.3.3 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.

3.3.4 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.

3.3.5 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

Cash dividends and dividend distributions of assets *in specie* (treated as distributions within equity) are recognised as a liability in the year in which they are declared.

3.4 Property, plant and equipment

3.4.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (refer to note 3.4.3) and accumulated impairment losses (refer to note 3.5.2). 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. Right-of-use assets for leased premises are included in property, plant and equipment (refer to note 3.6).

Gains and losses on disposal of an item of property, plant and equipment 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.

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. Significant accounting policies (continued)

3.4 Property, plant and equipment (continued)

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. Right-of-use assets are depreciated over the lease term. The estimated useful life of office equipment, for the current and comparative years, is between 3 and 10 years.

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

3.5 Impairment

3.5.1 Financial assets

The group recognises loss allowances for ECLs on financial assets measured at amortised cost. 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.

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).

3.5.2 Non-financial assets

At each reporting date, the carrying amounts of non-financial assets (other than 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.

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").

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.

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.

3.6 Leases

At inception of a contract, the group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group uses the definition of a lease in IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received.

The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3. Significant accounting policies (continued)

3.6 Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group's incremental borrowing rate. Generally, the group uses its incremental borrowing rate as the discount rate.

The group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise fixed payments, including in-substance fixed payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in a rate, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3.7 Revenue

Dividend income

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

3.8 Finance income and finance expenses

3.8.1 Interest income

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

3.8.2 Interest expense

Interest expense comprises the effective interest expense on financial liabilities measured at amortised cost.

3.9 Employee benefits

3.9.1 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.

3.9.2 Retirement benefits

A group entity contributes to a defined contribution retirement fund. 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 the fund is recognised in profit or loss in the period during which services are rendered by employees.

3.10 Income tax

Income tax comprises current, deferred and dividends 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 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. Significant accounting policies (continued)

3.10 Income tax (continued)

Dividends tax is levied on the company in respect of dividend distributions of assets *in specie* to shareholders who are not exempt or not subject to such tax at a reduced rate. There are no dividends tax consequences for the company on the distribution of cash dividends.

3.11 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 year.

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.

Headline earnings per share
The presentation of headline earnings per share is mandated under the Listings Requirements of the JSE Limited ("JSE") and is calculated in accordance with Circular 1/2021 *Headline Earnings*, as issued by the South African Institute of Chartered Accountants.

3.12 Accounting standards and interpretations effective from 1 January 2022

- Annual Improvements to IFRS Standards (2018 – 2020);
- Reference to the Conceptual Framework (IFRS 3);
- Property, Plant and Equipment: Proceeds before Intended Use (IAS 16); and
- Onerous Contracts: Cost of Fulfilling a Contract (IAS 37).

The above had no impact on the group's consolidated financial statements.

3.13 Accounting standards and interpretations in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for years beginning on or after 1 January 2023, and have not been applied in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the group's consolidated financial statements:

Effective for the financial year commencing 1 January 2023:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).

Effective for the financial year commencing 1 January 2024:

- Classification of liabilities as current or non-current (IAS 1).

4. Property, plant and equipment

	Group		
	Right-of-use asset Rm	Office equipment Rm	Total Rm
Cost			
2021/2022			
Balance at 31 December 2021 and 2022	**1**	**1**	**2**
Accumulated depreciation			
2021			
Balance at 1 January 2021 and 31 December 2021	–	1	1
2022			
Depreciation for the year	**1**	**–**	**1**
Balance at the end of the year	**1**	**1**	**2**
Carrying amounts:			
At 1 January 2021	1	–	1
At 31 December 2021	1	–	1
At 31 December 2022	**–**	**–**	**–**

5. Investment in subsidiaries

	Company	
	2022 Rm	2021 Rm
Ordinary shares at cost (refer to note 5.5)	**377**	1 069
Preference shares (refer to note 5.2)	**–**	1 013
Investment in subsidiaries before impairment loss	**377**	2 082
Accumulated impairment loss (refer to note 5.3)	**(366)**	(288)
Investment in subsidiaries	**11**	1 794
Amount due to subsidiary – non-current	**–**	1 305

5.1 **Subsidiaries**

	Company		
	Country of incorporation	**2022 %**	2021 %
TAC Limited	Bermuda	**100**	100
Trencor Services Proprietary Limited	Republic of South Africa	**100**	100

5.2 Amount due to subsidiary is unsecured and interest free and was repaid out of proceeds of the redeemable preference shares redeemed and dividend received from Trencor Services during the year (refer to notes 5.4, 5.5 and 19.2).

5.3 The increase of R78 million (2021: reduction of R62 million) in the accumulated impairment loss relating to TAC is as a result of the distribution received during the year partially reduced by the fluctuating SA rand/US dollar exchange rate (2021: as a result of the fluctuation in the SA rand/US dollar exchange rate). The recoverable amount of the investment is equal to the fair value of the net asset value of TAC at year-end. The fair value determination was categorised as level 2 of the fair value hierarchy (refer to note 18.7).

	Company	
	2022 Rm	2021 Rm
5.4 Income earned from subsidiaries during the year included in profit or loss:		
Dividends received (refer to notes 13.1 and 19.2)	**307**	–
5.5 Decrease in investment in subsidiaries:		
Distribution received from subsidiary, net of exchange gain of R158 million (refer to note 19.2)	**692**	–
Redemption of redeemable preference shares by subsidiary (refer to notes 5.2 and 19.2)	**1 013**	–

6. Deferred tax assets/(liabilities)

	Assets		Liabilities		Net	
	2022 Rm	2021 Rm	**2022 Rm**	2021 Rm	**2022 Rm**	2021 Rm
Deferred tax assets/(liabilities) are attributable to the following:						
Group						
Restricted cash	**–**	–	**(2)**	–	**(2)**	–
Trade and other payables	**–**	1	**–**	–	**–**	1
Tax losses carried forward	**4**	1	**–**	–	**4**	1
Deferred tax assets/(liabilities)	**4**	2	**(2)**	–	**2**	2
Company						
Restricted cash	**–**	–	**(2)**	–	**(2)**	–
Tax losses carried forward	**3**	–	**–**	–	**3**	–
Deferred tax assets/(liabilities)	**3**	–	**(2)**	–	**1**	–

Movement in temporary differences during the year:

	Group			**Company**		
	Balance at the beginning of the year Rm	Recognised in profit or loss Rm	Balance at the end of the year Rm	**Balance at the beginning of the year Rm**	**Recognised in profit or loss Rm**	**Balance at the end of the year Rm**
2022						
Restricted cash	**–**	**(2)**	**(2)**	**–**	**(2)**	**(2)**
Trade and other payables	**1**	**(1)**	**–**	**–**	**–**	**–**
Tax losses carried forward	**1**	**3**	**4**	**–**	**3**	**3**
	2	**–**	**2**	**–**	**1**	**1**
2021						
Restricted cash	(2)	2	–	(2)	2	–
Trade and other payables	1	–	1	–	–	–
Tax losses carried forward	1	–	1	–	–	–
	–	2	2	(2)	2	–

6.1 Deferred tax assets for the group of R4 million (2021: R2 million) and for the company of R3 million (2021: nil) relate to temporary differences and estimated taxable losses. It is probable that future taxable profits of the group entities will be available against which the assets can be utilised.

6.2 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 (2021: nil).

	Group		Company	
	2022 Rm	2021 Rm	**2022 Rm**	2021 Rm
7. Restricted cash				
The escrow account in relation to the Halco Trust indemnitees will be held until the indemnity terminates or otherwise falls away prior to 31 December 2024 (refer to note 20)	**293**	273	**293**	273
8. Trade and other receivables				
Prepayments	**3**	3	**2**	2
9. Cash and cash equivalents				
Bank balances	**3**	5	**–**	–
Money market instruments and call and term deposits	**985**	931	**834**	1
	988	936	**834**	1

Refer to indemnity provided by Trencor in relation to the Halco Trust indemnitees in note 20.

	Group		Company	
	2022 Rm	2021 Rm	**2022 Rm**	2021 Rm
10. Capital and reserves				
Share capital				
Authorised				
Ordinary shares of 0,5 cent each				
200 000 000 (2021: 200 000 000)	**1**	1	**1**	1
Issued				
Ordinary shares of 0,5 cent each				
173 534 676 (2021: 173 534 676)	**1**	1	**1**	1

10.1 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.

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

10.3 **Reserves**

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. When a group entity is derecognised due to deconsolidation, liquidation or disposal, the accumulated foreign currency translation differences are transferred to profit or loss.

11. Leases

Leases as lessee
Trencor Services has a lease for its corporate office which expires on 30 June 2023 and has not be extended.

	Group		
	Interest rate 31 December 2022 % p.a.	**2022 Rm**	2021 Rm
11.1 Lease liability			
Total lease liability	8,46	**–**	1
Current portion included in current liabilities		**–**	(1)
		–	–
11.2 Amounts recognised in profit or loss			
Interest on lease liability		**0,1**	0,1
Depreciation		**1**	–
11.3 Amounts recognised in the statement of cash flows			
Total cash outflow for leases		**(1)**	–

	Group		Company	
	2022 Rm	2021 Rm	**2022 Rm**	2021 Rm
12. Trade and other payables				
Accrued expenses	**3**	2	**1**	1
Other payables	**1**	1	**1**	1
	4	3	**2**	2
13. Operating (loss)/profit before finance income				
Operating (loss)/profit before finance income is arrived at after taking into account:				
13.1 Revenue				
Dividend received	**–**	–	**307**	–
13.2 Other operating income				
Realised and unrealised exchange gains	**–**	22	**158**	22
13.3 Expenses				
Auditors' remuneration				
Audit fee - Current year	**1**	1	**1**	1
Directors' remuneration and benefits	**4**	9	**2**	2
Executive - Short-term employee benefits	**2**	6	**–**	–
Non-executive - Remuneration	**2**	3	**2**	2
Realised and unrealised exchange losses	**1**	–	**–**	–
Retirement benefit fund contributions included in employee benefits expense	**–**	1	**–**	–
14. Finance income				
Interest income				
Cash and cash equivalents	**20**	6	**1**	–
Restricted cash	**4**	1	**4**	1
	24	7	**5**	1

	Group 2022 Rm	Group 2021 Rm	Company 2022 Rm	Company 2021 Rm
15. Income tax				
15.1 Income tax paid				
Amounts payable at the beginning of the year	**(1)**	(1)	**–**	–
Recognised in profit or loss	**–**	–	**–**	–
Amounts (receivable)/payable at the end of the year	**(2)**	1	**(2)**	–
Amounts paid during the year	**(3)**	–	**(2)**	–
15.2 Income tax credit				
South African deferred	**–**	2	**1**	2
15.3 Income tax credit reconciliation				
Profit before tax	**3**	4	**377**	67
The income tax credit is reconciled as follows:				
Income tax credit at applicable rate of 28% (2021: 28%)	**1**	1	**105**	19
Over provided in prior years	**–**	(2)	**–**	(2)
Non-taxable amounts relating to escrow account	**(4)**	(6)	**(4)**	(6)
Non-taxable income – dividends received (refer to note 5.4)	**–**	–	**(86)**	–
Non-deductible expenses due to limited operations	**–**	5	**–**	5
Non-deductible expenses relating to dividends received	**4**	–	**4**	–
Tax rate differential in respect of foreign income	**(1)**	–	**–**	–
Non-taxable income relating to exchange gain on amounts received from subsidiary (refer to note 5.5)	**–**	–	**(44)**	–
Impairment loss/(reversal) – investment in subsidiary (refer to note 5.3)	**–**	–	**22**	(18)
Imputed income - controlled foreign company	**–**	–	**2**	–
Income tax credit at effective tax rate	**–**	(2)	**(1)**	(2)

	Group 2022	Group 2021
16. Earnings per share		
16.1 Weighted average number of shares in issue (million)	**173,5**	173,5
16.2 Earnings per share		
Basic earnings per share (cents)	**1,7**	3,4
Diluted earnings per share (cents)	**1,7**	3,4
16.3 Headline earnings attributable to shareholders of the company (Rm)	**3**	6
Headline earnings per share (cents)	**1,7**	3,4
Diluted headline earnings per share (cents)	**1,7**	3,4

17. Notes to cash flow

17.1 Cash (utilised by)/generated from operations

	Group 2022 Rm	Group 2021 Rm	Company 2022 Rm	Company 2021 Rm
Reconciliation of profit for the year to cash (utilised by)/generated from operations:				
Profit for the year	**3**	6	**378**	69
Adjusted for:				
Finance income	**(24)**	(7)	**(5)**	(1)
Dividend income	**–**	–	**(307)**	–
Unrealised exchange gains	**(2)**	(22)	**(2)**	(22)
Depreciation	**1**	–	**–**	–
Expenses settled from restricted cash	**2**	–	**2**	–
Impairment loss/(reversal)	**–**	–	**78**	(62)
Income tax credit	**–**	(2)	**(1)**	(2)
Operating (loss)/profit before working capital changes	**(20)**	(25)	**143**	(18)
Working capital changes	**1**	(5)	**–**	(2)
Increase in trade and other receivables	**–**	–	**–**	(1)
Increase/(Decrease) in trade and other payables	**1**	(5)	**–**	(1)
Cash (utilised by)/generated from operations	**(19)**	(30)	**143**	(20)

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

Company **Amount due to subsidiary**	**Rm**
Balance at 1 January 2021	1 291
Changes from financing cash flows	
Amounts advanced by subsidiary	14
Balance at 31 December 2021	1 305
Changes from financing cash flows	
Redemption of redeemable preference shares by subsidiary (refer to note 17.3)	**(1 013)**
Amounts repaid to subsidiary	**(292)**
Balance at 31 December 2022	**–**

Group **Lease liability**	
Balance at 1 January 2021	1
Changes from financing cash flows	
Repayment of lease liability	–
Balance at 31 December 2021	1
Changes from financing cash flows	
Repayment of lease liability	**(1)**
Balance at 31 December 2022	**–**

17.3 Non-cash investing and financing cash flows

In December 2022, Trencor Services redeemed its redeemable preference shares. The company utilised these funds together with the dividend received (refer to note 5.4) to settle the loan account with Trencor Services.

18. Financial instruments and risk management

18.1 Accounting classifications and fair values

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

	Financial assets at amortised cost Rm	Financial liabilities at amortised cost Rm	Total carrying amount Rm	Fair value* Rm
Group				
2022				
Financial assets				
Restricted cash	**293**		**293**	**293**
Cash and cash equivalents	**988**		**988**	**988**
	1 281		**1 281**	**1 281**
Financial liabilities				
Trade and other payables		**4**	**4**	**4**
		4	**4**	**4**
2021				
Financial assets				
Restricted cash	273		273	273
Cash and cash equivalents	936		936	936
	1 209		1 209	1 209
Financial liabilities				
Lease liability		1	1	1
Trade and other payables		3	3	3
		4	4	4
Company				
2022				
Financial assets				
Restricted cash	**293**		**293**	**293**
Cash and cash equivalents	**834**		**834**	**834**
	1 127		**1 127**	**1 127**
Financial liabilities				
Trade and other payables		**2**	**2**	**2**
		2	**2**	**2**
2021				
Financial assets				
Restricted cash	273		273	273
Cash and cash equivalents	1		1	1
	274		274	274
Financial liabilities				
Amount due to subsidiary		1 305	1 305	1 257
Trade and other payables		2	2	2
		1 307	1 307	1 259

* The fair values of trade and other receivables and trade and other payables are their carrying amounts as they are a reasonable approximation thereof. The fair value of the restricted cash and cash and cash equivalents have been measured according to their level in the hierarchy table (refer to note 18.7). At 31 December 2021, the fair value of the amount due to subsidiary was determined by discounting the amount due by 3,75% as the loan was interest free and was discounted over 367 days (refer to note 5.2).

18. Financial instruments and risk management (continued)

18.2 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 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.

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.

18.3 Credit risk

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

18.3.1 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		Company	
	2022 Rm	2021 Rm	**2022 Rm**	2021 Rm
Financial assets at amortised cost:				
Restricted cash	**293**	273	**293**	273
Cash and cash equivalents	**988**	936	**834**	1
	1 281	1 209	**1 127**	274

Restricted cash and cash and cash equivalents

Funds on deposit are with various institutions both locally and offshore.

All the restricted cash is on deposit offshore with an institution which has an investment grade credit rating from the major ratings agencies. The same applies to offshore cash and cash equivalents.

Local deposits have been placed with banks which have a S&P Global Ratings long-term and short-term rating on the South Africa national scale of zaAA/zaA-1+.

18.3.2 Impairment

Restricted cash and cash and cash equivalents

Impairment on restricted cash and cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The group considers that these restricted cash and cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties, therefore the expected credit loss allowance for these financial assets is nil.

18. Financial instruments and risk management (continued)

18.4 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 cash resources 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.

	Carrying amount Rm	Contractual cash flows Rm	One year or less Rm	More than one, less than five years Rm
Group				
2022				
Non-derivative financial liabilities				
Trade and other payables	**4**	**4**	**4**	**–**
	4	**4**	**4**	**–**
2021				
Non-derivative financial liabilities				
Lease liability	1	1	1	–
Trade and other payables	3	3	3	–
	4	4	4	–
Company				
2022				
Non-derivative financial liabilities				
Trade and other payables	**2**	**2**	**2**	**–**
	2	**2**	**2**	**–**
2021				
Non-derivative financial liabilities				
Amount due to subsidiary	1 305	1 305	–	1 305
Trade and other payables	2	2	2	–
	1 307	1 307	2	1 305

18.5 Market risk

Market risk is the risk that changes in 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.

18. Financial instruments and risk management (continued)

18.5.1 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.

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					
	2022			2021		
	SA rand Rm	**US$ Rm**	**Total Rm**	SA rand Rm	US$ Rm	Total Rm
Assets						
Restricted cash	**–**	**293**	**293**	–	273	273
Cash and cash equivalents	**149**	**839**	**988**	159	777	936
	149	**1 132**	**1 281**	159	1 050	1 209
Liabilities						
Lease liability	**–**	**–**	**–**	1	–	1
Trade and other payables	**4**	**–**	**4**	3	–	3
	4	**–**	**4**	4	–	4

	Company					
	2022			2021		
	SA rand Rm	**US$ Rm**	**Total Rm**	SA rand Rm	US$ Rm	Total Rm
Assets						
Restricted cash	**–**	**293**	**293**	–	273	273
Cash and cash equivalents	**1**	**834**	**835**	1	–	1
	1	**1 127**	**1 128**	1	273	274
Liabilities						
Trade and other payables	**2**	**–**	**2**	2	–	2
	2	**–**	**2**	2	–	2
The following exchange rates applied during the year:						
Year-end rate US$1		**R16,93**			R15,87	
Average rate US$1		**R16,29**			R14,85	

For the group and company, for the year ended 31 December 2022, a change of 1% in the foreign currency exchange rate used to translate the combined US dollar denominated restricted cash and cash and cash equivalents of R1 127 million would have increased or decreased the profit after tax for the year by R9 million (2021: In respect of restricted cash only, increase or decrease in profit after tax of R3 million).

The remainder of the US$ denominated cash and cash equivalents of R5 million (2021: R777 million) represent the financial assets of a foreign operation translated into SA rand and consequently no sensitivity analysis was disclosed in respect of these financial instruments.

18. Financial instruments and risk management (continued)

18.5.2 Interest rate risk

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		Company	
	2022 Rm	2021 Rm	**2022 Rm**	2021 Rm
Variable rate instruments				
Financial assets	**1 281**	1 209	**1 127**	273
Financial liabilities	**–**	(1)	**–**	–
	1 281	1 208	**1 127**	273

Based on the SA rand and US Dollar denominated non-derivative financial asset balances at 31 December 2022, it is estimated that a 100 basis points increase/decrease in interest rates would result in an increase/decrease in interest income after tax of R9 million (2021: SA rand financial assets only R1 million). This analysis assumes that all other variables remain constant. At 31 December 2021, the sensitivity relating to interest income on US dollar financial assets was not considered material as a result of the interest rate environment prevailing at the time.

18.6 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 the business. The board determines dividends payable 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.

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.

18.7 Fair values

The fair values of financial instruments (refer to note 18.1) have been arrived at after taking into account current market conditions. All of the fair value measurements are recurring in nature.

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.

	Company 2022 Rm	Company 2021 Rm
19. Related parties		
19.1 Identity of related parties		
The company has related party relationships with its subsidiaries (refer to note 5.1) and directors (refer to note 19.3).		
19.2 Intra-group transactions and balances		
Amount due to Trencor Services (refer to note 5.2)	**–**	1 305
Administration fee paid to Trencor Services	**5**	9
Dividend received from Trencor Services (refer to notes 5.4 and 13.1)	**307**	–
Decrease in investment in subsidiaries (refer note 5.5):		
Distribution received from TAC, net of exchange gain of R158 million	**692**	–
Redemption of preference shares by Trencor Services	**1 013**	–

19.3 Transactions with directors

The number of shares held by the directors and their associates in the issued share capital of the company at 31 December 2022 and 2021 were as follows:

	Company Direct	Company Associates	Company Total
David Nurek	**–**	**10 000**	**10 000**
Eddy Oblowitz	**10 000**	**–**	**10 000**
Ric Sieni	**–**	**–**	**–**
Roddy Sparks	**–**	**4 000**	**4 000**
	10 000	**14 000**	**24 000**

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

The remuneration paid to the directors during the years ended 31 December 2022 and 2021 was as follows:

	Group			
		Contributions to		
	Guaranteed remuneration	Medical aid	Retirement fund	Total remuneration
	R'000	R'000	R'000	R'000
2022				
Non-executive directors				
David Nurek	**897**	**–**	**–**	**897**
Eddy Oblowitz	**483**	**–**	**–**	**483**
Roddy Sparks	**460**	**–**	**–**	**460**
	1 840	**–**	**–**	**1 840**
Executive director				
Ric Sieni	**2 025**	**83**	**32**	**2 140**
Aggregate remuneration 2022	**3 865**	**83**	**32**	**3 980**
2021				
Non-executive directors				
David Nurek	897	–	–	897
Eddy Oblowitz	483	–	–	483
Roddy Sparks	460	–	–	460
	1 840	–	–	1 840
Executive directors				
Ric Sieni	3 488	79	104	3 671
Hennie van der Merwe*	1 015	18	106	1 139
	4 503	97	210	4 810
Aggregate remuneration 2021	6 343	97	210	6 650

Value-added tax is included in non-executive directors' remuneration, where applicable.
* Retired 11 May 2021

20. Indemnity provided by Trencor in relation to the Halco Trust indemnitees

On 20 February 2018, Trencor, as a nominated beneficiary of the Halco Trust, received a vesting and distribution from the Halco Trust of the entire issued share capital of Halco Holdings Inc ("Halco"), which in turn held the shares in Textainer and TAC. Before the vesting and distribution were effected, Trencor was required to provide an indemnity in a negotiated amount of US$62 million, inter alia, to the trustee of the Halco Trust, in lieu of the indemnity the trustee enjoyed under the Deed of Settlement of the Halco Trust at the time.

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

The indemnity terminates on 31 December 2024 and Trencor's maximum potential exposure under such indemnity is US$62 million (2021: US$62 million), for which an amount of US$17 million (2021: US$17 million) is currently held in accordance with the terms of an escrow agreement by an independent escrow agent in an interest-bearing escrow account in Liechtenstein (refer to note 7). The escrow balance will be so held until the indemnity terminates or otherwise falls away prior to 31 December 2024. Trencor is contractually required in terms of the escrow arrangement linked to the indemnity to retain sufficient cash and other liquid assets equal to the full face value of the maximum potential exposure under the indemnity of US$62 million, in effecting any distribution or corporate reorganisation. Restricted cash of US$17 million (2021: US$17 million) (refer to note 7) and cash and cash equivalents in Trencor of US$45 million (2021: TAC US$45 million) (refer to note 9) have been currently earmarked against any such maximum potential exposure.

No contingent liability has been disclosed for this indemnity for the year ended 31 December 2022 as the directors believe that the possibility of an outflow of resources, other than for costs and expenses, is remote.

21. 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.

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 forecasts;
- the performance of underlying business assets 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.

22. Events after the reporting period

The directors are not aware of any matters or circumstances arising since the end of the financial year, which will have a material impact on the financial position at 31 December 2022.