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 34 to 82.

The loss attributable to equity holders of the company from the various classes of businesses was as follows:

	2017 Rm	2016 Rm
Container operations		
Textainer/TAC	**(202)**	(1 879)
Container finance	**(5)**	(7)
Exchange translation losses	**–**	(64)
Net long-term receivables adjustment	**–**	243
Interest and other corporate items	**(114)**	(36)
	(321)	(1 743)

DIRECTORS AND SECRETARY

The names of the directors appear on page 2 and that of the secretary on page 94.

With effect from 10 August 2017:

- Jim Hoelter retired as a non-executive director and member of the risk committee;
- Jimmy McQueen retired as chief executive officer, executive director and chairman of the executive committee but remains on the board in a non-executive capacity; and
- Hennie van der Merwe was appointed as chief executive officer and chairman of the executive committee in the place of Jimmy McQueen.

On 28 November 2017, Hennie van der Merwe was appointed to the social and ethics committee in the place of Jimmy McQueen. Roddy Sparks was appointed as lead independent director on 19 December 2017 and, on 17 May 2018, Ric Sieni and Hennie van der Merwe were appointed to the risk committee.

In terms of the memorandum of incorporation David Nurek, Eddy Oblowitz and Roddy Sparks 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 84.

DIRECTORS' INTERESTS

The aggregate of the direct and indirect beneficial interests of the directors in the issued shares of the company at 31 December 2017 was 0,1% (2016: 0,1%).

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

CASH DIVIDENDS

	Payment number	Record date	Payment date	Cents per share (gross)	Total Rm
2016					
Interim	102	11/11/16	14/11/16	80	142
Final	103	19/05/17	22/05/17	50	89
2017					
Interim	**104**	**27/10/17**	**30/10/17**	**50**	**89**
Final	**105**	**15/06/18**	**18/06/18**	**50**	**89**

CONVERTING US GAAP RESULTS OF TEXTAINER AND TAC TO IFRS FOR FINANCIAL REPORTING BY TRENCOR

The results of Textainer and 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. US GAAP testing for impairment in the current and prior year did not identify any impairment of the container fleets.

The complex and time consuming calculations required to make the necessary IFRS adjustments for the large owned container fleets resulted in a delay in the issuance of these results. Steps to address some of the problems in the conversion are addressed in the events after the reporting period section below.

Despite improved conditions in the container leasing market, having to discount future cash flows at higher rates has led to further impairments to the container fleets in 2017. The rates used are influenced by beta risk factors and the costs of debt.

Reconciliation of Textainer US GAAP to IFRS:

	2017 US$ million	2016 US$ million
Profit/(Loss) attributable to shareholders per US GAAP	**19,4**	(52,5)
Adjustments:		
Non-cash IFRS impairment loss	**(94,4)**	(154,8)
IFRS reduced depreciation/ (additional depreciation)	**14,5**	(78,1)
IFRS tax effect of the above and other	**17,4**	24,8
Loss attributable to shareholders per IFRS	**(43,1)**	(260,6)

Reconciliation of TAC US GAAP to IFRS:

	2017 US$ million	2016 US$ million
Profit/(Loss) attributable to shareholders per US GAAP	**2,5**	(1,9)
Adjustments:		
Non-cash IFRS impairment loss	**(3,3)**	(0,1)
IFRS reduced depreciation/ (additional depreciation)	**2,1**	(1,8)
IFRS tax effect of the above and other	**0,2**	(5,0)
Profit/(Loss) attributable to shareholders per IFRS	**1,5**	(8,8)

EVENTS AFTER THE REPORTING PERIOD

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. All Halco's voting rights, save for the said limitation or restriction, were unaffected by the VLD.

Accordingly, as from 1 January 2018, the financial results of Textainer, reporting under US GAAP, will no longer be required to be converted into IFRS for inclusion in the results of Trencor, thus eliminating significant commercial issues (e.g. the time-consuming and expensive conversion process, delays in Trencor's financial reporting, reputational risks and the like) for Trencor and Textainer and their respective shareholders. As Trencor will be regarded in terms of IFRS as being neither in control of nor having significant influence over Textainer, Textainer will be accounted for by Trencor as an investment measured at fair value through profit or loss, which fair value information will be more meaningful.

The net asset value of Textainer as reported at 31 December 2017 will be deconsolidated and the financial instrument at fair value through profit or loss will be recognised based on the fair value of Textainer's shares at 1 January 2018. The gain of R2 579 million on deconsolidation of Textainer will be excluded from headline earnings and has no tax consequences.

The financial impact of the VLD and of the consequential deconsolidation of Textainer in terms of IFRS is set out in note 34.

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 will have no financial consequences in future consolidated financial statements.

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 was initially limited to the value of the assets distributed which in substance left the Trustee in the same position as it enjoyed under the deed of settlement of the Trust. The maximum exposure under such indemnity has since been reduced to a considerably lesser amount of 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 now owns 47,8% of Textainer and 100% of TAC. These dividends will have no financial consequences in future consolidated financial statements.

In light of the progression of the simplification of Trencor's interest in Textainer, on 15 June 2018 the JSE Limited deferred any decision regarding Trencor's compliance with the applicable Listings Requirements (following the JSE Limited'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 twelve months on further progress made in respect of the simplification during that period.

INTEREST IN SIGNIFICANT SUBSIDIARIES

	Currency	Share capital and premium	Effective interest 2017 %	Effective interest 2016 %	Shares at cost 2017 Rm	Shares at cost 2016 Rm	Amount owing to company 2017 Rm	Amount owing to company 2016 Rm
Indirect beneficiary								
Textainer Group Holdings Limited[1] (Incorporated in Bermuda) Owning, leasing, managing and trading of marine cargo containers	US$m	361	**47,8[2]**	48,0	**–**	–	**–**	–
TAC Limited[1] (Incorporated in Bermuda) Owning of marine cargo containers	US$m	56	**100**	100	**–**	–	**–**	–
Halco Holdings Inc[1] (Incorporated in the British Virgin Islands) Shareholder in Textainer and TAC	US$	500	**100**	100	**–**	–	**–**	–
Direct								
Trencor Services Proprietary Limited (Incorporated in the Republic of South Africa) Corporate administration	Rm	1 012	**100**	100	**1 017**	1 017	**(824)**	(916)
					1 017	1 017	**(824)**	(916)
Aggregate of all other subsidiaries					**404**	404	**–**	–
					1 421	1 421	**(824)**	(916)
Impairment loss					**(351)**	(351)	**–**	–
					1 070	1 070	**(824)**	(916)

[1] 47,78% of the issued shares of Textainer and 100% of the shares in TAC at 31 December 2017 were owned by Halco Holdings Inc ("Halco"). At that date Halco was wholly-owned by the Halco Trust, a trust resident in Liechtenstein. Trencor and certain of its wholly-owned South African subsidiaries are the nominated sole beneficiaries of the Halco Trust. The protectors of the Halco Trust are David Nurek, Jimmy McQueen and Eddy Oblowitz.

[2] At the date of this report, this further reduced to 47,74% following the vesting of restricted share units and exercise of share options.

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:

	2017 Rm	2016 Rm
Profits	**15**	225
Losses	**(205)**	(1 888)
	(190)	(1 663)

SPECIAL RESOLUTIONS

At the annual general meeting held on 10 August 2017, 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 2017.
- 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 15 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 and no shareholder resolutions of material interest were passed by the company's non-South African subsidiaries.

ANALYSIS OF SHAREHOLDERS

An analysis of shareholders and of holders who held 5% or more of the issued shares at 31 December 2017 is presented on page 83.