Review of Operations

TEXTAINER

Textainer Group Holdings Limited ('Textainer') is, through its subsidiaries, primarily engaged in owning, leasing, managing and trading standard and special dry freight and refrigerated marine cargo containers to global transportation companies. Textainer listed on the New York Stock Exchange (NYSE: TGH) in October 2007. At 31 December 2013, Trencor had a 48,3% (2012: 48,9%) beneficiary interest in the company. Textainer's net profit attributable to its shareholders in 2013 was US$186,2 million (2012: US$200,2 million). Textainer paid dividends totalling US$1,85 per share in 2013 compared to US$1,63 per share in 2012.

The year proved to be more challenging than anticipated; the company invested US$198 million in new containers in the fourth quarter of 2012, much of which was expected to be leased out in the first quarter of 2013. However, demand for containers took longer to materialise than expected. While there was an increase in demand leading into the traditional third quarter peak season, the increase was less pronounced than the company had come to expect during that time of the year and utilisation continued to decline. By the end of 2013, utilisation had declined to 93,6% from 96,3% in 2012. Average fleet utilisation for the year was 94,5% (2012: 97,2%). The primary macro-economic factors which caused this decline in container demand were the economic malaise in Europe and a reduction in the annual growth of China's GDP. In addition, Textainer's performance was affected by several industry specific factors:

- The price of a new 20 foot standard container ('TEU') declined during 2013 from more than US$2 400 to below US$2 000; the decline in new container prices also depressed used container prices and lead to reduced gains from container sales. Used container prices dropped approximately 20% from January to December.
- Lower new container prices also resulted in shipping lines purchasing a higher percentage of total annual production than they had done during the period from 2010 to 2012.
- Container lessors found it much easier to raise financing; the resulting increase in liquidity increased the competitiveness of all lessors.

The above factors combined to depress container demand, rental rates and utilisation; as utilisation declined, operating costs like storage and repair costs increased.

During 2013 Textainer grew the owned and managed fleet to a total size of 3 040 000 TEU with the acquisition of 195 000 TEU of new standard dry-freight containers, 12 000 TEU of new refrigerated containers and 218 000 TEU of used containers, for a total investment of US$752 million. This followed the acquisition of 91 000 TEU of new containers at a cost of US$198 million in the fourth quarter of 2012 for lease out in 2013.

The following significant events occurred during the year:

- During 2013, Textainer executed US$870 million in debt financings, funding costs were significantly lowered and the capital structure was further optimised. A more flexible asset-backed financing structure was introduced and a low cost facility put in place to assist with the financing of older containers. Overall funding costs were reduced by almost 100 basis points.
- On 5 June 2013, an agreement was signed with Trifleet Leasing (The Netherlands) B.V. ('Trifleet') under which Textainer will invest in new intermodal tank containers to be managed by Trifleet, marking the company's entry into the tank container market. Trifleet will acquire and lease out the containers on behalf of Textainer, serving as its exclusive manager in the intermodal tank container market. Textainer has invested or committed to invest more than US$10 million in tank containers under this arrangement.
- On 12 December 2013, Textainer was awarded a master lease contract with the US military after having successfully completed ten years of the previous contract with the US military. The new contract covers a base year which started on 24 December 2013, with the potential for one year renewals that may extend the contract to 24 December 2018.

Textainer remains the world's largest lessor of intermodal containers based on fleet size, with a total fleet of more than 2 million containers, representing more than 3 million TEU. The company leases containers to more than 400 shipping lines and other lessees, including each of the world's top 20 container lines, as measured by the total TEU capacity of their container vessels. Textainer has provided an average of almost 200 000 TEU of new containers each year for the previous five years and has also been one of the largest purchasers of new containers among container lessors over the same period. It is also one of the largest sellers of used containers among container lessors, having sold an average of more than 80 000 containers per year for the past five years to more than 1 200 customers. Textainer provides its services worldwide via an international network of 14 regional and area offices and over 470 independent depots. Textainer's carefully designed specifications, in-house production quality control, depot selection and audit programme are all part of a system built to manage customers' costs and provide a high quality container service. The company's senior management has an average of 16 years service with the company and has a long history in the container industry.

In addition to its own fleet, Textainer manages containers on behalf of 16 affiliated and unaffiliated owners, including TAC Limited ('TAC'), a container-owning company in which Trencor has a 44,3% beneficiary interest. Management fees and sales commissions arising from these arrangements continue to make significant contributions to the company's operating results and also reduce volatility, even in cyclical downturns. Including finance leases, the total fleet under Textainer's management at 31 December 2013 numbered 3 040 000 TEU of which Textainer itself owned 76%, up 3% from 2012. 83,5% of the total on-hire lease fleet was on long-term and finance lease compared to approximately 62% a decade ago and 82,2% one year ago. As at 31 December 2013, long-term leases had an average remaining duration of 3,4 years, assuming no leases are renewed.

The ratio of interest-bearing debt to total equity was 233% (2012: 216%) which is conservative by industry standards.

Textainer's website can be viewed at www.textainer.com.

Textainer: Salient information

	2013	2012	Change
Financial (US$ million)			
Total revenue	**626,9**	549,4	+14,2%
Profit before tax	**195,0**	202,0[1]	-3,4%
Net profit	**186,2**	200,2	-7,0%
Profit attributable to Halco[2]	**90,2**	113,8	-20,7%
Operational			
Average fleet utilisation	**94,5%**	97,2%	-2,7%
Fleet under management (TEU '000s)	**3 040**	2 775	+265
Owned	**2 299**	2 016	+283
Managed	**741**	759	-18
Long-term lease fleet	**2 302**	2 113	+189
Short-term lease fleet	**555**	511	+44
Finance leases	**183**	151	+32

[1] Excludes bargain purchase gain of US$9,4 million arising from the acquisition of a 50,1% interest in TAP, a container owning company.

[2] Halco's average effective interest declined from 56,9% in 2012 to 48,5% in 2013.

NET INVESTMENT IN LONG-TERM RECEIVABLES

The aggregate amount of outstanding long-term receivables denominated in US dollars at 31 December 2013 was US$112 million (2012: US$134 million). The discount rate applied in the valuation of the long-term receivables is unchanged from 2012 at 8,5% per annum and the net present value of these receivables, before fair value adjustments, totalled R1,2 billion (2012: R1,1 billion). An exchange rate of US$1=R10,46 was used to translate dollar amounts into rand at 31 December 2013 (2012: US$1=R8,48). In compliance with International Financial Reporting Standards, the resulting unrealised translation gain, amounting to R217 million at net present value (2012: R46 million) has been included in profit before tax.

A fair value adjustment is made to take account of the estimated timing of receipt and the possible non-collectability of the receivables, and the related effect on the portion attributable to third parties. The net fair value adjustment was reduced by R9 million (2012: R81 million). This increased earnings by 4 cents per share (2012: 33 cents per share). The net fair value adjustment at 31 December 2013 was R249 million (2012: R226 million). Approximately 98% (2012: 98%) of the net adjustment relates to the estimated timing of receipt and is in the nature of deferred income and 2% (2012: 2%) relates to the possible non-collectability of receivables.

The decrease in the value of the rand against the US dollar resulted in an unrealised loss of R58 million (2012: R13 million) on translation of the dollar-denominated fair value adjustment against the receivables. At 31 December 2013, the net present value of long-term receivables after fair value adjustments amounted to R867 million (2012: R832 million).

The discount rate applied to reduce the rand amounts attributable to third parties to their net present values is unchanged from 2012 at 10% per annum.

TAC

TAC and its wholly-owned subsidiary Leased Assets Pool Company Limited ('LAPCO') owned 174 119 TEU (2012: 161 942 TEU) of dry freight containers of various types and 2 073 (2012: 2 171) stainless steel tank containers at 31 December 2013, which are managed by a number of equipment managers who lease these containers to shipping lines. Textainer continues to manage the largest portion of the dry freight container fleet and Exsif Worldwide Inc manages most of the stainless steel tank containers. 66,9% of the fleet is on long-term lease.

44,3% of the issued share capital of TAC is owned by Halco Holdings Inc ('Halco'), a company incorporated in British Virgin Islands and wholly owned by the Halco Trust. These shares were originally issued by way of a rights issue at zero cost. Halco has an option to acquire the 55,7% of the issued shares of TAC that it does not presently own for US$4 million plus a holding cost; the option became exercisable with effect from 1 July 2013 and may be exercised by Halco at any time before 31 December 2015. In accordance with International Financial Reporting Standards, TAC has been consolidated into Trencor for the first time, notwithstanding that Halco has not yet exercised the option; previously, the results of TAC were equity accounted by Trencor. For the purposes of the consolidation of the results into Trencor, the fair values of the assets and liabilities of the company were determined as at 1 July 2013. The net adjustment to the fair values attributable to Halco's 44,3% investment in TAC amounted to R200 million, of which R172 million has been included in earnings.

Amounts owing by TAC for containers acquired by it on extended credit terms in past years account for a major portion of the remaining long-term receivables (refer to note 9 on page 44) and cash originating from TAC is applied in reduction thereof. Trencor closely monitors the performance of TAC and its cash flow forecasts and uses these projections to assist in valuing the long-term receivables.

Average utilisation across the whole TAC fleet was 90,7% compared to 96,2% in 2012.

In November 2013, LAPCO refinanced its bank facility with its existing syndicate of banks. The new facility has three main improvements over the previous facility: a lower interest rate of LIBOR plus 235 basis points during the revolving period (previously LIBOR plus 300 basis points), the facility amount increased from US$150 million to US$170 million and a more favourable advance rate.

During the year, the company committed to the purchase of 26 133 TEU of containers of varying types at a total cost of US$50 million. 13 486 TEU of TAC's older containers were disposed of during the year (12 704 TEU in 2012).

TAC: Salient information

	2013	2012	Change
Financial (US$ million)			
Total revenue	**57**	60	-5%
Trading profit after net finance cost	**21**	22	-5%
Net profit	**21**	22	-5%
Profit attributable to Halco	**4**	–	–
Comprising:			
Operational			
Average fleet utilisation	**90,7%**	96,2%	-5,5%
Total fleet (TEU ’000s)	**174**	162	+12
Long-term lease fleet	**123**	110	+13
Short-term lease fleet	**51**	52	-1

PROPERTY INTEREST

Trencor has a 15% interest in the companies that own and operate Grand Central Airport in Midrand, Gauteng, which continues to provide satisfactory returns. Our exposure to these investments is R3 million. These investments are regarded as non-core and will be disposed of when a suitable opportunity arises.