Risk management

1. Background

The Züblin Group attaches considerable importance to active risk management. The Company has an integrated risk management programme which identifies and evaluates the material risks facing the Company and mitigates them through appropriate action. The Board of Directors is charged with overseeing the Company's risk management activities and reviews the status of all risks that have been identified, including the action taken to mitigate them, with Group Management at least quarterly in order to reduce or eliminate these risks.

The Züblin Group's primary business is the acquisition of real estate in Switzerland, France and Germany, and the creation of value through the active asset management and sale of such properties. To finance new acquisitions of investment properties, new loans are taken out in the currency of the relevant country for up to 60% of the investment. The loans are a mixture of fixed and floating-rate mortgages. The maturities and conditions attaching to these loans depend on the rental situation and the planned timeframe for the sale of the relevant properties.

2. Risk categories

Business risks are those risks which are inherent to the business strategy or may arise as a consequence of business activities. A clear description of these risks enables shareholders to assess the risk/return profile of the Company and its various investment products. The primary risks for the Züblin Group are comprised of the following:

- Real estate market risks
- Renovation risks
- Financial risks
    - Financial market risks
    - Credit risks
    - Liquidity risks
    - Equity risks/capital management

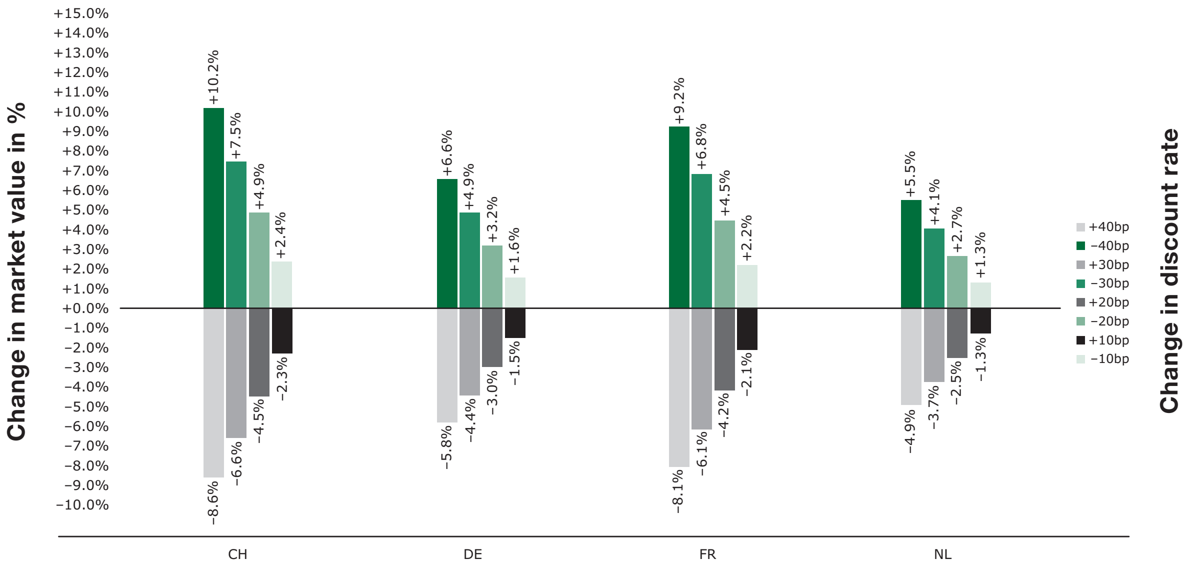
2.1 Real estate market risks

The management of real estate market risks is one of the core competencies of the Züblin Group. Essentially, these risks are comprised of two specific categories – the cyclical risks of the real estate market and rental market risk.

Cyclical real estate market risks are related to fluctuations inherent to the overall commercial real estate market and the related impact on the valuations of the Züblin Group's investment portfolio. These risks can be partially mitigated by the Züblin Group's strategy of geographical diversification.

Risks in connection with a change in discount rates as well as changes in market rents are risks that affect the entire property market. Below two sensitivity analyses show the impact on the property valuations in each country where Züblin is invested. In the first analysis, the average discount rate in each country is changed in steps of ±10 basis points. The analysis has been capped at a maximum of ±40 basis points as the Company does not regard a move of greater magnitude than this as realistic in the next twelve months. In the charts below, the bars represent the change in the valuation of the portfolio in each country. The various colours refer to the change in the discount rate in basis points (see legend on right-hand side of chart), while the height of the bars shows the percentage change in the value of the portfolio (left scale). For example, if the average discount rate in France is lowered by 20 basis points, the value of the portfolio increases by 4.5%.

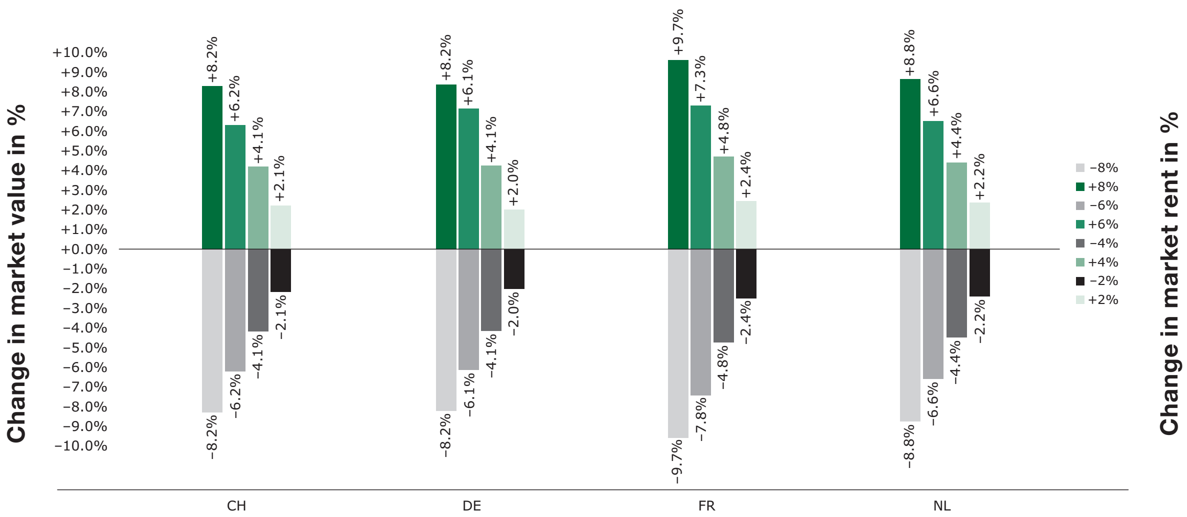
Sensitivity analysis – change in discount rate



The sensitivity analysis shows that a change in discount rates has the greatest impact in Switzerland. This reflects the low discount rates used in the valuations in Switzerland, and therefore any given change in basis points has a larger proportionate impact.

The second analysis shows the impact of changes in market rents on the valuation of the portfolios. In this analysis, rents are varied in 2% steps. Again the height of the bars shows the change in the value of the country portfolios (left scale). The different colours of the bars relate to the respective percentage change in the market rents (legend on right-hand side).

Sensitivity analysis – change in market rent



The impact of changes in market rents on the valuation is between +9.7% and –9.7% and is roughly comparable for all countries.

Rental market risks relate to the use of the property, the tenant mix, the creditworthiness of the tenants, the vacancy rate, the ability to increase rents, and the recoverability of running costs. Through its local asset management activities, the Company is constantly managing controllable risk factors, and is focused on proactively mitigating these risks where possible. In its regular meetings Group Management evaluates the overall concentration risk of its tenant structure, reviews any material changes to the credit standing of its significant tenants, as well as current or pending changes to the vacancy rates in all markets. Where necessary, the Board of Directors is alerted to material changes in the Züblin Group's specific risk profile.

2.2 Renovation risks

Renovation projects entail a variety of risks. These include obtaining the relevant building permits, the budgeting of costs and adherence to the budget. Moreover, there is also uncertainty as to whether renovation work will be completed on time and with the required quality, and about the financing and subsequent letting of the property. In order to minimize these uncertainties the Züblin Group works with carefully selected partners and maintains strict cost control over the projects. In addition projects are only started once the financing has been secured. Züblin Group's asset management actively begins to market the properties for letting at the latest when the construction work begins.

2.3 Financial risks

Financial risk management within the Züblin Group is performed in accordance with the principles established by the Board of Directors. In particular, these principles govern the management of liquidity and the procurement of short-term and long-term loans.

2.3.1 Financial market risks

The main financial risks encountered by the Züblin Group are market risks. These risks include (i) currency risks arising from transactions and investments in countries outside Switzerland, (ii) interest rate-related fair value risks, where fluctuations in market interest rates can result in a change in the fair value of a financial instrument, and (iii) interest rate-related cash flow risks, where changes in market interest rates can result in a change in the future cash flows of a financial instrument.

Currency risks

Approximately 70% of the Züblin Group's investment property portfolio is in the euro zone. Most of the resulting currency risk is eliminated by directly financing these investments in euros. Currency risks related to financial instruments denominated in other currencies stem only from intercompany equity loans denominated in euros, which are consolidated in Swiss francs. The impact on the consolidated equity of the Züblin Group arising from a 5% change in the Swiss franc – euro exchange rate would therefore be CHF 2.3 million (previous year CHF 2.4 million), based on the intercompany loans of CHF 45.3 million as of 31 March 2012 (previous year CHF 48.9 million).

The Company also faces currency risks relating to the equity of CHF 176.1 million (previous year CHF 213.5 million) invested in the European portfolio, as well as the net income stemming from the euro zone, neither of which are hedged. As such, Group Management, together with the Board of Directors, actively monitors the impact of changes in the Swiss franc – euro exchange rate on the Züblin Group's net earnings and total equity. As of 31 March 2012, a 5% change in the Swiss franc – euro exchange rate would have an impact of CHF 0.7 million (previous year CHF 1.1 million) on the Züblin Group's earnings before taxes and an impact of CHF 8.8 million (previous year CHF 10.7 million) on the Züblin Group's total equity.

Interest rate risks

Interest rate risks arise from fluctuations in interest rates and movements in the yield curve. These risks are only incurred insofar as is necessary for optimal funding of the investment property portfolio. Interest rate risks are minimized by selecting suitable interest rate and maturity structures. Where appropriate, interest rate risks are hedged using targeted financial instruments in order to optimize income. Decisions regarding the use of such instruments are made by Group Management in accordance with the guidelines laid down by the Board of Directors. The Züblin Group does not enter into speculative financial transactions of any kind. Information concerning outstanding financial instruments is reviewed by Group Management on a monthly basis.

Changes in interest rates have an effect on the Züblin Group's balance sheet and earnings situation. In terms of interest expense, they primarily result in changes in the expense relating to mortgage loans. The Züblin Group currently has a net exposure to changes in interest movements through its unhedged financial liabilities position of CHF 0.0 million (previous year CHF 0.1 million), i. e. a change in interest rates by 50 basis points would have an impact of CHF 0.0 million on the Company's earnings before taxes (previous year CHF 0.1 million). The Züblin Group's equity is also impacted by a move in interest rates through the revaluation of its cash flow hedging instruments. A 50 basis point move in interest rates would have an impact of CHF 12.1 million (previous year CHF 12.7 million) on consolidated equity.

2.3.2 Credit risks

The Company is primarily exposed to credit risk through its rental activities. This risk is monitored at a local level and is dispersed among a large number of tenants. If there is a higher risk with an individual tenant, local management remains in regular contact with the tenant's management and proactively monitors their financial position. As of the current year-end, there were no tenant accounts significantly in arrears. Within the Züblin Group, default risks mainly relate to rental receivables. In respect of rental receivables, the Züblin Group performs regular, extensive analyses of the collectability of outstanding receivables on a local basis, and where necessary, records a value adjustment in accordance with internal guidelines. Impaired receivables are written off if, in the opinion of local management, there is a high probability that part or all of the receivable will not be collected, or if debt collection action taken against the debtor is unsuccessful.

Credit risk arising from the investment of liquidity is limited by the fact that the Züblin Group works exclusively with banking partners with excellent credit standing. The Züblin Group itself receives no collateral for its credit risk.

No significant default risk existed at the current or previous financial year-end so that, in the opinion of Group Management, the risk that partners fail to meet their contractual obligations is very slight, although it cannot be entirely ruled out. In the case of financial assets that are neither overdue nor impaired there were, as in the previous year, no indications that the debtors will fail to meet their payment obligations.

2.3.3 Liquidity risks

The Züblin Group aims to ensure a balance between maintaining ongoing coverage of its cash requirements and ensuring sufficient financial flexibility through the use of overdraft facilities and short-term loans. Cash balances are monitored on a local as well as a Group basis, and are reviewed at the Group level on a weekly basis. A detailed cash management plan which takes into account future investments, debt service and other operational cash needs, as well as anticipated cash receipts, is prepared monthly and action is taken where necessary to ensure that cash reserves are sufficient to cover operational needs. Furthermore, this monthly liquidity analysis is reviewed by the Board of Directors on a quarterly basis. The Züblin Group maintains short-term credit facilities with its main banking partners in order to ensure that sufficient liquidity is on hand at all times. As of 31 March 2012, the Züblin Group had cash and cash equivalents of CHF 39.6 million (previous year CHF 51.4 million) on hand.

2.3.4 Equity risks/capital management

The Züblin Group's primary aim when managing its capital is to secure a level of equity appropriate for an internationally active real estate management company. The primary tool the Züblin Group uses to monitor its equity is its consolidated equity to total assets ratio. The Züblin Group has set its target at a minimum equity to total assets ratio of 40%. The Züblin Group believes that this level of equity ensures a high credit rating while allowing sufficient leverage to grow the business and maximize shareholder value. In order to adjust the equity ratio and to maintain the requisite capital structure, the following measures can be utilized by the Züblin Group: (i) adjustment of dividends or capital repayments or (ii) the issuance of new shares.

As of 31 March 2012, and at the beginning of the new financial year, no changes were made from the previous year in respect of the capital management targets, guidelines or procedures.