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

(The amounts presented in this Textainer review are all in US$ and in accordance with US GAAP.)

Textainer Group Holdings Limited ('Textainer') is, through its subsidiaries, primarily engaged in owning, leasing, managing and trading standard dry freight, 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 2016, Trencor had a 48,04% (2015: 48,25%) beneficiary interest in the company through Halco Holdings Inc ('Halco'), wholly-owned by the Halco Trust. Net loss attributable to Textainer's shareholders in 2016 was US$50,7 million (2015: net income US$108,4 million – an immaterial correction was recorded for US GAAP statutory reporting purposes from the amount previously reported). Adjusted to conform to IFRS Textainer's net loss attributable to Textainer shareholders in 2016 was US$260,6 million (2015: net income US$23,0 million).

Textainer has reported that 2016 proved to be one of the most challenging years in its history with historically low new and used container prices and rental rates. The insolvency of Hanjin Shipping Co ('Hanjin'), then the world's seventh largest shipping line, had an adverse effect on what was already a difficult year. The company had approximately 114 000 containers on lease to Hanjin, representing 6,4% of Textainer's leasing fleet. Hanjin was by far the largest shipping line ever to file for bankruptcy and the impact of its disorderly ceasing of operations reverberated throughout the shipping industry. During 2016, Textainer recorded a container impairment of US$22,1 million, net of insurance proceeds of US$20,2 million for containers on operating and direct financing leases to Hanjin and also recorded US$19,0 million of bad debt expense, net of insurance proceeds of US$2,6 million to fully provide for Hanjin's outstanding accounts receivable. Textainer incurred significant upfront costs for the recovery, repair and repositioning of the containers formerly leased to Hanjin. The company has US$80 million of insurance after a US$5 million deductible to cover the majority of its Hanjin losses, but believes the final claim, resolution of which is expected late in 2017, will exceed the insurance coverage by US$10 to US$20 million. On 4 May 2017, Textainer reported that 94% of the containers that had been on lease to Hanjin had been recovered or were under recovery negotiation.

At 31 December 2016 the total size of Textainer's owned and managed fleet was 3 142 556 TEU (twenty foot equivalent units) compared to 3 147 690 TEU at 31 December 2015. Approximately 286 000 TEU of new and purchase-leaseback containers costing US$480 million were purchased for lease-out in 2016, 87% of which was for Textainer's own fleet. Textainer sold 187 000 in-fleet and trading containers in 2016 – the highest number ever sold in a single year; the company recognised a US$66,5 million impairment on containers that had been off-hired and identified for sale. The percentage of the fleet owned by Textainer grew from 80,1% at the end of 2015 to 81% at 31 December 2016. Fleet utilisation remained high, decreasing 2,1% from 96,8% to 94,7% over the course of the year.

As a result of declines in used container prices in 2015 and most of 2016, Textainer reduced the residual values of certain container types and also increased the useful lives for forty foot standard containers and certain specialised containers. These changes resulted in a net increase in depreciation expense charged in the US GAAP statements for the year of US$25,1 million.

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 320 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 230 000 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 120 000 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 approximately 530 independent depots in more than 240 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 13 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 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. 84,3% of the total on-hire lease fleet was on long-term and finance lease compared to 85,3% one year ago. As at 31 December 2016, long-term leases had an average remaining duration of 38 months, assuming no leases are renewed, and the average remaining term of the finance leases was 23 months.

Textainer's ratio of interest-bearing borrowings to total equity was 256% (2015: 237%) which is conservative by industry standards.

During 2016 and early 2017, Textainer entered into amendments for certain of its secured borrowing facilities which resulted in various changes to the related covenants and an increase in the interest margin of 0,55% for the secured debt facility and to a range of between 1,5% p.a. and 2,5% p.a. for the revolving credit and term loan facilities.

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

Textainer: Salient information

	2016	2015	Change
Financial (US$ million)			
Total revenue	**498,2**	544,3	-8,5%
(Loss)/Income before income tax and non-controlling interest	**(59,4)**	120,7	-149,2%
Net (loss)/income attributable to common shareholders	**(50,7)**	108,4	-146,8%
Net (loss)/income attributable to Halco*	**(24,4)**	51,9	-147,0%
Operational			
Average fleet utilisation	**94,7%**	96,8%	-2,1%
Fleet under management (TEU'000s)	**3 143**	3 148	-5
Owned	**2 546**	2 522	24
Managed	**597**	626	-29
Analysis of fleet under management	**3 143**	3 148	-5
Standard dry freight containers	**2 913**	2 931	-18
Refrigerated containers	**161**	140	21
Other specialised containers	**69**	77	-8
Long-term lease fleet	**76,9%**	76,3%	+0,6%
Short-term lease fleet	**13,0%**	12,7%	+0,3%
Finance leases	**7,4%**	9,0%	-1,6%
Spot leases	**2,7%**	2,0%	+0,7%

* Halco's year-end effective interest in Textainer decreased from 48,25% in 2015 to 48,04% in 2016. Reduced to 48,01% subsequent to the year-end following the issue by Textainer of restricted share units and share options exercised.

TAC

(The amounts presented in this TAC review are all in US$ and in accordance with US GAAP.)

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 2016 owned 179 417 TEU (2015: 172 450 TEU) of dry freight containers of various types and 1 193 (2015: 1 615) 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. 83% of the fleet measured on a TEU basis is on long-term lease (2015: 78%).

100% of the issued share capital of TAC is owned by Halco, wholly-owned by the Halco Trust. During the year, TAC procured the subscription by Halco for additional shares in TAC to the value of US$56,4 million, thereby strengthening its balance sheet. TAC used a portion of the subscription proceeds to repay residual amounts due for containers acquired in prior years on extended credit terms.

During the year, the company committed to the purchase of 19 562 TEU of containers of varying types at a total cost of US$23 million. 11 766 TEU of TAC's older containers were disposed of during the year (9 724 TEU in 2015).

The container leasing industry had been in a cyclical downturn in 2015 and 2016 and the low point was the bankruptcy of Hanjin in August 2016. The container leasing industry has strengthened significantly since this event with improving lease rates and used container sale prices. Utilisation remained high at 94,8% at the end of 2016 (93,4% at end of 2015).

LAPCO amended the terms of its revolving credit facility as at 31 December 2016 to change the calculation of the earnings before interest and tax ('EBIT') covenant. LAPCO'S EBIT had been negatively impacted by the losses it incurred in the bankruptcy of Hanjin. The interest margin remained unchanged but an arrangement fee was paid to the banks and LAPCO may not distribute cash during the remainder of the revolving period which ends in November 2017.

TAC recorded a loss attributable to Halco of US$1,9 million in 2016 (2015: profit of US$2,5 million); the change from 2015 included lower revenue (US$5,7 million), higher depreciation (US$2,3 million), higher container impairment (US$1,9 million) and losses on the sale of older containers (US$0,5 million).

TAC expects the leasing market to be stronger in 2017 with higher new container prices leading to improved lease rates and higher used container resale prices. TAC should return to profitability if these stronger market conditions continue for the remainder of 2017.

Containers are a long-term investment and TAC believes that it will continue to generate profits by using its access to competitive bank funding and its relationships with competent managers including Textainer.

TAC: Salient information

	2016	2015	Change
Financial (US$ million)			
Total revenue	**34**	39	-12,8%
Net (loss)/income	**(2)**	6	-133,3%
(Loss)/Income attributable to Halco	**(2)**	3	-166,7%
Operational			
Average fleet utilisation	**91,5%**	94,1%	-2,6%
Total fleet (TEU'000s)	**181**	174	+7
Long-term lease fleet	**150**	136	+14
Short-term lease fleet	**31**	38	-7

NET INVESTMENT IN LONG-TERM RECEIVABLES

The aggregate amount of outstanding long-term receivables, US$66 million at 31 December 2015, was settled in full in 2016.

PROPERTY INTEREST

On 17 June 2016, Trencor disposed of the 15% interest held in the companies that own and operate Grand Central Airport in Midrand, Gauteng, realising proceeds of R39,7 million.