

Corporate Governance

Trencor endorses the principles underlying the Code of Corporate Practices and Conduct in the King III Report on Corporate Governance ('the Code' or 'the King Report'). Ongoing enhancement of corporate governance principles is a global movement, supported by the board which, together with senior management, will continue to follow and adopt, as appropriate, existing and new principles which advance good practical corporate governance and add value to the company.

The principles recommended by the King Report have been assessed and the disclosure on how each has been applied or an explanation why or to what extent some were not applied is contained in a register available on the company's website.

Save as may be indicated in that register and in this report, the board is not aware of any non-compliance with the Code during the year under review.

The King IV Report on Corporate Governance for South Africa 2016 was launched in November 2016 and will be dealt with in the 2017 integrated annual report.

The salient features of corporate governance as applied in the group are set out below.

BOARD OF DIRECTORS COMPOSITION

The names and brief résumés of the directors appear on page 82.

Following the various board changes during the year as noted in the directors' report, the board now comprises eight directors, three of whom are executive and five non-executive of whom four qualify as independent non-executive directors in terms of the King Report.

The board is satisfied that there is a clear balance of power and authority at board level and that no one individual director or block of directors has undue influence on decision-making. The directors have considerable experience and an excellent understanding of the business.

Board effectiveness reviews are undertaken on an annual basis and the board is satisfied with the results of this process.

Nominations for appointment to the board are formal and transparent and submitted by the nomination committee to the full board for consideration.

CHAIRMAN/CHIEF EXECUTIVE OFFICER

Prior to 1 March 2016, Trencor had an executive chairman in the person of Neil Jowell and did not require a separate chief executive officer, due to its small corporate office and the limited nature of its activities as an investment holding company.

In view of the fact that the chairman was an executive, David Nurek acted as the lead independent non-executive director.

On 1 March 2016, Jimmy McQueen was appointed as chief executive officer and, following Neil Jowell's retirement on 5 August 2016, the board appointed David Nurek as independent non-executive chairman from that date. There is accordingly now a separation between chairman and chief executive officer.

Moreover, as the chairman is an independent non-executive director, there is no longer a need for a lead independent director.

The appointment of the chairman is reviewed on an annual basis.

BOARD DIVERSITY

Trencor recognises the benefits of a diverse board and during the year the board adopted a formal diversity policy. A diverse board would be able to include and make good use of differences in the skills, regional and industry experience, background, race, gender and other attributes of directors. Thus, in reviewing board composition, the nomination committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, and will consider candidates on merit against objective criteria and with due regard for and balance between the benefits of diversity on the board and the other requirements of the board. The committee will consider and agree at appropriate intervals all measurable objectives for achieving diversity on the board and recommend them to the board for adoption.

PROFESSIONAL ADVICE

All directors have access to the company secretary and management and are entitled to obtain independent professional advice at the company's expense if required.

COMPANY SECRETARY

The company secretary is Trencor Services Proprietary Limited, a wholly-owned subsidiary of the company, which is mainly responsible for corporate administration of the company's corporate office functions. The board is of the opinion that, in view of the fact that the company secretary is a wholly-owned subsidiary, an arm's length relationship is not feasible. Based on the outcome of an annual assessment conducted by the executive committee, the board is satisfied that the specific individual employed by Trencor Services Proprietary Limited to carry out the duties of a secretary of a public company has the requisite competence, knowledge and experience to effectively perform the role as the gatekeeper of good governance.

MEETINGS

The board meets on a scheduled quarterly basis and at such other times as circumstances may require. During the year ended 31 December 2016, five meetings were held and these were attended by all directors in person or by telephone/video link, save for Jim Hoelter who attended three meetings.

Board papers are timeously issued to all directors prior to each meeting and contain relevant detail to inform members of the financial and trading position of the company and each of the operations. When appropriate, strategic matters and developments are also addressed.

The chairman meets with non-executive directors, either individually or collectively, on an ad-hoc basis to apprise them of any significant matters that may require their input and guidance. In addition, the non-executive directors may hold separate meetings as and when they deem it appropriate.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service agreement. All executive directors have engagement letters which provide for a notice period of between one and three months to be given by either party.

In terms of the memorandum of incorporation, not less than one-third of the directors are required to retire by rotation at each annual general meeting of the company and may offer themselves for re-election. New directors appointed during the year are required to retire at the next annual general meeting, but may offer themselves for re-election.

DIRECTORS' INTERESTS

The number of shares held by the directors and their associates in the issued share capital of the company at 31 December 2016 and 2015 was as follows:

	Beneficial		Total
	Direct	Indirect	
2016			
Jim Hoelter	-	-	-
Jimmy McQueen	49 649	102 133	151 782
David Nurek	-	10 000	10 000
Eddy Oblowitz	10 000	-	10 000
Ric Sieni	-	-	-
Roddy Sparks	-	4 000	4 000
Hennie van der Merwe	-	-	-
Herman Wessels	-	27 859	27 859
	59 649	143 992	203 641

Cecil Jowell and Neil Jowell retired on 5 August 2016. At that date, their total interests were 5 422 760 and 5 713 050 shares respectively.

2015

Jim Hoelter	-	-	-
Cecil Jowell	159 831	5 262 929	5 422 760
Neil Jowell	47 832	5 665 218	5 713 050
Jimmy McQueen	49 649	102 133	151 782
David Nurek	-	10 000	10 000
Eddy Oblowitz	10 000	-	10 000
Roddy Sparks	-	4 000	4 000
Hennie van der Merwe	-	-	-
Herman Wessels	-	27 859	27 859
	267 312	11 072 139	11 339 451

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

The number of shares held by the directors and their associates in the issued common stock of Textainer at 31 December 2016 and 2015 was as follows:

	Beneficial		Total
	Direct	Indirect	
2016			
Jim Hoelter*	-	562 816	562 816
Jimmy McQueen	7 292	-	7 292
David Nurek	7 292	-	7 292
Eddy Oblowitz	-	-	-
Ric Sieni	-	-	-
Roddy Sparks	-	-	-
Hennie van der Merwe	694	-	694
Herman Wessels	-	-	-
	15 278	562 816	578 094

* Reduction from 2015 number the result of distribution of shares to family members.

	Beneficial		Total
	Direct	Indirect	
2015			
Jim Hoelter	-	1 007 971	1 007 971
Cecil Jowell	5 080	-	5 080
Neil Jowell	5 080	62 981	68 061
Jimmy McQueen	5 080	-	5 080
David Nurek	5 080	-	5 080
Eddy Oblowitz	-	-	-
Roddy Sparks	-	-	-
Hennie van der Merwe	694	-	694
Herman Wessels	-	-	-
	21 014	1 070 952	1 091 966

Subsequent to the financial year-end, Jim Hoelter's shareholding decreased to 502 816 shares following the sale of 60 000 shares. On 19 May 2017, 3 270 restricted share units vested in respect of each of Jimmy McQueen and David Nurek. There have been no other changes in the above interests between the financial year-end and the date of this report.

AUDIT COMMITTEE

The audit committee, appointed by shareholders at each annual general meeting, comprises three independent non-executive directors. The committee normally meets at least twice a year, prior to and for purposes of the finalisation of the group's interim and annual results, and at such other times as may be required. The committee is primarily responsible for assisting the board in carrying out its duties in regard to accounting policies, internal controls and audit, financial reporting, identification and monitoring of risk, and the relationship with the external auditors.

In addition to the committee members, the other members of the board and certain other group executives are normally invited to attend meetings of the committee. The external auditors attend all meetings and have direct and unrestricted access to the audit committee at all times. In addition, the committee chairman meets separately with the external auditors on an ad-hoc basis.

During the year, the committee met on four occasions. The meetings were attended by all members.

The audit committee is satisfied as to the expertise and experience of the financial director, and of the finance function as a whole, and that the external auditors are independent in the discharge of their duties. The use of the services of the external auditors for non-audit services requires prior approval by the committee chairman.

Textainer has its own audit committee comprising Textainer board members who are not executives of that entity. The external auditors of Textainer have direct and unrestricted access to its audit committee.

Where appropriate, the internal audit functions are primarily outsourced to suitably qualified independent external parties which are contracted on an ad-hoc basis in terms of specified terms of reference and to report to the executive committee and, if required, the audit committee.

BOARD AND BOARD COMMITTEE TERMS OF REFERENCE

The board is ultimately accountable and responsible for the performance and affairs of the company. In essence, it provides strategic direction, monitors and evaluates operational performance and executive management, determines policies and processes to ensure effective risk management and internal controls, determines policies regarding communication and is responsible for ensuring an effective composition of the board.

COMMITTEES OF THE BOARD

Several committees of the board exist, each with specific terms of reference, to assist the board in discharging its responsibilities. The terms of reference are reviewed on an annual basis. The composition of these committees is reviewed on an ongoing basis. The names of the members of the committees appear on page 2 and the various changes during the year are noted in the directors' report.

NOMINATION COMMITTEE

The nomination committee comprises of three independent non-executive directors and identifies and recommends to the board suitable competent candidates for appointment as directors.

The committee meets on an ad-hoc basis. During the year, the committee held one meeting which was attended by all the then members.

Directors' independence

The nomination committee has conducted the necessary annual assessment and is satisfied as to the independence of each of the independent non-executive directors of the company and, in particular, those who have been in office for more than nine years, having regard to the requirements of the King Report and the provisions of the Companies Act of South Africa.

Succession planning

The nomination committee of the board is satisfied that suitable succession plans are in place.

EXECUTIVE COMMITTEE

The executive committee currently comprises three executive directors and met formally on a regular basis throughout the year and informally as and when required. During the year, nine formal monthly meetings were held which were attended by all the then members, save for Neil Jowell who did not attend three of the meetings and Ric Sieni who did not attend two of the meetings. The minutes of these meetings are distributed to non-executive directors after each meeting.

This committee has the authority of the board, which is subject to annual review, to take decisions on matters involving financial risk management and matters requiring immediate action (subject to the approval of the committee chairman or his nominee) and passing of enabling resolutions, which:

- do not have major policy implications; or
- have been discussed with and the support obtained from a majority of board members, save that any dissenting director has the right to call a board meeting; or

- if requiring significant capital expenditure, are in the normal course of business.

REMUNERATION COMMITTEE

The remuneration committee reports directly to the board and comprises three independent non-executive directors, following the appointment of Herman Wessels to the committee on 29 November 2016. The committee's task is to review the compensation of executive and non-executive directors and senior management of the company. The chief executive officer is usually invited to attend meetings of the committee, but does not participate in any discussion relating to his own remuneration.

During the year, one committee meeting was held which was attended by both of the then members.

The committee, in assessing base salaries and other forms of guaranteed remuneration, takes into account appropriate benchmarking including, where required, input from independent remuneration consultants.

Remuneration policies and practices

Trencor seeks to employ persons of superior ability who will adequately meet the needs of our stakeholders and believes remuneration should be at least commensurate with that of similarly qualified people in comparable positions in like industries and in similar geographic locations.

- Executive directors

Executive directors are paid a guaranteed amount on a cost to company basis, which includes salaries as well as medical aid and pension fund contributions.

Remuneration is pro-rated in respect of executives who are employed on a part-time basis.

- Members of management who are not executive directors

The company's policy in respect of these executives is that their guaranteed pay, determined on a cost to company basis, should be attractive compared to levels paid in equivalent positions in other companies. The policy is on the same terms as for executive directors.

- Changes to incentive bonus arrangements for executives and senior management

With effect from 1 January 2016, the amounts of the incentive bonuses that were paid to executive directors and senior management in respect of the financial year ended 31 December 2015 have been incorporated into their guaranteed remuneration. With effect from 1 January 2016, executive directors and senior management no longer qualify to receive annual incentive bonuses. This change has been effected because the current structure and operations of the group are such that the contributions of executives to the results or profitability of the company are no longer specifically measurable.

- Retention incentives

In order to retain the services of two executive directors and three members of senior management, retention incentives were agreed with such persons whereby amounts will become payable on specified future vesting dates subject to certain terms and

conditions. The committee sought advice from leading external remuneration consultants as to the structure and quantum of each of the retention amounts. In the opinion of these external consultants, the quantum of the retention amounts is fair and reasonable.

- Non-executive directors

The remuneration committee recommends the fees payable to non-executive directors to the board which, in turn, proposes such fees to shareholders for approval. These fees are also determined with reference to appropriate benchmarking against comparable companies.

Shareholders will be asked at the forthcoming annual general meeting to approve the proposed annual remuneration payable to non-executive directors in their capacities as such from 1 July 2017, which represents an increase of approximately 7%. In addition, in view of a new binding ruling by the South African Revenue Service requiring the levying of Value-Added Tax ("VAT") on non-executive directors' fees, shareholders will be asked to approve that the company pays the VAT attributable to fees to its non-executive directors' remuneration (where applicable).

No fees are paid to executive directors for services as director.

Shareholders will also be asked to approve an additional payment of R50 000 to the chairman of the audit committee for efforts and time beyond what is normal, relating to the US GAAP/IFRS conversion addressed elsewhere in this integrated annual report. In the case of Jim Hoelter, the US-based non-executive director who is paid in US dollars, the proposed increase is 2% p.a. for the period from 1 July 2017 until his retirement at the annual general meeting.

Other non-executives may be compensated for efforts and time required beyond what would normally be expected.

Remuneration benchmarking

At the beginning of 2017 the committee commissioned external consultants to conduct a job evaluation and a total remuneration benchmarking exercise for selected executive directors and senior management positions. Overall, the results indicated that current remuneration paid in respect of the selected positions is in line with the market.

Directors' remuneration

The remuneration paid to the directors during the years ended 31 December 2016 and 2015 was as follows:

	Guaranteed remuneration R'000	Contributions to		Incentive bonuses R'000	Share based payments* R'000	Total remuneration R'000
		Medical aid R'000	Retirement funds R'000			
2016						
Non-executive directors						
Jim Hoelter	1 275	-	-	-	345	1 620
David Nurek	1 544	-	-	-	690	2 234
Eddy Oblowitz	382	-	-	-	-	382
Roddy Sparks	379	-	-	-	-	379
Herman Wessels	357	-	-	-	-	357
	3 937	-	-	-	1 035	4 972
Executive directors						
Cecil Jowell	1 299	14	-	-	345	1 658
Neil Jowell	3 018	24	-	-	345	3 387
Jimmy McQueen	4 020	47	319	-	690	5 076
Ric Sieni	2 192	43	221	-	-	2 456
Hennie van der Merwe	965	47	101	-	-	1 113
	11 494	175	641	-	1 380	13 690
Aggregate remuneration 2016	15 431	175	641	-	2 415	18 662
2015						
Non-executive directors						
Jim Hoelter	1 654	-	-	-	659	2 313
David Nurek	1 245	-	-	-	659	1 904
Eddy Oblowitz	356	-	-	-	-	356
Roddy Sparks	354	-	-	-	-	354
Herman Wessels	323	-	-	-	-	323
	3 932	-	-	-	1 318	5 250
Executive directors						
Cecil Jowell	1 542	22	-	840	659	3 063
Neil Jowell	3 202	43	-	2 100	659	6 004
Jimmy McQueen	3 334	43	266	478	659	4 780
Hennie van der Merwe	902	43	95	100	-	1 140
	8 980	151	361	3 518	1 977	14 987
Aggregate remuneration 2015	12 912	151	361	3 518	3 295	20 237

* Award of shares in Textainer for services rendered as directors of Textainer.

The Trencor Share Option Plan

In terms of The Trencor Share Option Plan, options were previously granted to certain executive directors and employees. All of these options have been exercised and there are no options currently outstanding.

There is currently no intention to grant further options but the Plan is being maintained in its current dormant state in order that options may be granted in future should the need arise. Accordingly, no authority is sought from shareholders at this stage to place the unissued shares reserved for the Plan under the control of the directors and to authorise the directors to issue such shares.

GOVERNANCE COMMITTEE

The governance committee comprises of three independent non-executive directors. The committee is responsible for making recommendations to the board in all matters relating to the development, evaluation and monitoring of the company's corporate governance processes, policies and principles; the development and implementation of and monitoring compliance with the company's code of ethics and making recommendations to the board on revisions thereto from time to time as appropriate.

During the year, one committee meeting was held, which was attended by all members.

Restriction on trading in shares

A formal policy prohibits directors, officers and employees from dealing in the company's shares from the end date of an interim reporting period until after the interim results have been published and similarly from the end date of the financial year until after the reviewed provisional results have been published. Directors and employees are reminded of this policy prior to the commencement of any restricted period.

In addition, no dealing in the company's shares is permitted by any director, officer or employee whilst in possession of information which could affect the price of the company's shares and which is not in the public domain.

Directors of the company and of its major subsidiaries are required to obtain clearance from Trencor's chairman (and in the case of the chairman, or in the absence of the chairman, from the chairman of the audit or remuneration committee) prior to dealing in the company's shares, and to timeously disclose to the company full details of any transaction for notification to and publication by the JSE.

SOCIAL AND ETHICS COMMITTEE

Given the nature of the company's activities as an investment holding company, the activities of this committee are limited in scope.

The social and ethics committee comprises three independent non-executive directors and two executive directors. Ric Sieni was appointed to the committee on 5 August 2016 and Roddy Sparks and Herman Wessels were appointed to the committee on 29 November 2016.

During the year, one committee meeting was held, which was attended by all members.

The main objective of the committee is to assist the board in monitoring the company's performance as a good and responsible corporate citizen by monitoring sustainable development practices.

The committee is responsible for developing and reviewing policies with regard to the commitment, governance and reporting of sustainable development performance and for making recommendations to the board in this regard.

Its role also includes the monitoring of any relevant legislation, other legal requirements or prevailing codes of best practice, specifically with regard to matters relating to social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, as well as labour and employment. Refer to the sustainability report on pages 20 to 22.

Code of ethics

The board, management and staff agreed a formal code of ethical conduct in 1998 which seeks to ensure high ethical standards. All directors and employees are expected to strive at all times to adhere to this code, and to enhance the reputation of the company. This code is signed by all directors, managers and employees on an annual basis.

Any transgression of this code is required to be brought to the attention of the board. There were no transgressions during the year under review.

RISK COMMITTEE

The risk committee comprises the members of the audit committee and Jim Hoelter, David Nurek and Jimmy McQueen. During the year, two committee meetings were held, which were attended by all members.

In addition to the committee members, the financial director and certain other group executives are invited to attend meetings of the committee.

Responsibility for managing risk lies ultimately with the board of directors. The risk committee and executive committee assist the board in discharging its responsibilities in this regard by identifying, monitoring and managing risk on an ongoing basis and within the authority conferred upon them by the board. The identification and mitigation of risk is a key responsibility of management and the executive committee.

The following significant risk exposures within the Operations and the possible impacts and the measures taken to mitigate such risks have been identified:

- **Exchange rate fluctuations**

The Operations are largely US dollar-based and, accordingly, changes in the R/US\$ exchange rate can and do significantly affect the translation of assets, liabilities, profits and losses into South African currency. The long-term export receivables were all denominated in US dollars. The board resolved that these receivables should remain in US dollars and should not be hedged into any other currency, save that the executive committee was authorised to sell limited amounts due to be collected forward, into rand, if it believes that doing so would protect the rand receipts. Unrealised gains and losses arising on translation at reporting dates of the unhedged portion of the long-term receivables and related valuation adjustments were included in profit and loss and changes in the R/US\$ exchange rate resulted in volatility in earnings when expressed in rand. The long-term receivables were paid in full in the 2016 financial year.

For the years ended 31 December 2016 and 2015, 36% and 27% respectively of Textainer's direct container expenses were paid in eighteen foreign currencies other than the US dollar. A decrease in the value of the US dollar against non-US currencies in which these expenses are incurred would translate into an increase in those expenses in US dollar terms, which would decrease net income of Textainer and the group.

- **Access to credit**

The past several years have been characterised by weak global economic conditions, inefficiencies and uncertainty in the credit markets, a low level of liquidity in many financial markets and extreme volatility in many equity markets. Although these conditions appear to be abating and global recoveries seem to be underway, it is not yet clear whether a sustainable recovery is currently taking place.

Any deceleration or reversal of the relatively slow and modest global economic recoveries could heighten a number of

material risks to Textainer's and TAC's businesses, results of operations, cash flows and financial condition, as well as their future prospects, including the following:

- **Credit availability and access to equity markets:** Continued issues involving liquidity and capital adequacy affecting lenders could affect the ability to fully access credit facilities or obtain additional debt facilities and could affect the ability of lenders to meet their funding commitments. Further, high level of volatility in the equity markets may make it difficult for Textainer to access the equity markets for additional capital at attractive prices, if at all. If the company is unable to obtain credit or access the capital markets, its business could be negatively impacted. Additionally, in recent years the returns provided from lease transactions have been lower due to increased competition in part caused by increased debt financing access for the container leasing industry. Lower returns on containers coupled with the negative impact of the bankruptcy of Hanjin in August 2016 and lower residual values have impacted on Textainer's ability to meet the financial covenants on its lending facilities, requiring covenant amendments which may limit the ability to access funds for investment in additional new containers.
- **Credit availability to customers:** It is believed that many customers are reliant on liquidity from global credit markets and, in some cases, require external financing to fund their operations. As a consequence, if these customers lack liquidity, it would likely negatively impact their ability to pay amounts due to Textainer and TAC.

Many of these and other factors affecting the container industry are inherently unpredictable and beyond the control of the Operations.

- **Containerised cargo volume growth**

A contraction or slowdown in containerised cargo volume growth or negative containerised cargo volume growth would likely create a surplus of containers, lower utilisation, higher direct costs, weaker shipping lines going out of business and/or pressure for lease concessions, and lead to a reduction in the size of customers' container fleets. High utilisation of containers and fleet growth may not be sufficient to provide revenue and income growth if increased competition or other factors keep container lease rates low for prolonged periods.

- **Lessee defaults may harm Textainer's and TAC's businesses, results of operations and financial condition by decreasing revenue and increasing storage, repositioning, collection and recovery expenses**

Textainer's and TAC's containers are leased to numerous container lessees. Lessees are required to pay rent and to indemnify the owners against damage to or loss of containers. Lessees may default in paying rent and performing other obligations under their leases. A delay or diminution in amounts received under the leases (including leases on managed containers), or a default in the performance of maintenance or other lessee obligations under the leases could adversely

affect Textainer's and TAC's businesses, results of operations and financial condition and their ability to make payments on their debt.

When lessees default, Textainer and TAC may fail to recover all of their containers, and the containers that they do recover may be returned to locations where they will not be able to quickly re-lease or sell them on commercially acceptable terms. Historically these companies have recovered a very high percentage of their containers from defaulting lessees. Textainer experienced several lessee defaults in 2016, the main defaulter being Hanjin. Textainer believes that there may be a continuing risk of lessee default in 2017. If a material amount of future recoveries from defaulting lessees deviate from historical recovery experience, Textainer's or TAC's financial performance and cash flow could be adversely affected.

- **Interest rates**

Textainer and TAC have various borrowing facilities, all of which are denominated in US dollars and borrowings made under the facilities may be subject to variable interest rates. Textainer and TAC have firm policies that long-term lease business should be financed with fixed rate debt and master lease (short-term) business should be financed with variable rate debt. Interest on loans raised to purchase containers leased out under long-term leases (usually of five years' duration at fixed rates) is swapped into fixed interest rate contracts of a similar term, while loans raised to purchase containers for master lease are at variable rates. Textainer and TAC have entered into various interest rate swap and cap agreements to mitigate the exposure associated with variable rate debt. The swap agreements involve payments to counterparties at fixed rates in return for receipts based upon variable rates indexed to the London InterBank Offered Rate. There can be no assurance that these interest rate caps and swaps will be available in the future, or if available, will be on satisfactory terms. If Textainer and TAC are unable to obtain such interest rate caps and swaps or if a counterparty under the interest rate swap and cap agreements defaults, the exposure associated with the variable rate debt could increase. Neither Textainer nor TAC applies hedge accounting to the interest rate swaps, notwithstanding that such swaps may be economically effective; they account on the basis that the net result of the marked-to-market valuation of these instruments is flowed through profit or loss. This may result in volatility of earnings.

- **Credit risk concentration**

Textainer's customers are mainly international shipping lines which transport goods on international trade routes. Once containers are on-hire to a lessee, Textainer does not track their location. The domicile of the lessee is not indicative of where the lessee is transporting containers. The business risk for Textainer in its international operations lies with the creditworthiness of the lessees rather than the geographic location of the containers or the domicile of the lessees.

Textainer's five largest customers accounted for approximately 48,1% of its total owned and managed fleet's 2016 lease billings (2015: 40,3%). Lease billings from Textainer's 20 largest container lessees by lease billings represented 78,9% and 77,4% of total owned and managed fleet's container lease billings in 2016 and 2015 respectively.

Textainer's largest lessee accounted for 14,0% of lease rental income during 2016 (2015: 11,1%). The second largest lessee accounted for 12,0% of lease rental income in 2016 (2015: 10,5%). Textainer had no other lessee greater than 10%. These lessees individually accounted for 9,2% and 9,3%, and 9,0% and 9,7%, respectively in 2016 and 2015 of gross accounts receivable.

A default by any of these major customers could have a material adverse impact on Textainer's business, results from operations and financial position.

- **Container ownership**

Ownership of containers entails greater risk than management of containers for container investors. In 2016, Textainer increased the percentage of containers in its fleet that it owns from 80,1% at the beginning of the year to 81,0% at the end of the year. The increased number of containers in Textainer's owned fleet increases its exposure to financing costs, financing risks, changes in per diem rates, re-leasing risk, changes in utilisation rates, lessee defaults, repositioning costs, storage expenses, impairment charges and changes in sales price upon disposition of containers. The number of containers in the owned fleet fluctuates over time as new containers are purchased, containers are sold into the secondary resale market, and other fleets are acquired. As part of its strategy, Textainer focuses on increasing the number of owned containers in its fleet and therefore ownership risk may be expected to increase correspondingly.

- **Decrease in container fleet utilisation**

A decline in utilisation, for example due to a reduction in world trade or in container traffic on particular routes or an oversupply of competitors' containers, could result in reduced revenue, increased storage expenses and thus lower profit. In order to reduce volatility in revenue and earnings of the containers in Textainer's on-hire fleet, 84,3% (2015: 85,3%) are on long-term lease and finance lease. Textainer has also developed a very active used-container trading operation and thus has an effective infrastructure to dispose of containers that have reached the end of their useful lives, on the best available terms. Textainer monitors containers due to come off lease and manages their disposal or re-lease.

- **Container off-hires in low demand locations**

A build-up of off-hire containers in low demand locations where they cannot easily be on-hired again could lead to decreased utilisation, reduced revenue, higher storage costs and the possibility of having to ship the equipment, at considerable cost, to positions where it can be leased out. To reduce this exposure, Textainer is increasingly placing containers into long-term leases and also negotiating more favourable lease terms that limit the number of containers that lessees may off-hire in low demand areas. It also regularly repositions containers from low to high demand locations.

- **New container prices**

Changes in the prices of new container equipment have an impact on lease rates. In general, declining new container prices lead to softening in rates, while increasing prices may result in upward pressure on lease rates. If a downturn in new container prices is sustained, the lease rates of older, off-lease containers would also be expected to decrease as would the prices obtained for containers sold at the end of their useful life. If a reduction in the price of new containers is sustained such that the market lease rate or resale value for all containers is reduced, this trend could harm Textainer's and TAC's businesses, results of operations and financial condition, even if this sustained reduction in price would allow those companies to purchase new containers at a lower cost.

- **Value of containers**

The ultimate return from the ownership of a container will depend, in part, upon the residual value at the end of its economic life. The market value of a used container depends upon, among other things, its physical condition, supply and demand for containers of its type and remaining useful life in relation to the cost of a new container at the time of disposal and the location where it will be sold. A decline in residual values of containers can adversely affect returns from container ownership and cash flows.

- **Reporting standards**

Trencor reports its results in accordance with IFRS while Textainer and TAC report in accordance with US GAAP. This may cause the reporting of Textainer and TAC's results consolidated by Trencor to differ from that which is reported in the financial results of those companies. These differences may result in users of the financial statements being unable to reconcile the results of the companies, market confusion and an inconsistent market reaction when the companies report.

- **Reporting delays**

The process of converting US GAAP results into IFRS is time consuming and expensive, and may result in our financial reports not being produced timeously, which may result in JSE sanctions.

INFORMATION RESOURCES MANAGEMENT

Trencor, like other organisations, is reliant on information technology to effectively and efficiently conduct its business. The IT systems, policies and procedures are reviewed on an ongoing basis to ensure that effective internal controls are in place to manage risk and promote efficiencies, and to comply with universally accepted standards and methods. Attention is continuously focused on maximising the benefits whilst minimising the risks associated with all aspects of the IT portfolio as they apply to business operations.

Security policies and procedures for employees and the use of technologies such as enterprise and personal firewalls, antivirus systems, intrusion monitoring and detection are applied, as well as frequent application of software security 'patches' issued by vendors as and when vulnerabilities are discovered.

Trencor corporate office has established procedures that when invoked enable a complete recovery of the IT network and business systems within specified time limits. Textainer and TAC have their own business continuity plans.

STAKEHOLDER COMMUNICATION

Members of the executive committee of the board meet on an ad-hoc basis with institutional investors, investment analysts, individuals and members of the financial media. Discussions at such meetings are restricted to matters that are in the public domain. No such discussions are permitted in a closed period.

Shareholders are informed, by means of announcements on the Stock Exchange News Service, press announcements and releases in South Africa and/or printed matter sent to such shareholders, of all relevant corporate matters and financial reporting as required in terms of prevailing legislation. In addition, such announcements are communicated via a broad range of channels in both the electronic and print media. The company maintains a corporate website (www.trencor.net) containing financial and other information, including interim, reviewed and annual results.