

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 the company) set out on pages 32 to 78, which comprise the statements of financial position at 31 December 2016, 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 the 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 2016, 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 ('IFRS') 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 the 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* (Part 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. No key audit matters were identified in respect of our audit of the separate financial statements.

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

Container leasing equipment – R49 024 million

Impairment of container leasing equipment – R2 107 million

Refer to significant accounting policy 3.4 and notes 4 and 34 to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>Given the further decline in market conditions impairment indicators were identified for Textainer Group Holdings Limited ('Textainer') and TAC Limited ('TAC') that required the directors to perform an impairment assessment in respect of property, plant and equipment, specifically related to the container fleets, in accordance with IAS 36 <i>Impairment of Assets</i>.</p> <p>This 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.</p> <p>There are a number of key judgements made in determining the inputs into these discounted cash flow models, which include:</p> <ul style="list-style-type: none"> The identification of CGUs, being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. 	<p>The audit team who performed the procedures on the impairment of the container fleets included our own finance and valuation specialists who understand the group's business, industry and the economic environment in which it operates.</p> <p>For the CGUs identified, we tested the integrity of the cash flow projections and discount rates, tested the mathematical accuracy of the discounted cash flow models, 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.</p> <p>Specifically, for the key judgements made, we:</p> <ul style="list-style-type: none"> assessed the appropriateness of the identification of CGUs by container type, based on our understanding of the nature of Textainer and TAC's business and economic environment in which the segments operate.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<ul style="list-style-type: none"> Projected future cash flows, which are based on estimated future lease rates, projected utilisation, remaining useful lives, remaining on-hire periods for expired fixed term leases, direct container expenses and estimated disposal prices of containers. Discount rates used to calculate the net present value of the future estimated cash flows of the CGUs. <p>The impairment of the container fleets 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.</p> <p>Due to the above mentioned factors, impairment of the container fleets is considered a key audit matter in our audit of the consolidated financial statements.</p>	<ul style="list-style-type: none"> assessed the reasonableness of the projected future cash flows by comparing the estimated future lease rates to contractually stipulated per diem rates and the reasonableness of other assumptions to internal and external market data. assessed the appropriateness of the discount rates used to calculate the net present value of the future estimated cash flows of the CGUs with reference to acceptable discount rates we derived from comparable market data. <p>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 used to determine the recoverable amount for each CGU.</p>

2. Reassessment of residual values and useful lives of the container fleets

Container leasing equipment – R49 024 million

Depreciation – R4 861 million, of which R663 million is attributable to the reassessment of residual values and the useful lives of the container fleets

Refer to significant accounting policy 3.4 and notes 4 and 34 to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>IAS 16 <i>Property, Plant and Equipment</i> ('IAS 16') requires the reassessment of the residual values and useful lives of the container fleets at each reporting period, which are then used to determine the amount by which the container fleets are depreciated.</p> <p>In accordance with IAS 16, residual values are determined using current market conditions and are therefore likely to fluctuate over time as market prices fluctuate.</p> <p>Recent average sales prices for containers were considered by major container type and the residual values were accordingly adjusted at 30 June 2016 and again on 31 December 2016. This represented a change in accounting estimate in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p> <p>Due to the fact that the resale prices of containers at the end of their useful life represent a significant proportion of the original cost (resale prices have shown to be 50-60% of original cost based on a 10 year historical average) and vary significantly depending on, among other factors, location, time of sale, the condition of the container and customer demand, the prospective depreciation charge is highly sensitive to movements in residual values that are reassessed at each reporting period.</p> <p>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.</p> <p>The reassessment of residual values and useful lives of the container fleets were therefore considered a key audit matter in our audit of the consolidated financial statements.</p>	<p>We assessed the appropriateness of the directors' policy for determining and reassessing residual values and useful lives.</p> <p>We assessed the appropriateness of the residual values determined by comparing these to internal and external sales data of containers disposed of at the end of their useful life by container type.</p> <p>We assessed the appropriateness of the useful lives of the container fleet by container type by comparing the useful lives to the average age of the containers as per historical internal sales data.</p> <p>We considered the adequacy of the group's disclosures in respect of the change in accounting estimate resulting from the reassessment of the residual values and useful lives during the year and at year-end.</p>

3. Classification of interest-bearing borrowings

Interest-bearing borrowings – non-current – R4 913 million

Interest-bearing borrowings – current – R36 755 million

Refer to the significant accounting policy 3.3 and notes 19 and 36 to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>At 31 December 2016, Textainer did not have the unconditional right to defer settlement of R33 767 million of interest-bearing borrowings beyond 31 December 2017, which resulted in these borrowings being recorded by the group as current liabilities in accordance with IAS 1 <i>Presentation of Financial Statements</i> ('IAS 1').</p> <p>Subsequent to year-end, on 27 February 2017, Textainer entered into amendments of these facilities with its lenders, which resulted in various changes to the related covenants and an increase in the interest margin for the secured debt facilities with effect from that date. As a result of these amendments, R32 241 million of interest-bearing borrowings, which are reflected as current liabilities at 31 December 2016, will only become due after 31 December 2017.</p> <p>The amendments to the debt covenants and facilities made subsequent to year-end have had a significant impact on the classification of the group's interest-bearing borrowings on the statement of the financial position. The classification of the interest-bearing borrowings is therefore considered a key audit matter in our audit of the consolidated financial statements.</p>	<p>Our audit procedures included testing compliance with all debt covenants at year-end with reference to the interest-bearing borrowing agreements. In addition, we reviewed the amendments made to the debt covenants and facilities subsequent to year-end and assessed the impact these amendments had on the classification of interest-bearing borrowings at year-end. Our assessment was performed with reference to the requirements of IAS 1.</p> <p>We considered the adequacy of the group's disclosures in respect of interest-bearing borrowings and related terms and conditions and the adequacy of disclosures in accordance with IAS 10 <i>Events after the Reporting Period</i>.</p>

4. Accounting treatment of Hanjin Shipping Co ('Hanjin') customer bankruptcy

Impairment of estimated unrecoverable containers – R50 million

Impairment of finance lease receivables – R325 million

Impairment of accounts receivable – R220 million

Insurance receivables – R559 million

Refer to the significant accounting policy 3.8 and note 22.2 to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>On 31 August 2016, Hanjin, one of Textainer's major customers, filed for bankruptcy protection in South Korea.</p> <p>Substantial losses from the Hanjin bankruptcy have been incurred, arising from the loss of unreturned containers, unpaid finance lease and other accounts receivables, the loss of rental income and container recovery, repair, repositioning and re-leasing expenses.</p> <p>Insurance cover is maintained to cover certain costs and losses from defaulting customers, which has resulted in the recognition of related insurance receivables at year-end.</p> <p>Due to the significant impact of this customer default, the accounting treatment of this bankruptcy and related disclosure is considered a key audit matter.</p>	<p>Our audit procedures included verifying the costs incurred relating to the default by Hanjin and assessing the appropriateness of the expense and loss estimates made by management.</p> <p>We also assessed the insurance cover in place relating to these expenses and losses and the appropriateness of recognising related insurance receivables at year-end. We obtained and reviewed all of the insurance policies and related addendums pertaining to Textainer's insurance coverage to ensure that the terms and disclosures in the policies were consistent with our understanding and were being appropriately considered in the recognition and presentation of the loss and the recovery proceeds.</p> <p>We further obtained signed confirmations from each of the insurers confirming that they would be paying their respective claims based on the total loss claimed, and that the losses related to Hanjin were covered by the existing insurance policies.</p> <p>We evaluated the creditworthiness of all of the insurers to determine whether the claims would be honoured.</p> <p>We considered the adequacy of the group's disclosures in this regard.</p>

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee Report, the Declaration by the Company Secretary as required by the Companies Act of South Africa, the Directors' Responsibility Statement as well as 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 the 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 the 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 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 the 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 16 years.

KPMG Inc
Registered Auditor



Per GM Pickering
Chartered Accountant (SA)
Registered Auditor
Director
28 June 2017

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