



Credo Property Group Limited  
Germany/Austria Portfolio Report  
November 2009



## Executive Summary

### Portfolio

The Germany/Austria Property Portfolio ("the Portfolio") was acquired in stages, commencing in December 2004 and completing in June 2005, to provide investors with an opportunity to benefit from the attractive yields offered by investment in commercial property in Austria and Germany.

The following acquisitions were made:

- 15 December 2004 - **6 GWB shopping centres in Germany** ("GWB");
- 25 January 2005 - **15 Netto Marken Discount retail supermarkets in Germany** ("Netto");
- 23 June 2005 - 30% of the equity in Nadiv Investments SA, which acquired a portfolio of **19 Auto Teiler Unger properties in Germany** ("A.T.U Germany");
- 23 June 2005 - 30% of the equity in Peter Unger GmbH Co. KG, which acquired a portfolio of **9 Auto Teiler Unger properties in Austria** ("A.T.U Austria");

The equity invested was allocated between these four investments in the ratio of 40% GWB, 30% Netto, 20% A.T.U Germany and 10% A.T.U Austria.

The GWB and Netto components of the portfolio were sold in August 2007 generating a 17% IRR to investors on the combined sale. The price per share was adjusted from €1 to 34c to reflect the capital repaid in August 2007 as a result of the sale of GWB and Netto. **The current Net asset value "NAV" of the investment as at 31 October 2009 is €0.31.**

	On acquisition (€)	Mar-08 (€)	Oct-09 (€)
A.T.U Germany	0.18	0.24	<b>0.21</b>
A.T.U Austria	0.08	0.10	<b>0.10</b>
	0.26	0.34	<b>0.31</b>



The investment in A.T.U Austria & A.T.U Germany was revalued internally in April 2009 at a yield of 8%. The NAV at October 2009 changed slightly due to amortisation of the loans since our last report.

We do not believe that this is an opportune time to exit the market. The investment has not been effected by the credit crisis as funding is in place until 2012. The leases still have 10 years left and the tenant continues to pay rent. We will continue to hold the asset and distribute the cashflow.

## Distributions

A distribution of €254,000 was declared for the period ended October 2009. This was made up of a dividend of €111,000 for the period ended October 2009 from A.T.U Austria and a repayment of loan capital of €143,000 from A.T.U Germany.

## Market Commentary

Following the decline in gross domestic product in Germany of 2.5 percent in the first quarter of 2009, the signs that the worst could be over are multiplying. Macroeconomic data confirm that the downward economic trend is slowing. According to reports by the Federal Ministry, industrial orders rose by almost 10 percent between April and June 2009. During the crisis, German companies suffered as a result of fewer goods being ordered from abroad.

The economic stimulus packages around the world are beginning to stabilise the situation. As a result, the prospects for the second half of the year have improved further. A series of economists are currently raising their forecasts for economic growth in Germany for the year as a whole. Following estimates of -6 percent, economic output is now expected to decline by -4 percent in 2009 compared with the prior year.



## Tenant

A.T.U Auto-Teile-Unger Handels GmbH & Co. KG, (“A.T.U”) is Germany’s largest auto spare parts and servicing business. It operates 460 stores throughout Germany and 9 in Austria. As Germany’s leading specialist non– affiliated car Parts’ stockist, with registered vehicle services centres, A.T.U’s core business is the retail sale of car parts and accessories for all common cars and models and immediate fitting of those parts in its own workshops. The company sells a range of approximately 45,000 products and employs over 12,000 people.

A.T.U was established by Peter Unger in 1985. In 2001, Mr Unger sold the majority shareholding in the company to Doughty Hanson & Co, a large US fund manager. Doughty Hanson sold their shareholding to Kohlberg Kravis Roberts (KKR) on 30 June 2004 in a deal valued at US\$1.75bn. Doughty Hanson remained as a minority shareholder. Due to December 2007 EBITDA underperforming expectations, a financial restructuring exercise took place in which KKR/ Doughty Hanson injected €140m by way of equity.

A.T.U. opened seven new branches in the first half of 2009. As at 30 June 2009, A.T.U had a network of 642 branches. A.T.U operates in six countries throughout Europe, 599 branches in Germany (up five on last year), 25 in Austria (no change from last year), six in the Czech Republic (no change, again), eight in Italy (three more than last year) and four in Switzerland (no change).

Between January and June 2009, the A.T.U group’s earnings before interest, tax and depreciation (EBITDA), adjusted to take account of non-recurrent effects, improved by EUR 27.7 million from EUR11.8million to EUR 39.5 million, even though sales were significantly down, compared with the same period the previous year. Excluding the adjustment, EBITDA has rocketed up in the first half of 2009, from EUR -6.9 million to EUR 27.3 million. (The buyback of loans for a nominal value of EUR 25.0 million and of the bond for a face value of EUR 3.0 million below par generated other operating income of EUR 16.4 million, which was reflected by an improvement in EBITDA.)



## A.T.U Germany Portfolio

This portfolio of 19 A.T.U properties in Germany was purchased in July 2005 by Nativ Investments SA (“Nativ”) for €45m, at a net initial yield of 7.6% on gross acquisition cost. Credo investors purchased 30% of the equity of Nativ for €3.4m. This investment is held through two special purpose vehicles: Clovelly Investment Holdings Limited (“Clovelly”) and Mowbray Investment Holdings Limited (“Mowbray”).

### Funding

Shareholders’ loan and equity of €11m was used to capitalise Nativ, which purchased the properties, while a loan of €33.8m was provided by Barclays Capital Mortgage Servicing Ltd for 7.5 years until January 2013. This loan has been amortised and has €30.7m outstanding as at October 2009. (66% loan to value).

### Rent

All 19 German A.T.U properties are freehold and have long leases until May 2020 with an average length in excess of 10 years. Their combined contractual annual rent is €3.7m, subject to a formula calculated on annual CPI escalations (which has averaged 1.62% over the last 10 years).

### Status

The investment in Nativ was revalued internally in April 2009 at 8% to reflect the current state of the market. This valuation has not changed significantly.

### Distributions

The investment in A.T.U Germany is structured as 90% loan from Vanilla Investment Holdings Limited and 10% equity held by Mowbray and Clovelly. A loan repayment of €143,000 (4.15%) was declared for October 2009. This repayment together with the loan repaid in May 2009 equates to 5.7% of the initial investment repaid in 2009. To date investors have received 20% of their initial investment in A.T.U Germany.



## A.T.U Austria Portfolio

This portfolio of 9 A.T.U properties in Austria was purchased in July 2005 by DTU Vermietungs GmbH & Co KG ("DTU") (formerly Peter Unger GmbH Co. KG) for €21m, at a net initial yield of 7.6% on gross acquisition cost. Credo investors purchased 30% of the equity in DTU for €1.65m. This investment is held in a special purpose vehicle called Robben Property Investments Limited ("Robben").

## Funding

Shareholders' equity of €5.5m was used to capitalise DTU, while a loan of €15.5m was provided by Barclays Capital Mortgage Servicing Ltd for 7.5 years until October 2012. The loan has been amortised to €14.1m as at October 2009. (65% loan to value).

## Rent

The portfolio comprises 8 properties in Austria located in 7 cities. Two of the properties are in Vienna, the others are in Leoben, Rum, Salzburg, Villach, Wels and Wiener Neustadt. The largest property is in Vienna (1,663 m<sup>2</sup>). Each of the properties have long leases with an average length in excess of 10 years. Their combined projected gross annual rental income is €1.73m, subject to a formula calculated on annual CPI escalations. Six of the eight units had rent uplifts in 2008. One unit is due an uplift Sep-2010 and the final uplift is due in 2011.

## Status

The investment was valued at €23.62m by external valuers CBRE in February 2008 at an initial yield of 6.35% and revalued internally in April 2009 at a yield of 8% (€21.7m) to reflect the current market. This valuation has not changed significantly.

## Distributions

The directors of Robben have declared a dividend of €111,000, (6.73%) for the period ended October 2009. This together with the dividend paid in May 2009 equates to 11% in 2009. Since inception investors have received 26% of their initial investment.



## Conclusion

There has been no change on the day to day events of the portfolio. All tenants continue to pay their full rent on time and we have no reason at this point in time to believe that this will not continue to be the case for the foreseeable future. The strength of the tenant has improved based on the most recent published accounts.

The loans are being amortised and the cashflow available for distribution has improved as a result of the increased rent. We will continue to hold this investment but may look to refinance at an opportune time.

## London

83 Pall Mall London | SW1Y 5ES | United Kingdom  
Tel +44 (0)20 7968 8300  
Fax +44 (0)20 7968 8301

## Geneva

15, Boulevard Helvetique | CH-1207 | Switzerland  
Tel + 41 (0)22 718 7200  
Fax +41 (0)22 718 7201

## Cape Town

The Hudson | 30 Hudson Street | 8001 | South Africa  
Tel +27 (0)21 421 1020  
Fax +27 (0)21 421 5551

## Johannesburg

Wierda Mews, Block B | 41 Wierda Road West | 2196 | South Africa  
Tel +27 (0)11 883 3222  
Fax +27 (0)11 883 9905

## BVI

Geneva Place | 333, Waterfront Drive | Road Town, Tortola | British Virgin Islands  
Tel +1 (0)284 494 4388  
Fax +1 (0)284 494 3088

## Bermuda

Century House | 16 Par-la-Ville Road | P.O. Box HM 1806 | Hamilton | HM HX  
Tel +1 441 292 7478  
Fax +1 441 295 4164

[credobermuda@credogroup.com](mailto:credobermuda@credogroup.com)

[info@credogroup.com](mailto:info@credogroup.com)

[www.credogroup.com](http://www.credogroup.com)

