Review of Investments

Trencor benefits from investments in operations that focus on the provision, management and integration of equipment and services to facilitate the movement of goods by customers. These operations are engaged in owning, leasing, managing and trading of marine cargo containers worldwide.

TEXTAINER

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

Textainer Group Holdings Limited 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 enterprises. Textainer listed on the New York Stock Exchange (NYSE: TGH) in October 2007. At 31 December 2018, Trencor held 47,52% of the issued shares in Textainer (2017: 47,78% beneficiary interest). From 1 January 2018 Textainer is accounted for by Trencor as an investment measured at fair value through profit or loss (2017: consolidated).

The year under review and the future outlook for Textainer are covered in more detail in the Textainer letter to its shareholders on pages 7 and 8 of this integrated annual report. Further information regarding Textainer and its businesses can be accessed on its website at www.textainer.com.

Salient information

	2018	2017
Financial (US$ million)		
Lease rental income		
Owned fleet	**501,4**	444,9
Managed fleet	**111,3**	104,6
Income before income tax and non-controlling interest	**56,3**	22,4
Net income attributable to common shareholders	**50,4**	19,4
Ratio of interest-bearing borrowings to total equity %	**275**	247
Operational		
Average fleet utilisation %	**98,1**	96,4
Fleet under management (TEU'000s)	**3 355**	3 280
Owned	**2 646**	2 447
Managed	**709**	833
Analysis of fleet under management (TEU'000s)	**3 355**	3 280
Standard dry freight containers	**3 137**	3 058
Refrigerated containers	**157**	158
Other specialised containers	**61**	64
Term leases (i.e. long-term) %	**80,7**	78,4
Master leases (i.e. short-term) %	**12,8**	13,2
Finance leases %	**4,3**	5,7
Spot leases %	**2,2**	2,7

TAC

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

TAC Limited, an investor in marine cargo containers since 1993, and its wholly-owned subsidiary Leased Assets Pool Company Limited ("LAPCO"), at 31 December 2018 owned 177 139 TEU (2017: 173 137 TEU) of dry freight containers of various types and 10 (2017: 934) 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. 84% of the fleet measured on a TEU basis is on long-term lease (2017: 81%).

During the year, the company purchased 15 327 TEU of containers of varying types at a total cost of US$30 million (2017: 5 190 TEU and US$10 million). 12 249 TEU of TAC's older containers were disposed of during the year (2017: 9 710 TEU) including most of TAC's tank container fleet, which had an average age of over 20 years, sold in July 2018.

Utilisation remained high at 98,5% at the end of 2018 (2017: 97,4%).

LAPCO determined that as at 31 December 2018 a US$3,7 million impairment was required to the carrying value of its 40-foot high cube refrigerated containers. This impairment resulted in a potential early amortisation event in its bank facility, but a waiver was subsequently obtained from its lenders.

LAPCO refinanced its bank facility in November 2017 and has funding in place for capital expenditure in 2019.

The uncertain global economic outlook and risk of "trade wars" may weigh on container shipping in 2019 and TAC expects to limit its purchasing of new containers until market conditions stabilise.

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

TAC has determined that under FASB 840 its management agreements should be deemed to be leases between the company and its equipment managers. As a result of this determination, the company's deemed operating lease income, previously presented on a gross basis, was reclassified and presented on a net basis called "leasing income". Leasing income consists of rental income less direct container expenses less management fees.

Salient information

	2018	2017
Financial (US$ million)		
Leasing income	**26,5**	27,2
Net income	**0,6**	2,4
Operational		
Fleet utilisation at year-end (%)	**98,5**	97,4
Analysis of fleet (TEU'000s)	**177**	174
Term leases (i.e. long-term)	**149**	141
Master leases (i.e. short-term)	**28**	33

Had it not been for the US$3,7 million impairment the net income shown as US$0,6 million would have been US$4,3 million.