



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 companies. Textainer listed on the New York Stock Exchange (NYSE: TGH) in October 2007. At 31 December 2014, Trencor had a 48,0% (2013: 48,3%) beneficiary interest in the company through Halco Holdings Inc ('Halco'), wholly-owned by the Halco Trust. Net profit attributable to Textainer's shareholders in 2014 was US\$171,1 million (2013: US\$186,2 million) and the company paid dividends totalling US\$1,88 per share in 2014 compared to US\$1,85 per share in 2013.

Textainer has reported that 2014 was a solid year and, in many ways, better than it had initially anticipated. After moderate lease-out activity in early 2014, the company experienced a significant increase in demand in the second and third quarters. The company was well positioned for this demand and was able to capitalise by leasing out not only new containers but also the majority of its off-lease used containers, allowing it to reduce depot inventory by more than 60% to its lowest level in 2,5 years. Fleet utilisation, which was 93,8% at the start of the year averaged 96,1% in 2014 (2013: 94,9%). As at 13 March 2015, utilisation remained high at 97,5%.

During 2014 Textainer grew its owned and managed fleet to a total size of 3 233 364 TEU (twenty foot equivalent units) with the acquisition of 281 000 TEU of new standard dry-freight containers, 14 000 TEU of new refrigerated containers, 8 000 TEU of open top and flatrack containers and 146 000 TEU of used containers, for a total investment of US\$864 million to purchase 449 000 TEU. 98% of the total was for the company's owned fleet. This followed the acquisition of 33 000 TEU of new containers in the fourth quarter of 2013 for lease out in 2014.

Textainer executed US\$2,4 billion in debt financings during the year, including both raising new funds and amending and refinancing existing facilities. Funding costs were significantly lowered and the capital structure was further optimised. In 2013, Textainer managed to lower overall funding costs by about 100 basis points and in 2014, it was able to reduce funding costs by a further 77 basis points. Textainer's current annual hedged interest rate is below 3%.

Textainer remains the world's largest lessor of intermodal containers based on fleet size, with a total fleet of more than 2,1 million containers, representing more than 3,2 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. 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 twenty customers, as measured by revenues, have leased containers from the company for an average of 29 years. Textainer has provided an average of almost 257 000 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 84 000 containers per year for the past five years to more than 1 400 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 17 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 likewise 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, of the total fleet under management at 31 December 2014, Textainer itself owned 78,9%, up 3,3 % from 2013. 84% of the total on-hire lease fleet was on long-term and finance lease compared to approximately 67% a decade ago and 83,5% one year ago. As at 31 December 2014, long-term leases had an average remaining duration of 3,2 years, assuming no leases are renewed, and the average remaining term of the finance leases was 2,4 years.

Textainer's ratio of interest-bearing debt to total equity was 239% (2013: 233%) 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

	2014	2013	Change
Financial (US\$ million)			
Total revenue	683,2	626,9	+9,0%
Profit before tax	177,0	195,0	-9,2%
Net profit	171,1	186,2	-8,1%
Profit attributable to Halco ¹	82,3	90,2	-8,8%
Operational			
Average fleet utilisation ²	96,1%	94,9%	+1,2%
Fleet under management (TEU '000s)	3 233	3 040	+193
Owned	2 552	2 299	+253
Managed	681	741	-60
Analysis of fleet under management	3 233	3 040	+193
Standard dry freight containers	3 061	2 888	+173
Refrigerated containers	108	88	+20
Other specialised containers	64	64	-
Long-term lease fleet	75,1%	76,8%	-1,7%
Short-term lease fleet	13,7%	13,6%	+0,1%
Finance leases	8,9%	6,7%	+2,2%
Spot leases	2,3%	2,9%	-0,6%

¹ Halco's period-end effective interest declined from 48,3% in 2013 to 48,0% in 2014.

² Effective 1 January 2014, Textainer began reporting utilisation including containers on direct financing and sales-type leases; previously utilisation was reported only for containers under operating leases. Textainer believes that including these containers, which have become a more significant part of its business, provides a better indication of the total fleet and makes its calculation comparable with some of its public peers. Utilisation for 2013 has been revised to conform to the current presentation.

NET INVESTMENT IN LONG-TERM RECEIVABLES

The aggregate amount of outstanding long-term receivables, denominated in US dollars, at 31 December 2014 was US\$87 million (2013: US\$112 million). The discount rate applied in the valuation of the long-term receivables is unchanged from 2013 at 8,5% per annum and the net present value of these receivables, before fair value adjustments, totalled R1,0 billion (2013: R1,2 billion). An exchange rate of US\$1=R11,54 was used to translate dollar amounts into rand at 31 December 2014 (2013: US\$1=R10,46). In compliance with International Financial Reporting Standards, the resulting unrealised translation gain, amounting to R93 million at net present value (2013: R217 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 increased by R10 million (2013: R9 million reduction). This reduced earnings by 4 cents per share (2013: 4 cents per share increase). The net fair value adjustment at 31 December 2014 was R275 million (2013: R249 million). Approximately 98% (2013: 98%) of the net adjustment relates to the estimated timing of receipt and is in the nature of deferred income and 2% (2013: 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 R26 million (2013: R58 million) on translation of the dollar-denominated fair value adjustment against the receivables. At 31 December 2014, the net present value of long-term receivables after fair value adjustments amounted to R679 million (2013: R867 million).

The discount rate applied to reduce the rand amounts attributable to third parties to their net present values is unchanged from 2013 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 2014 owned 170 276 TEU (2013: 174 119 TEU) of dry freight containers of various types and 1 905 (2013: 2 073) 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 TAC's stainless steel tank containers. 76% of the fleet measured on a TEU basis is on long-term lease (2013: 73%).

44,3% 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. 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, notwithstanding that Halco has not yet exercised the option; prior to July 2013, 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.

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

Utilisation declined from 94,5% at the end of 2012 to 88,8% at the end of 2013 before recovering to 93,5% towards the end of December 2014.

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.

TAC reported that its profits declined in 2014 due inter alia to higher depreciation and administration costs (US\$4,6 million) and lower profits on the sale of older containers (US\$3,2 million) as a result of a sharp decline in average selling prices. TAC expects market conditions in 2015 to be similar to this year with the benefits of high utilisation being offset by challenging lease rates and disposal prices. Containers are a long-term investment

and TAC believes that it will continue to generate acceptable 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 9 329 TEU of containers of varying types at a total cost of US\$18 million. 12 838 TEU of TAC's older containers were disposed of during the year (13 486 TEU in 2013).

TAC: Salient information

	2014	2013	Change
Financial (US\$ million)			
Total revenue	53	57	-7%
Trading profit after net finance cost	12	21	-43%
Net profit	9	21	-57%
Profit attributable to Halco	4	4	-
Operational			
Average fleet utilisation	88,8%	90,7%	-1,9%
Total fleet (TEU '000s)	172	176	-4
Long-term lease fleet	131	129	+2
Short-term lease fleet	41	47	-6

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.