

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 company) set out on pages 34 to 82, which comprise the statements of financial position at 31 December 2017, 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 2017, 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 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 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 period. 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 fleet

Property, plant and equipment – R44 793 million

Impairment of property, plant and equipment – R1 209 million

Refer to the Accounting Policies (significant accounting judgements and estimates – carrying value of property, plant and equipment) and notes 4 and 32 to the consolidated financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>Significant impairments were recognised in respect of the container fleet in the prior and current periods. This was in response to the depressed market conditions which showed improvement during 2017. These improved market conditions were, however, offset by an increase in the group's cost of capital which is used to discount future cash flows.</p> <p>The impairment 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. In addition, where appropriate, the fair value less costs of disposal was determined in respect of these CGUs. There are a number of key estimates and assumptions made in determining the inputs into these discounted cash flow models, refer to note 4.</p>	<p>For the CGU's identified, we tested the integrity of the cash flow projections and discount rates, tested the mathematical accuracy of the cash flow model, 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. We involved our own finance and valuation specialists in assessing the appropriateness of the impairment assessments performed by management.</p>

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>The impairment of the container fleet 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 abovementioned factors, impairment of the container fleet is considered a key audit matter in our audit of the consolidated financial statements.</p>	<p>Specifically, for the key estimates and assumptions made, we:</p> <ul style="list-style-type: none"> evaluated 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; evaluated the reasonableness of the projected future cash flows by comparing the estimated future lease rates to contractually stipulated <i>per diem</i> rates and other key assumptions to internal and external market data; and evaluated 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.</p>

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

Property, plant and equipment – R44 793 million

Depreciation – R3 048 million

Refer to the Accounting Policies (significant accounting judgements and estimates) and notes 4 and 32 to the consolidated 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 fleet at each reporting period, which are then used to determine the amount by which the container fleet is 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 2017 and again on 31 December 2017. 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 lives represent a significant proportion of the original cost (resale prices have shown to be approximately 50% 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>We involved experienced members on the audit to perform the procedures in respect of the reassessment of the residual values and useful lives of the container fleets given their understanding of the group's business, industry and the economic environment in which it operates.</p> <p>We evaluated the appropriateness of the director's policy for determining and reassessing residual values and useful lives.</p> <p>We evaluated the appropriateness of the residual values determined by comparing, to internal and external sales data of containers disposed of at the end of their useful life by container type.</p> <p>We evaluated the appropriateness of the useful lives of the container fleet by comparing the useful lives to the average age of the containers as per historical internal sales data.</p>

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<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>Due to the abovementioned factors, the reassessment of residual values and useful lives was therefore considered a key audit matter in our audit of the consolidated financial statements.</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. Events after the reporting period: Deconsolidation of Textainer

Refer to the Accounting Policies (significant accounting judgements and estimates) and note 34 to the consolidated financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
<p>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"), effective 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. With effect from 1 January 2018, the group will no longer consolidate Textainer but will account for such interest as an equity investment at fair value through profit or loss.</p> <p>Significant judgements are involved in the determination of whether Trencor, subsequent to year-end, would control or have significant influence over Textainer as well as the judgements applied in the determination of the difference between the net asset value of Textainer at the date of deconsolidation (subsequent to year-end) and the fair value of Textainer as disclosed in note 34. As a consequence the events after the reporting period were considered a key audit matter in our audit of the consolidated financial statements.</p>	<p>We involved experienced members on the audit team including our accounting and tax specialists to assess the appropriateness of the accounting and taxation implications of the VLD which will be applied subsequent to year-end and which are disclosed in note 34 to the financial statements.</p> <p>This included an assessment of whether the VLD gave rise to loss of control in accordance with IFRS 10 <i>Consolidated Financial Statements</i> or gave rise to significant influence being exerted in terms of IAS 28 <i>Investments in Associates and Joint Ventures</i>. We also considered the appropriateness of the directors' proposed accounting treatment in future periods.</p> <p>We evaluated the appropriateness of the basis upon which the fair value of the Textainer shares were determined and reviewed the group's calculation of the gain on deconsolidation of Textainer.</p> <p>We evaluated the adequacy of the group's disclosures in respect of the events after the reporting period.</p>

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Declaration by the Company Secretary, the Directors' Report and the Audit Committee Report as required by the Companies Act of South Africa, the Directors' Responsibility Statement as well as all other information included in 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 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 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 period 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 a 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 17 years.

KPMG Inc
Registered Auditor



Per H du Plessis
Chartered Accountant (SA)
Registered Auditor
Director
6 July 2018

MSC House
1 Mediterranean Street
Foreshore
Cape Town 8001