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 mainly global transportation companies. Textainer listed on the New York Stock Exchange (NYSE: TGH) in October 2007. At 31 December 2012 Trencor had a 48,9% (2011: 60,8%) beneficiary interest in the company. Textainer's net profit attributable to its shareholders in 2012 was a record US$200,2 million (2011: US$194,0 million). These amounts exclude a bargain purchase gain of US$9,4 million in 2012 and include a non-cash gain of US$15,5 million arising on the sale of containers to the prior non-controlling interest in Textainer Marine Containers Limited ('TMCL') in 2011. Textainer paid dividends totalling US$1,63 per share in 2012 compared to US$1,28 per share in 2011.

Total capital expenditure for both the owned and managed fleets was US$1,26 billion for the year, used to purchase 317 000 twenty-foot equivalent units ('TEU') of new standard dry-freight containers, 21 000 TEU of new refrigerated containers and 210 000 TEU of used containers. Capital expenditure for Textainer's owned fleet was US$1,05 billion of the total.

The following significant events occurred during the year:

- 18 April 2012: Textainer issued US$400 million aggregate principal amount of Series 2012-1 Fixed Rate Asset Backed Notes. The proceeds of these Notes were used to repay certain outstanding indebtedness of TMCL and for general corporate purposes.
- 1 May 2012: Textainer Marine Containers II Limited ('TMCL II') entered into a secured debt facility that provides for an aggregate commitment amount of up to US$1,2 billion and it acquired a portion of the containers owned by TMCL. TMCL used the proceeds it received from TMCL II for the containers to terminate TMCL's secured debt facility.
- 19 September 2012: Textainer completed an underwritten public offering of an aggregate of 8 625 000 of its common shares at a price to the public of US$31,50 per share. Of the common shares sold, Textainer sold 6 125 000 new common shares and Halco Holdings Inc ('Halco') sold 2 500 000 of its existing common shares in Textainer. Textainer received US$184,8 million and Halco received US$75,4 million after deducting underwriting discounts and other offering expenses. Halco's total ownership and voting interest in Textainer's common shares before and after the offering were 60,0% and 48,9%, respectively.
- 24 September 2012: Textainer Limited extended the term of its revolving credit facility and amended certain terms thereof, including an increase in the aggregate commitment amount from US$205 million to US$600 million. The maturity date was changed from 22 April 2013 to 24 September 2017.
- On 20 December 2012: Textainer acquired a 50,1% interest in TAP Funding Limited ('TAP'), a container owning company whose containers are managed by Textainer, for US$20 million. The acquisition resulted in a bargain purchase gain, which has been recorded in the statement of comprehensive income. The bargain purchase gain arose due to Textainer's particular ability to accommodate the transaction needs of TAP's selling shareholders. Specifically, the transaction allows approximately half of TAP's existing shareholders to continue their investment in TAP and allows TAP to continue to buy containers that will be managed by Textainer on TAP's behalf, thus enabling TAP to maintain a young fleet of containers that can be readily financed. The transaction also allowed TAP's other shareholders immediate liquidity in cash. As Textainer was already managing TAP's assets, Textainer was able to complete the transaction in an expedited manner without the need for due diligence.

Average fleet utilisation for the year was 97,2% (2011: 98,3%).

Textainer remains the world's largest lessor of intermodal containers based on fleet size, with a total fleet of almost 1,9 million containers, representing approximately 2,8 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 more than 181 000 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 390 independent depots in more than 200 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. The company's senior management has an average of 15 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 2012 numbered 2 775 000 TEU, of which Textainer itself owned 73%, up 14% from 2011. 82% of the total operating lease fleet was on long-term lease compared to approximately 54% a decade ago. As at 31 December 2012 long-term leases had an average remaining duration of 3,5 years, assuming no leases are renewed. Of the containers in the fleet that are owned by Textainer, 82% were on long-term lease (2011: 79%).

The ratio of interest-bearing debt to total equity was 216% (2011: 217%), which is conservative by industry standards.

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

Textainer: Salient information

	2012	2011	Change
Financial (US$ million)			
Total revenue	**549,4**	612,7 [1]	-10,3%
Profit before tax	**202,0** [2]	211,2	-4,4%
Net profit	**200,2**	194,0	+3,2%
Profit attributable to Halco	**113,8**	118,2	-3,7%
Operational			
Average fleet utilisation	**97,2%**	98,3%	-1,1%
Fleet under management (TEU '000s) (excluding finance leases)	**2 775**	2 469	+306
Owned	**2 016**	1 447	+569
Managed	**759**	1 022	-263
Long-term lease fleet	**2 113**	1 832	+281
Short-term lease fleet	**511**	549	-38
Finance leases	**151**	88	+63

[1] Includes revenue of US$133,0 million in respect of containers sold to non-controlling interest.
[2] Excludes bargain purchase gain of US$9,4 million arising from the acquisition of a 50,1% interest in TAP, a container-owning company 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 2012 was US$134 million (2011: US$179 million). The discount rate applied in the valuation of the long-term receivables is unchanged from 2011 at 8,5% per annum and the net present value of these receivables, before fair value adjustments, totalled R1,1 billion (2011: R1,4 billion). An exchange rate of US$1 = R8,48 was used to translate dollar amounts into rand at 31 December 2012 (2011: US$1 = R8,12). In compliance with the requirements of International Financial Reporting Standards, the resulting unrealised translation gain, amounting to R46 million at net present value (2011: R263 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 R81 million (2011: R33 million). This increased earnings by 33 cents per share (2011: 13 cents per share). The net fair value adjustment at 31 December 2012 was R226 million (2011: R303 million). Approximately 98% (2011: 98%) of the net adjustment relates to the estimated timing of receipt and is in the nature of deferred income, and 2% (2011: 2%) relates to the possible non-collection of receivables.

The decrease in the value of the rand against the US dollar resulted in an unrealised loss of R13 million (2011: R72 million) on translation of the dollar-denominated fair value adjustment against the receivables. At 31 December 2012, the net present value of long-term receivables after fair value adjustments amounted to R832 million (2011: R1 041 million).

The discount rate applied to reduce the rand amounts attributable to third parties to their net present values is unchanged from 2011 at 10% per annum.

TAC

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, a trust resident in Liechtenstein. These shares were originally issued by way of a rights issue at zero cost. Trencor 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 55,7% of the issued shares of TAC that it does not presently own for US$4 million plus a holding cost, which will become exercisable by no later than 31 December 2013. The option may be exercised by Halco at any time before 31 December 2015.

TAC and its wholly-owned subsidiary Leased Assets Pool Company Limited ('LAPCO') owned 161 942 TEU (2011: 145 726 TEU) of dry freight containers of various types and 2 171 (2011: 2 249) stainless steel tank containers at 31 December 2012, 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. 64,6% 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 (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 96,2% compared to 94,8% in 2011. Fewer of TAC's older containers (12 704 TEU) were disposed of during the year (14 154 TEU in 2011) 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 provided LAPCO with approximately US$80 million of funding for investment in containers. During 2012 LAPCO purchased 25 730 TEU of new equipment costing US$72 million, to be managed by Textainer.

While TAC traded profitably in 2012, 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 receivables:

	2012	2011
	US$m	US$m
Net interest	**104**	120
Comprising:		
Net book value of container fleet	**224**	168
Cash balances	**8**	7
Receivables	**14**	16
Total assets	**246**	191
Deduct:		
Bank loans	**(123)**	(69)
Payables	**(19)**	(2)
	104	120
Undiscounted value of long-term receivables supported by the residual assets of TAC	**130**	174
Net carrying value of long-term receivables supported by the residual assets of TAC	**96**	126

PROPERTY INTEREST

Trencor 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.