

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 Group Holdings Limited listed on the New York Stock Exchange (NYSE: TGH) on 10 October 2007. At 31 December 2011, Tencor had a 60,8% (2010: 61,6%) beneficiary interest in the company. Textainer reported the best net profit attributable to its shareholders in its 32-year history in 2011 of US\$194,0 million, (2010: US\$128,0 million). The company paid dividends totalling US\$1,36 per share in respect of 2011 earnings compared to US\$1,05 in respect of 2010.

Total capital expenditure for both the owned and managed fleets was US\$904 million for the year, used to purchase 215 000 twenty-foot equivalent units ('TEU') of new standard dry-freight containers, 18 000 TEU of new refrigerated containers and 215 000 TEU of used containers, all new records for the company.

Textainer completed a capital restructuring of its primary asset-owning subsidiary, Textainer Marine Containers Limited ('TMCL'), effective 30 June 2011, following which it now owns 100% of TMCL. The restructuring resulted in a US\$20,4 million gross gain on sale of containers to the prior non-controlling interest. The gain was the result of recognising the fair value of containers and direct finance leases in excess of their book value exchanged for TMCL's common shares at the time of the transaction. This was a non-cash transaction.

Textainer issued US\$400 million in asset-backed notes at a fixed interest rate of 4,7% per annum through its asset-owning subsidiary TMCL. This financing further strengthened the company's capital structure, helping ensure that it will have the liquidity necessary for future growth. Additionally, Textainer entered into a joint venture with a new US\$425 million facility specifically designed to fund direct finance leases, providing additional product options for the company's customers. The company had borrowing facilities amounting to US\$1 480 million at 31 December 2011 of which more than US\$520 million was undrawn.

Average fleet utilisation for the year was 98,3% (2010: 95,4%), also a new record for the company.

Textainer remains the world's largest lessor of intermodal containers based on fleet size, with a total fleet of more than 1,6 million containers, representing almost 2,5 million TEU. The company leases containers to more than 400 shipping lines and other lessees, including the world's top 20 container lines, as measured by the total TEU capacity of their container vessels. Textainer has provided an average of more than 141 000 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. During 2011,

only 74 000 containers were disposed of from the fleet, to more than 1 100 customers. The volume of sales of used containers declined in 2011 largely due to the high utilisation experienced by the company.

Textainer provides its services worldwide via a network of regional and area offices and over 440 independent depots in more than 220 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.

In addition to its own fleet, Textainer manages containers on behalf of 17 affiliated and unaffiliated owners, including TAC Limited, a container-owning company in which Tencor 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 2011 numbered 2,5 million TEU of which Textainer itself owned 59%, up 8% from 2010. 78% of the total operating lease fleet was on long-term lease compared to approximately 45% ten years ago. As at 31 December 2011, long-term leases had an average remaining duration of 3,6 years, assuming no leases are renewed. Of the containers in the fleet that are owned by Textainer, 79,3% were on long-term lease.

The refrigerated container market remained strong in 2011. Textainer re-entered this segment of the market only four years ago, but the company believes that it was the second-largest buyer of new refrigerated containers among leasing companies in 2011 with purchases of 18 000 TEU. The company has a young fleet of almost 44 000 TEU at the end of 2011 and remains committed to becoming one of the leaders in the industry.

The ratio of interest-bearing debt to total equity was 217% (2010: 133%) which is conservative by industry standards.

Textainer's 2011 annual report can be accessed on its website <http://www.textainer.com>.

Textainer: Salient information

	2011	2010	Change
Financial (US\$ million)			
Total revenue	612,7*	337,9	81,4%
Profit before tax	211,2	135,1	56,3%
Net profit	194,0	128,0	51,6%
Profit attributable to Tencor	118,2	79,2	49,4%
Operational			
Average fleet utilisation	98,3%	95,4%	2,9%
Fleet under management (TEU '000s) (excluding finance leases)	2 469	2 247	+222
Owned	1 447	1 120	+327
Managed	1 022	1 127	-105
Long-term lease fleet	1 832	1 684	+148
Short-term lease fleet	549	563	-14
Finance leases	88	67	+21

* Includes revenue of US\$133,0 million in respect of containers sold to non-controlling interest, referred to above.

Net investment in long-term receivables

The aggregate amount of outstanding long-term receivables denominated in United States dollars at 31 December 2011 was US\$179 million (2010: US\$209 million). The discount rate applied in the valuation of the long-term receivables is unchanged from 2010 at 8,5% per annum and the net present value of these receivables, before fair value adjustments, totalled R1,4 billion (2010: R1,3 billion). An exchange rate of US\$1 = R8,12 was used to translate dollar amounts into rand at 31 December 2011 (2010: US\$1 = R6,61). In compliance with the requirements of International Financial Reporting Standards, the resulting unrealised translation gain, amounting to R263 million at net present value (2010: unrealised loss of R149 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-collectibility of the receivables, and the related effect on the portion attributable to third parties. The net fair value adjustment was reduced by R33 million (2010: R189 million). This increased earnings by 13 cents per share (2010: 72 cents per share). The net fair value adjustment at 31 December 2011 was R303 million (2010: R272 million). Approximately 98% (2010: 98%) of the net adjustment relates to the estimated timing of receipt and is in the nature of deferred income and 2% (2010: 2%) relates to the possible non-collectibility of receivables.

The decrease in the value of the rand against the US dollar resulted in an unrealised loss of R71 million (2010: unrealised gain of R61 million) on translation of the US dollar fair value adjustment against the receivables. At 31 December 2011, the net present value of long-term receivables after fair value adjustments amounted to R1 041 million (2010: R977 million).

The discount rate applied to reduce the rand amounts attributable to third parties to their net present values is unchanged from 2010 at 10% per annum.

TAC

3 074 719 shares representing 44,3% of the issued share capital of TAC are owned by Halco Holdings Inc ('Halco'), a company incorporated in British Virgin Islands and wholly owned by the Halco Trust, a trust resident in Liechtenstein. These shares were originally issued by way of a rights issue at zero cost. Trenchor and certain of its wholly-owned South African subsidiaries are the nominated beneficiaries of the Halco Trust. The protectors of the Halco Trust are Messrs C Jowell, N I Jowell, J E McQueen, D M Nurek and E Oblowitz. Halco has an option to acquire the remaining 55,7% of the issued shares of TAC that it does not presently own for US\$4,1 million, which option will become exercisable by no later than 31 December 2013.

TAC and its wholly-owned subsidiary Leased Assets Pool Company Limited ('LAPCO') owned 145 726 TEU (2010: 160 053 TEU) of dry-freight containers of various types and 2 249 (2010: 2 327) stainless steel tank containers at

31 December 2011, 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. 54,7% of the fleet is on long-term lease.

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

The strong performance in the container leasing industry which began in the fourth quarter of 2009 continued throughout much of 2010 and 2011, although there was a slowdown in demand in the second half of the year. Average utilisation across the whole TAC fleet exceeded 98% in 2011. Fewer of TAC's older containers (14 154 TEU) were disposed of during the year (23 104 TEU in 2010) largely as a result of the continuing high fleet utilisation.

In December 2011, LAPCO refinanced its term loan with a US\$150 million, two-year revolving facility provided by its bankers. This facility provides LAPCO with approximately US\$80 million of funding for investment in containers. By mid-March 2012, LAPCO had committed to the purchase of 11 740 TEU of new equipment costing US\$40,8 million, to be managed by Textainer.

While TAC traded profitably in 2011, it presently has negative equity, so that the value of the group's beneficiary interest continues to be carried at no value. The following table summarises the residual assets of TAC at 31 December which ultimately support the major part of the long-term receivable:

	2011 US\$m	2010 US\$m
Net interest	120	117
Comprising:		
Net book value of container fleet	168	188
Cash balances	7	4
Receivables	16	14
Total assets	191	206
Deduct:		
Bank loans	(69)	(87)
Payables	(2)	(2)
	120	117

Property interest

Trenchor has a 15% interest in the company that owns and operates Grand Central Airport in Midrand, Gauteng, which continues to provide satisfactory returns. Our exposure to this investment is R3 million. This investment is regarded as non-core and will be disposed of when a suitable opportunity arises.