Textainer

Textainer is primarily engaged in owning, leasing, managing and reselling standard and special dry freight marine cargo containers to global transportation companies. Textainer Group Holdings Ltd, listed on the New York Stock Exchange (NYSE: TGH) on 10 October 2007; at 31 December 2009, Trencor had a 62,3% (2008: 62,6%) interest in the company. Textainer reported the second best net income attributable to its common shareholders in its 30-year history in 2009 of US$76,6 million, excluding gains on early extinguishment of debt (2008: US$87,7 million excluding impairment of goodwill).

During 2009, Textainer expanded its total fleet size by 15% by acquiring the rights to manage the container fleets of Amphibious Container Leasing Ltd and Capital Intermodal and Xines; both of these transactions have been accretive to earnings. The company also repurchased a portion of its outstanding debt resulting in a gain on early extinguishment of debt of US$19,4 million (a US$15,3 million gain net of related net income attributable to the non-controlling interest and income tax expense) for the year ended 31 December 2009.

Average fleet utilisation for the year was 87,2% (2008: 94,8%) and began to improve during the fourth quarter of 2009. Spot utilisation was 91,6% by the end of March 2010. Based on current fleet size, it is estimated that every 1% change in utilisation equates to approximately US$4,4 million in annual pre-tax income in Textainer.

Textainer remains the world's largest lessor of intermodal containers based on fleet size, with a total fleet of 1,5 million containers, representing more than 2,2 million TEU (twenty-foot equivalent unit). Textainer 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. Although virtually no new standard dry freight containers were manufactured anywhere from the fourth quarter of 2008 to the end of 2009, Textainer has provided an average of more than 96 000 TEU of new containers each year for the previous 10 years and has also been one of the largest purchasers of new containers among container lessors over the same period. Textainer is also one of the largest sellers of used containers among container lessors, having sold more than 100 000 containers during 2009, a 19,4% improvement over the previous high, to more than 1 000 customers.

Textainer provides its services worldwide via a network of regional and area offices and over 540 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.

In addition to its own fleet, Textainer manages containers on behalf of 16 affiliated and unaffiliated owners, including TAC, a container-owning company in which Trencor has a 44,3% 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 2009 numbered 2 239 000 TEU of which Textainer itself owned 1 017 000 TEU. 71,3% of the on-hire fleet was on long-term lease; of the containers in the on-hire fleet that are owned by Textainer, 74,4% were on long-term lease. The average age of Textainer's owned fleet was 6,9 years and of the whole fleet 7,1 years.

The refrigerated container market remained strong in 2009 and this trend is expected to continue in 2010. Textainer has invested almost US$50 million per year in new refrigerated containers since re-entering that market in 2008.

The ratio of interest-bearing debt to total equity was 122% (2008: 143%) which is conservative by industry standards.

Textainer's 2009 annual report can be accessed on its website http://www.textainer.com.

Textainer: Salient information

	2009	2008	Change
Financial (US$ million)			
Total revenue	**283,9**	322,8	-12,1%
Profit before tax*	**90,6**	94,0	-3,6%
Net profit*	**76,6**	87,7	-12,7%
Profit attributable to Trencor*	**47,8**	54,9	-12,9%
Operational			
Average fleet utilisation	**87,2%**	94,8%	-7,6%
Fleet under management (TEU '000s), excluding finance leases	**2 156**	1 980	+176
Owned	**958**	868	+90
Managed	**1 198**	1 112	+86
Long-term lease fleet	**1 536**	1 409	+127
Short-term lease fleet	**619**	571	+48
Finance leases	**84**	65	+19

* Excludes gains on early extinguishment of debt (2008: excludes impairment of goodwill).

Net investment in long-term receivables

The aggregate amount of outstanding long-term receivables denominated in US dollars at 31 December 2009 was US$231 million (2008: US$266 million). The discount rate applied in the valuation of the long-term receivables is unchanged from 2008 at 8,5% p.a. and the net present value of these receivables, before fair value adjustments, totalled R1,6 billion (2008: R2,3 billion). An exchange rate of US$1 = R7,35 was used to translate dollar amounts into rand at 31 December 2009 (2008: US$1 = R9,27). In compliance with the requirements of International Financial Reporting Standards, the resulting translation loss, amounting to R442 million at net present value (2008: gain of R630 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 amounts attributable to third parties. The net fair value adjustment at 31 December 2009 was R528 million (2008: R654 million). Approximately 85% (2008: 90%) of the net adjustment relates to the estimated timing of receipt and is in the nature of deferred income and 15% (2008: 10%) relates to the possible non-collectibility of receivables.

The increase in the value of the rand resulted in a gain of R144 million (2008: loss of R191 million) on translation of the dollar-denominated fair value adjustment against the receivables. At 31 December 2009, the net present value of long-term receivables after fair value adjustments amounted to R0,96 billion (2008: R1,54 billion).

The discount rate applied to reduce the rand amounts attributable to third parties to their net present values is unchanged from 2008 at 10% per annum.

TAC

44,3% of the issued share capital of TAC Ltd is owned by Halco Holdings Inc ('Halco'), a company incorporated in the 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. Halco has an option to acquire the 56% of the issued shares of TAC that it does not presently own for US$4,0 million, which option will become exercisable by no later than 31 December 2013.

TAC owned 178 311 TEU of dry freight containers of various types and 2 373 stainless steel tank containers at 31 December 2009, 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.

Amounts owing by TAC for containers delivered to it on extended credit terms in past years accounts for a major portion of the long-term receivables (see note 8 on page 36) 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 long-term receivables.

The worldwide economic downturn which began in the latter half of 2008 continued for the first nine months of 2009. As a result average utilisation across the whole TAC fleet was 84% for the year compared with 92% in 2008. There has however been a strengthening of demand for leased containers in the fourth quarter of 2009 and the number of units on hire has started to increase again even though this period is typically a time of seasonal low demand for leased containers.

An increasing number of TAC's older containers (26 641 TEU) were sold during 2009 (20 980 TEU in 2008). Average resale prices fell sharply from the peak in 2008 due to the oversupply of off-hire containers available in the resale market. Improving utilisation in the fourth quarter of 2009 has led to a firming of such resale prices.

TAC elected to convert its revolving credit facility to a six-year term loan in November 2008 because of the onerous conditions demanded by lenders during the height of the financial crisis for an extension of the facility. TAC is presently utilising more of its cash flow to pay down its bank loan and less to invest in new containers. During the year, TAC purchased 1 734 TEU of new equipment, mainly refrigerated containers, at a cost of US$9,4 million from manufacturers in China; these purchases were financed out of the company's own resources. TAC intends refinancing its loan facilities if reasonable terms are offered by its banks.

TAC presently has negative equity, so that the value of the group's investment is carried at no value. The following table summarises the residual assets of TAC at 31 December which support the major part of the long-term receivable:

	2009 US$m	2008 US$m
Net interest	**111**	118
Comprising:		
Net book value of container fleet	**204**	230
Cash balances	**4**	7
Receivables	**18**	17
Total assets	**226**	254
Deduct:		
Bank loans	**(109)**	(131)
Payables	**(6)**	(5)
	111	118

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.

Finance

The principal financial ratios at 31 December 2009 and the comparative figures for 2008 are reflected in the table below:

	2009	2008
Ratio to the aggregate of total equity:		
Total liabilities	**108%**	119%
Interest-bearing liabilities	**88%**	101%
Current ratio (times)	**1,7**	2,4

During the first half of 2009, Textainer repurchased R583 million of original face value (R358 million in aggregate outstanding principal amount) of its own bonds for R181 million, resulting in a gain on early extinguishment of debt of R175 million, net of the write-off of R2 million of deferred debt financing costs. After deducting income tax expense and non-controlling interests, the net gain attributable to Trencor shareholders was R86 million.

Textainer's own unutilised facilities and available cash resources amount to US$285 million, while cash at Trencor corporate level amounted to R686 million at 31 December 2009.

There is no interest-bearing debt in the group other than in Textainer.