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 (2017: indirect beneficiary interest) (Incorporated in Bermuda) Owning of marine cargo containers	US$m	93	**100**	100	**1 392**	–	**–**	–
Halco Holdings Inc (2017: indirect beneficiary interest) (Deregistered, previously incorporated in the British Virgin Islands)	US$	500	**–**	100	**–**	–	**–**	–
Trencor Services Proprietary Limited (Incorporated in the Republic of South Africa) 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* (Incorporated in Bermuda) 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.