

Review of Operations

Trencor's core interests are in operations ('the Operations') that focus on the provision, management and integration of equipment and services to facilitate the movement of goods by customers. The principal focus of the Operations is owning, leasing, managing and trading marine cargo containers worldwide, and related financing activities.

TEXTAINER

Textainer Group Holdings Limited ('Textainer') is, through its subsidiaries, primarily engaged in owning, leasing, managing and trading standard, special dry freight, tank and refrigerated marine cargo containers to global transportation and other companies. Textainer listed on the New York Stock Exchange (NYSE: TGH) in October 2007. At 31 December 2015, Trencor had a 48,25% (2014: 48,0%) beneficiary interest in the company through Halco Holdings Inc ('Halco'), wholly-owned by the Halco Trust. Net profit attributable to Textainer's shareholders in 2015, before container fleet impairment provisions required under IFRS, was US\$107,2million (2014: US\$171,1million) and the company paid dividends totalling US\$1,65 per share in 2015 compared to US\$1,88 per share in 2014.

Textainer has reported that 2015 was the most challenging year that it has 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, Textainer returned solid results and an above average return on equity due in large to its years of industry experience and the structure of its leases. This is especially impressive given the market conditions faced and Textainer's relatively low leverage.

Fleet utilisation remained high, decreasing 2,8% from 97,5% to 94,7% over the course of the year.

During 2015 Textainer's owned and managed fleet decreased to a total size of 3 147 690 TEU (twenty-foot equivalent units) compared to 3 233 364 TEU in 2014. More than 235 000 TEU of new and purchase-leaseback containers were purchased for lease-out in 2015, 97% of which was for Textainer's own fleet. A higher than usual percentage of capex by value, 62%, was invested in refrigerated containers as Textainer believes the returns on these are currently more attractive than for dry freight containers. It is believed that among lessors Textainer was the largest buyer of refrigerated containers in 2015. The percentage of the fleet owned by Textainer grew by 1,3% from the end of 2014 to 80,2% currently.

Textainer executed US\$1,2 billion in debt financings during the year, including both raising new funds and amending and refinancing existing facilities. These financings allowed Textainer to lower its funding costs further and greatly increase financial flexibility which is critical given the current challenging operating

environment. The refinancing steps implemented over the past two years have resulted in a reduction of Textainer's average annual interest cost by 121 basis points. Textainer's current annual hedged interest rate is below 3% p.a.

Textainer remains one of the world's largest lessors of intermodal containers based on fleet size, with a total fleet of more than 2,1 million containers, representing more than 3,1 million TEU. The company leases containers to more than 360 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. The company has a long track record in the industry, operating since 1979, and has developed long-standing relationships with key industry participants. Its top 20 customers, as measured by revenues, have leased containers from the company for an average of 30 years. Textainer has provided an average of almost 235 000 TEU of new containers each year for the past 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 93 000 containers per year for the past five years to more than 1 200 customers. Textainer provides its services worldwide through an international network of 14 regional and area offices and 485 independent depots in 239 locations. 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. Textainer's senior management has an average of 18 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 14 affiliated and unaffiliated owners, including TAC Limited ('TAC'), a container-owning company in which Trencor has a 100% beneficiary interest. Management fees and sales commissions arising from these arrangements continue to make significant contributions to Textainer's operating results and also reduce volatility, even in cyclical downturns. 85,3% of the total on-hire lease fleet was on long-term and finance lease compared to approximately 67% a decade ago and 84% one year ago. As at 31 December 2015, long-term leases had an average remaining duration of 35 months, assuming no leases are renewed, and the average remaining term of the finance leases was 1,8 years.

Textainer's ratio of interest-bearing debt to total equity was 239% (2014: 239%) which is conservative by industry standards.

Further information regarding Textainer and its businesses can be viewed on its website at www.textainer.com.

Textainer: Salient information (before IFRS container fleet impairment)

	2015	2014	Change
Financial (US\$ million)			
Total revenue	657,0	683,2	-3,8%
Profit before tax	117,8	177,0	-33,4%
Net profit	107,2	171,1	-37,3%
Profit attributable to Halco*	51,3	82,3	-37,7%
Operational			
Average fleet utilisation	96,8%	96,1%	+0,7%
Fleet under management (TEU '000s)	3 148	3 233	-85
Owned	2 522	2 552	-30
Managed	626	681	-55
Analysis of fleet under management	3 148	3 233	-85
Standard dry freight containers	2 931	3 061	-130
Refrigerated containers	140	108	+32
Other specialised containers	77	64	+13
Long-term lease fleet	76,3%	75,1%	+1,2%
Short-term lease fleet	12,7%	13,7%	-1,0%
Finance leases	9,0%	8,9%	+0,1%
Spot leases	2,0%	2,3%	-0,3%

* Halco's period-end effective interest in Textainer increased from 48,0% in 2014 to 48,25%.

NET INVESTMENT IN LONG-TERM RECEIVABLES

The aggregate amount of outstanding long-term receivables, denominated in US dollars, at 31 December 2015 was US\$66 million (2014: US\$87 million). The discount rate applied in the valuation of the long-term receivables is unchanged from 2014 at 8,5% per annum and the net present value of these receivables, before fair value adjustments, totalled R1,0 billion (2014: R1,0 billion). An exchange rate of US\$1=R15,53 was used to translate dollar amounts into rand at 31 December 2015 (2014: US\$1=R11,54). In compliance with International Financial Reporting Standards, the resulting unrealised translation gain, amounting to R262 million at net present value (2014: R93 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 decreased by R15 million (2014: R10 million increase). This increased earnings by 6 cents per share (2014: 4 cents per share decrease). The net fair value adjustment at 31 December 2015 was R345 million (2014: R275 million). Approximately 99% (2014: 98%) of the net adjustment relates to the estimated timing of receipt and is in the nature of deferred income and 1% (2014: 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 R92 million (2014: R26 million) on translation of the dollar-denominated fair value adjustment against the receivables. At 31 December 2015, the net present value of long-term receivables after fair value adjustments amounted to R640 million (2014: R679 million).

The discount rate applied to reduce the rand amounts attributable to third parties to their net present values is unchanged from 2014 at 10% per annum.

TAC

TAC, a company that has been investing in and owning marine cargo containers since 1993, and its wholly-owned subsidiary Leased Assets Pool Company Limited ('LAPCO'), at 31 December 2015 owned 172 450 TEU (2014: 170 276 TEU) of dry freight containers of various types and 1 615 (2014: 1 905) stainless steel tank containers, which are managed by a number of equipment managers who lease these containers to shipping lines. Textainer continues to manage the largest portion of TAC's dry freight container fleet and Exsif Worldwide Inc manages most of the stainless steel tank containers. 78% of the fleet measured on a TEU basis is on long-term lease (2014: 76%).

100% of the issued share capital of TAC is owned by Halco, a company incorporated in British Virgin Islands and wholly-owned by the Halco Trust. 44,3% of TAC'S shares were originally issued to Halco by way of a rights issue at zero cost. Halco exercised an option to acquire the remaining 55,7% of the issued shares of TAC that it did not own for US\$5,44 million on 18 December 2015. In accordance with International Financial Reporting Standards, TAC has been consolidated into Trencor since July 2013 notwithstanding that Halco did not own a majority stake until December 2015. 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.

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 46). Trencor monitors the performance of TAC and its cash flow forecasts and uses these projections to assist in valuing the long-term receivables.

Utilisation increased from 93,5% towards the end of 2014 to 94,4% towards the end of 2015. The increase in utilisation reflects actions taken by equipment managers to mitigate the impact of weaker demand for leased containers (eg reducing some lease rates and selling older containers).

LAPCO refinanced its bank facility with its existing syndicate of banks in November 2015. The new two-year revolving facility has a lower interest rate of LIBOR plus 210 basis points during the revolving period (previously LIBOR plus 235 basis points) and a lower interest rate of LIBOR plus 285 basis points during the six-year term-out period (versus LIBOR plus 300 basis points previously).

TAC reported that its profits, before IFRS container fleet impairment, declined in 2015 due, inter alia, to higher depreciation (US\$2 million) and losses on the sale of older containers (US\$2 million) as a result of a sharp decline in average selling prices.

TAC expects market conditions in 2016 to be similar to 2015 with the benefits of high utilisation being offset by low lease rates and disposal prices. Containers are a long-term investment and TAC believes that it should continue to generate profits by using its access to competitive bank funding and its relationships with competent managers including Textainer.

During the year, the company committed to the purchase of 12 373 TEU of containers of varying types at a total cost of US\$20 million. 9 724 TEU of TAC's older containers were disposed of during the year (12 838 TEU in 2014).

TAC: Salient information (before IFRS container fleet impairment)

	2015	Restated 2014	Change
Financial (US\$ million)			
Total revenue	48	53	-9%
Trading profit after net finance cost	7	12	-42%
Net profit	6	9	-33%
Profit attributable to Halco	3	4	-25%
Operational			
Average fleet utilisation	94,1%	88,8%	+5,3%
Total fleet (TEU'000s)	174	172	+2
Long-term lease fleet	136	131	+5
Short-term lease fleet	38	41	-3

PROPERTY INTEREST

At 31 December 2015, Trencor had a 15% interest in the companies that own and operate Grand Central Airport in Midrand, Gauteng, which continued to provide satisfactory returns. Our exposure to these investments was R3 million. As reported in prior years, these investments were regarded as non-core and available for disposal at a suitable opportunity.

Subsequent to the year-end, Trencor's interest in these companies was disposed of effective 17 June 2016, realising proceeds of R39,7 million.