# Chairman's Statement


In this year of my retirement from Trencor after 43 years as Chairman, I cannot help but reflect on two major milestones in the group's history achieved in 2015 – 60 years being listed on the JSE and 85 years since the business was started in Springbok. I look back upon this long and successful history of the group with no small measure of satisfaction.

Trencor's results reflect the performance of Textainer – the global container leasing business in which Trencor has a 48% beneficiary interest through Halco Holdings under the Halco Trust. Textainer operates worldwide and is listed on the New York Stock Exchange with its headquarters in Bermuda.

The container industry has had the most challenging year since 2009, and under these circumstances our results are satisfactory.

**Trading profit** after net financing costs decreased by 20% from R2 001 million in 2014 (restated) to R1 608 million.

**Headline earnings per share** (including the effect of net realised and unrealised foreign exchange translation gains) were 512,6 cents (2014: 547,9 cents – restated).

**Adjusted headline earnings per share** (which excludes the effect of net unrealised foreign exchange translation gains) were 443,3 cents (2014: 520,7 cents – restated).

Net unrealised foreign exchange gains arising on translation of net dollar receivables and the related valuation adjustments, not included in adjusted headline earnings, were R123 million or 69,3 cents per share (2014: R48 million or 27,2 cents per share).

These various earnings are better reflected in tabular form:

| | 2015 | Restated 2014 |
|---|---|---|
| | **Cents per share** | Cents per share |
| **Basic (loss)/earnings per share** | **(82,7)** | 543,2 |
| **Headline earnings per share** | **512,6** | 547,9 |
| Deduct: | | |
| Net unrealised foreign exchange translation gains | **69,3** | 27,2 |
| **Adjusted headline earnings per share** | **443,3** | 520,7 |
| Year-end rate of exchange: SA rand to US dollar | **15,53** | 11,54 |
| Average rate of exchange for the year: SA rand to US dollar | **12,75** | 10,78 |

Based on the spot exchange rate of US$1 = R15,53 and the price of Textainer's shares listed on the NYSE on 31 December 2015 (US$14,11), the net asset value of Trencor at that date was as follows:

| | R million | R per share |
|---|---|---|
| Beneficiary interest in Textainer | **5 977,6** | **33,75** |
| Beneficiary interest in TAC | **577,1** | **3,26** |
| Net interest in long-term receivables | **555,3** | **3,14** |
| Cash | **2 399,1** | **13,55** |
| Net liabilities | **(86,3)** | **(0,49)** |
| | **9 422,8** | **53,21** |

## TEXTAINER

I am again including as a direct quote, the annual letter sent by the President and CEO of Textainer and myself as Chairman of the Textainer board to the shareholders of Textainer:

**"To Our Shareholders:**

Textainer has been leasing containers since 1979. During that time we have experienced strong leasing markets and weathered weak ones while operating successfully and profitably through both. 2015 was the most challenging year we have faced since 2009. Container trade growth was well below expectations and both new and used container prices declined significantly resulting in lower rental rates and reduced proceeds from container sales. Notwithstanding these challenges, we returned solid results and an above average return on equity due in large part to our years of experience and the structure of our leases. We believe this is especially impressive given the market conditions we faced and our relatively low leverage.

**Year in Review**

We were optimistic at the start of the year given predictions of 4-5% trade growth, slightly higher than what we had seen in 2014. Unfortunately, our optimism was unfounded. 2015 proved to be a disappointing year primarily for two reasons.

First, 2015 trade growth was approximately 2% or less than half of what was predicted at the beginning of the year. The traditional mid-year pick-up in demand we saw in 2014 never materialized in 2015. The limited demand for leased containers and an increase in the quantity of containers being returned from maturing leases led to increases in depot stocks and storage expense. Many of the returned containers were old and put to sale, putting pressure on used container prices.

Second, the collapse of iron ore and steel prices caused new container prices to fall from about $1,900/CEU at the beginning of the year to $1,300/CEU at year's end, a decline of more than 30%. New container rental rates are directly correlated to new container prices and interest rates. The combination of falling container prices and low interest rates led to significant declines in both new and depot container rental rates. Used container prices, which were already declining due to the increased quantity of sales containers, fell further.

As a result of the decline in used container prices, we decreased the residual value for 40' high cube containers for depreciation purposes from $1,650 to $1,450 per container during the third quarter. This change resulted in a $10.5 million increase in depreciation expense for the year.

We also recognized significant non-cash asset impairments especially during the third and fourth quarters. Impairments arise when containers are off-hired and identified for sale. If the sales price in the location of the container is less than the book value of the container, we write down the value of the container to the local sales price. Should sales prices decline again before we sell the container, we further write-down its value. We do this even though we may eventually move the container to another location for sale where the sales price is higher. Asset impairments totaled $32.7 million for the year and are expected to continue at a similar level in 2016 as long as sales prices and volumes remain at or around current levels.

It is worth noting that the magnitude of the decline in new container rental rates is not representative of the decline in the average rental rate for our fleet. Thus, although new container rental rates decreased by more than 30% over the course of the year, the average rental rate on our fleet decreased by less than 5%. There are two primary reasons for this difference. First, 85% of our fleet is subject to long-term (including direct finance) leases. Due to our consistent new container investment program, we believe we have been the largest buyer of new containers among lessors over the preceding 5 years. Only 7.7% of our long-term fleet matured in 2015 and 8.5% is due to mature in 2016. Second, we benefit from the structure of our leases. The majority of on-lease containers must be returned in Asia. After our shipping line customers have incurred the cost to reposition a container to Asia, they may be reluctant to return it as they have to pay for damages and often need to re-use the container. If they do return the container, we get it back in Asia which is where we want it.

We sold about 160,000 in-fleet and trading containers in 2015, the highest quantity of containers we have ever sold in one year. While the prices were well below the levels seen from 2011-2014, they were not out-of-line when compared to new container prices. The average sales price per CEU in December 2015 was approximately 50% of the new container CEU price at that time, which is consistent with past years.

As already mentioned, new container rental rates are directly related to new container prices and interest rates. We have yet to see a meaningful increase in interest rates and one does not seem likely now. However, we are starting to see indications that bank and capital markets financing for lessors is becoming more selective and expensive. We have long felt that the debt markets have not differentiated in terms of borrowing costs between Textainer, as one of the largest lessors with the most conservative financial structure and an established global presence and operational expertise, and smaller, more highly leveraged lessors that have fewer resources to manage and dispose of containers over their lifecycle. We view increased selectivity among lenders positively as we believe our low leverage and market leading position may allow us to borrow at more attractive terms than some of our competitors.

We purchased more than 235,000 TEU of new and purchase-leaseback containers for lease-out in 2015, 97% of which was for our own fleet. A higher than usual percentage of our capex, 62%, was invested in refrigerated containers as we believe the returns are currently more attractive than for dry freight containers. We also believe that among lessors we were the largest buyer of refrigerated containers in 2015. At year-end, our fleet totaled 3.1 million TEU. The percentage of our fleet which we own grew by 1.3 percentage points from the end of 2014 to 80.2% currently.

Total new dry freight container output in 2015 was approximately 2.4 million TEU, a significant decline from the 3.0 million TEU produced in 2014. We estimate leasing companies purchased 45% of these containers. This is further evidence that our industry does not over-order when market conditions do not support new investment. Such capex discipline should help our industry maintain high utilization over the coming year.

We continue to invest in tank containers via our joint venture with Trifleet, one of the leading tank lessors. Trifleet has proven to be an excellent partner with a similar operating and growth strategy as Textainer. We look forward to continuing to grow our tank fleet.

In August 2015, one of our customers became insolvent and we are working to recover the containers on lease to this customer. Our lessee default insurance after deductibles covers the value of unrecoverable containers, the costs to recover containers and a period of lost future rental income. A $2.0 million impairment, net of estimated insurance proceeds, was recognized and included in container impairment for unrecoverable containers and a $2.6 million bad debt provision was recognized to fully reserve for the customer's accounts receivable.

Our owned fleet lease rental income for 2015 totaled $510.5 million, up slightly compared to 2014. Our cash flow remains strong. Net cash provided by operating activities increased 2% from 2014 to $370 million. Utilization remained high, decreasing 2.8 percentage points from 97.5% to 94.7% over the course of the year. Utilization currently is 93.8%. We invested more than $600 million in new and used containers for lease-out in 2015. Adjusted net income for the year was $108.7 million.

**Liquidity**

We continue to maintain a strong and flexible balance sheet. Our debt-to-equity ratio at 2.4:1 remains the lowest among all our publicly listed peers. Our financial results and relatively low leverage have allowed us to access the capital markets when and as needed and at very competitive terms. Our financial strength and strong liquidity enable us to remain one of the industry's most reliable suppliers, and we have the ability to take advantage of any investment opportunities which arise.

During 2015, we executed $1.2 billion in debt financings, including both raising new funds and amending and refinancing existing facilities. These financings allowed us to lower our funding costs further and greatly increased our financial flexibility which is critical given the current challenging operating environment. The refinancing steps we have implemented over the past two years have resulted in a reduction in our average annual interest cost by 121 basis points. Our current average annual hedged interest rate is below 3%.

**Dividends**

We paid a total of $1.65 per share in dividends in 2015. We reduced our dividend during the third quarter from $0.47/share to $0.24/share in response to the decline in our fleet performance and adjusted net income. We will continue to review our dividend each quarter. Our policy is to pay a dividend which is sustainable over the long term taking into account the appropriate mix between investing in our business and rewarding shareholders.

**Outlook**

The outlook for 2016 remains challenging for many of the same reasons that affected our 2015 results. Improved performance depends largely on an increase in demand, container prices, and/or interest rates, none of which seems likely in the near term. We did not see a traditional pre-Lunar New Year increase in demand and are expecting weak demand to remain into the first half of 2016. Indeed with projections for weak global economic growth in 2016, a strong U.S. dollar and low oil prices, significant increases in interest rates or commodity prices do not appear likely in the near term.

Freight rates are likely to remain under pressure which could affect the creditworthiness of our lessees. Approximately 8% of the worldwide containership fleet is currently idle and ship capacity is expected to increase by more than 4% in 2016 after taking into account newbuilding deliveries and vessel scrapping. Competition for lease-outs is expected to remain strong and maturing leases that are extended will be repriced at rental rates below their current levels. Impairments of sales containers are likely to continue until resale prices improve.

While we believe that new container prices are currently lower than the cost of production and perhaps at or near a floor, we do not expect prices to increase materially over the first half of 2016. Having said that, the last time container prices were at this level was 2002-2003. The containers we purchased at that time proved to be very good investments.

We must keep in mind that our industry is and always has been cyclical. We have been in business for 36 years and have successfully managed through many ups and downs. We have the lowest leverage and operating costs of any of our public competitors. 85% of our fleet is subject to long-term or finance leases with an average remaining term of 40 months. As we have been a consistent buyer of containers over the years, only 8.5% of our term leases mature in 2016. If history is a guide, containers purchased at today's prices will generate attractive returns over their lives. We believe we are well positioned for the challenging market conditions we expect.

We are an industry leader because of the support and dedication of our shareholders, customers, suppliers and employees. Thank all of you for the trust you have placed in Textainer."

**End of Textainer letter.**

## CASH FLOW AND DIVIDEND

As I noted in my statement last year, the high levels of capital available for investment in containers and competitive structure of the industry continue to leave the market in a fluid state after some years of relative stability. Notwithstanding these conditions, Textainer continues to seek growth opportunities and to the extent that this may require raising fresh capital with Halco wishing to maintain its approximate shareholding in Textainer (as we understand), Halco's ongoing cash retention is likely to take into consideration this potential cash requirement. Furthermore, Halco has utilised a portion of its cash resources to advance funds to its wholly-owned subsidiary TAC Limited to assist it in continuing to invest in new containers and refresh its existing fleet.

The board declared a final dividend of 220 cents per share, bringing the total for the year to 300 cents, an increase of 12% over the 2014 distribution.

## APPRECIATION

As announced, my brother Cecil and I have retired from the board of Textainer and will retire from Trencor at our forthcoming AGM. We would like to use this opportunity to extend our appreciation to all the people in Trencor and Textainer, past and present, who have over so many years made the success of Trencor possible.

I will always value the contribution of my colleagues and remain conscious of their probity and diligence in my interaction with them.

I note the major contribution by Cecil and the late Ray Hasson in the growth of Trencor. Cecil was a confidant and involved in all group activities and together with Ray, developed our successful export activities.

I value the role of Jimmy McQueen, our longtime finance director and now my successor as Chief Executive Officer, and Hennie van der Merwe who served as managing director from 2003 till 2011.

I appreciate the role of David Nurek, as our longtime advisor and lead director, who now becomes Trencor's non-executive chairman. I thank the directors of Trencor for the contribution from their wide experience that they make to our affairs.

I also value the major contributions made by the Chief Executive Officers of Textainer (past and present) – Jim Hoelter, John Maccarone, Phil Brewer, and their colleague Robert Pedersen. Finally I note the important roles of Deon Blignaut and the late Alex Brown in Trencor.

NI Jowell

20 June 2016