Notes to the consolidated **financial statements**

1. General company information

Züblin Immobilien Holding AG and its subsidiaries (together the Züblin Group) are focused on the management of the Group's European real estate portfolio. In addition to Switzerland, the Züblin Group operates in France, Germany and the Netherlands and employed 26 persons as of 31 March 2012 (31 March 2011: 27).

Züblin Immobilien Holding AG is a Swiss stock corporation domiciled at Claridenstrasse 20, Zurich, Switzerland, and is the parent company of the Züblin Group. The shares of the Company are traded on the Main Segment of SIX Swiss Exchange.

2. Significant accounting policies

2.1 Principles

The consolidated financial statements of the Züblin Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements comply with Swiss legislation as well as with the listing rules and supplementary regulations for the listing of real estate companies of SIX Swiss Exchange. The financial statements of the Züblin Group for the financial year ending 31 March 2012 were approved by the Board of Directors on 22 May 2012. The Annual General Meeting, which in accordance with the Swiss Code of Obligations is responsible for approving the consolidated financial statements, will be held on 29 June 2012.

The consolidated financial statements have been prepared on the basis of historical costs, except for investment properties and derivative financial instruments, which are measured at fair value.

The consolidated financial statements have been prepared in Swiss francs (CHF), the Züblin Group's reporting currency. All amounts are given in thousands of Swiss francs unless otherwise stated.

The individual financial statements of the companies included in the consolidated financial statements apply the same accounting and valuation principles.

2.2 Amendments to accounting principles

2.2.1 Amendments implemented in the current financial year

With the exception of standards and interpretations newly applied in the financial year the consolidated financial statements are based on the same accounting and valuation principles used in the previous year.

The following Standards and Interpretations have been introduced since 1 April 2011:

– IAS 24 (rev.):	Related Party Disclosures
– IAS 32:	Classification of Subscription Rights
– IFRIC 14:	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
– IFRIC 19:	Extinguishing Financial liabilities with Equity instruments
– Diverse:	Annual Improvement Project 2010

The above amendments, interpretations and improvements had no material impact on the consolidated financial statements.

2.2.2 Future amendments to accounting policies

The following new or revised standards and interpretations are to be applied at the earliest for financial years beginning after 1 April 2012:

– IFRS 7 (rev.):	Disclosures – Offsetting Financial Assets and Liabilities	from 1.7.2011
– IFRS 9:	Financial Instruments	from 1.1.2015
– IFRS 10:	Consolidated Financial Statements	from 1.1.2013
– IFRS 11:	Joint Arrangements	from 1.1.2013
– IFRS 12:	Disclosure of Interests in Other Entities	from 1.1.2013
– IFRS 13:	Fair Value Measurement	from 1.1.2013
– IAS 1 (rev.):	Presentation of Financial Statements	from 1.7.2012
– IAS 12 (rev.):	Income Taxes	from 1.1.2012
– IAS 19 (rev.):	Employee Benefits	from 1.1.2013
– IAS 27:	Separate Financial Statements	from 1.1.2013
– IAS 28:	Investments in associates and Joint Ventures	from 1.1.2013
– IAS 32:	Extinguishing Financial Liabilities with Equity Instruments	from 1.1.2014

None of the new or revised standards and interpretations were adopted early in the preparation of the financial statements of the Züblin Group. Although a systematic analysis has not been performed, it is not anticipated that the new or amended standards and interpretations above will have any material impact on the financial reporting of the Züblin Group, with the following exception:

IFRS 13 – Fair Value Measurement (applicable from 1 January 2013): This new standard completes the fair value guidance in IAS 40 regarding investment properties or other properties held at fair value. Besides a slight modification of the definition of fair value, the "Highest and Best Use" concept will have to be applied. The Züblin Group does not expect a significant impact on the fair values on a portfolio level. However, for selected properties the "Highest and Best Use" assumption may lead to higher fair values. In addition, there will be certain changes in disclosure.

IFRS 9 – The impacts on the consolidated financial statements can not yet be determined with sufficient reliability.

3. Critical accounting estimates and judgements

The preparation of consolidated financial statements requires the use of estimates and the exercise of commercial judgment by the Company's management. These estimates and judgments affect the level and valuation of assets and liabilities reported, the disclosure of contingent liabilities, income and expenses in the reporting period, as well as other disclosures in the financial statements. Actual values may diverge from assumptions and estimates that have been used. In the event that they subsequently differ from the actual outturn, the initial estimates and assumptions are revised to reflect such changed circumstances during the financial year in which these changes occur. The primary discretionary decisions and estimates impacting the financial statements of the Company relate to the following instances:

3.1 Property valuation

The valuation of the real estate portfolio entails calculating the market values of the individual properties. Market value is defined as follows, in accordance with the corresponding regulation of the Royal Institution of Chartered Surveyors (RICS) and the International Valuation Standards Committee (IVSC): "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." This definition ignores the impact on value of any subjective factors specific to either party, such as sentimental value or reciprocity transactions, and is consistent with the fair value model applicable under IAS 40 to the valuation of investment properties. In France, Germany and the Netherlands, the market value of the investment properties are reduced by the estimated transaction costs, mainly transfer taxes, which would be paid by the buyer if the property were to be sold. The discounted cash flow (DCF) method is employed in conjunction with other valuation methods to establish the market value as of the valuation date. The DCF procedure equates the value of a real or financial asset with the sum of all discounted cash flows pertaining to the owner. The DCF analysis adopts a 100-year horizon, which includes a 10-year detailed planning period where the cash flows are modelled. For the remaining period, assumptions are made as to the level of net cash flows. The market value of the property is calculated from the total discounted cash flows of the DCF model. The projected gross rental income is determined on the basis of existing tenancies and assumptions on reletting at current market rents, with allowance made for the relevant marketing periods and the probability of current leases being renewed. The rents assumed for reletting are based on the local market conditions pertaining to the individual properties. The net rental income is taken as the gross rental income less those property-specific costs that cannot be passed on to tenants. The cash flows generated by the property are then calculated by deducting from the net rental income any capital expenditure for maintenance or modernization along with costs for refurbishment prior to reletting.

All future cash flows are discounted to the valuation date to establish their present value. The discount rate is determined on the basis of net initial yields from market transactions involving comparable properties. As the net initial yields are likely to reflect purchasers' expectations in respect of sustainable returns from rental income given the property-specific risks, this approach may be considered to be in line with the market. For details of the discount rates used in the valuations as of 31 March 2012, please refer to page 163 in investment property valuation report.

3.2 Income taxes

Estimates are necessary for the determination of current as well as deferred taxes. These assumptions relate to the following:

3.2.1 Current taxes

The Züblin Group is subject to taxation in four different countries within Europe. The determination of the provision for current taxes in these various jurisdictions requires significant judgment by Group Management, as the final tax position of many transactions and calculations is unclear.

3.2.2 Deferred taxes

Capital gains tax is included in the calculation of deferred taxes on investment properties in Switzerland. These taxes are dependent upon the holding period of the assets, which is determined as follows: for properties that are held for sale, the actual holding period has been used. For all other properties, either a period of fifteen years, or the actual holding period if greater than fifteen years, has been assumed. Due to the longer holding period of the investment properties observed in practice, deferred income taxes are now calculated using a holding period of fifteen years (previous year: seven years). This change had a positive effect of CHF 2.1 million on deferred taxes during the reporting period. Assumptions are also necessary for deferred tax assets from tax loss carry-forwards. These losses are only capitalized when the use of the losses in the future is probable. The determination as to whether such losses can be offset in the future is based on estimates of the future cash flows deriving from the property, together with estimates by Group Management on the likelihood of utilization of these loss carry-forwards in future periods. Based upon these factors, a probability is assigned to each potential asset and subsequently valued and recorded.

4. Consolidation principles

4.1 Method of consolidation

The consolidated financial statements comprise the financial statements of Züblin Immobilien Holding AG and its subsidiaries for the financial year ending on 31 March. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Subsidiaries are consolidated from the date of acquisition, i. e. from the date on which the Group obtains control of the subsidiary.

Business combinations are accounted for using the acquisition method. The cost of an acquired business is equal to the total consideration transferred measured at fair value at the date of acquisition plus non-controlling equity interests. The acquirer measures the non-controlling equity interests either at fair value or as the proportionate share of the identifiable net assets of the acquired company. The costs incurred in the course of the business combination are recognized as an expense.

Capital is consolidated using the acquisition method. Assets and liabilities are therefore included in the consolidated financial statements at their fair values on the date of acquisition.

4.2 Scope of consolidation

The composition of the group of consolidated entities is set out in the notes on pages 150 to 151 of the consolidated financial statements. The company Züblin Immobilière France Asset Management S.A.S. was newly consolidated during the financial year. The companies Züblin Investment G1 to G6 and General City Moerdijk BV, which were liquidated during the reporting period, as well as the companies Maxstrasse 2–4, 3a Immobilien GmbH, General City Properties Holding BV and Mingari BV, which were merged with their parent companies, are no longer consolidated.

4.3 Translation of foreign currencies

4.3.1 Foreign currency transactions

All transactions are converted using the exchange rate prevailing on the date of the transaction. Monetary items denominated in foreign currencies are recognized at the rate prevailing on the balance sheet date. Non-monetary items valued at historical cost are converted using the rate prevailing on the transaction date, and non-monetary items measured at fair value are converted using the rate applicable as of the date of the calculation of fair value. Differences arising from conversion to closing rates are recognized in the income statement.

4.3.2 Foreign subsidiaries

The conversion of the financial statements of consolidated Züblin Group companies that are prepared in foreign currencies is performed on the basis of the functional currency concept using the Modified Closing Rate Method. As of the balance sheet date, the financial statements of the consolidated Züblin Group companies are translated from the functional currency into the reporting currency. The financial statements of foreign subsidiaries are converted as follows: the balance sheet, with the exception of equity, is converted at the year-end rates, while income and expenses are converted at the average exchange rates for the reporting year. The effects of this conversion are recorded directly in the consolidated statement of comprehensive income in the position "Currency translation adjustment". Conversion differences relating to Züblin Group internal loans, where repayment is not anticipated in the foreseeable future, or is unlikely, and which are consequently qualified as net investments in a foreign company, are also recognized directly in the consolidated statement of comprehensive income in the position "Currency translation adjustments".

in CHF	Balance sheet rate	Average rate	Balance sheet rate	Average rate
	31.3.2012	31.3.2011	**1.4.2011 to 31.3.2012**	1.4.2010 to 31.3.2011
1 EUR	1.2045	1.3005	1.2129	1.3372

5. Accounting and valuation principles

5.1 Income statement

5.1.1 Rental income

Income reported from real estate operations is comprised exclusively of rental income after consideration of vacancies. Rental income is recorded on an accrual basis as of the date at which the rent is due. Income and expenses related to payments for heating, lighting and other services are not included. Lease incentives are recognized on the basis of actual rent received.

5.1.2 Real estate expense

Real estate expenses include costs directly associated with the individual properties, and include costs for administration, bad debts, insurance, facility management, legal costs, taxes and other fees.

5.1.3 Maintenance and repairs

Maintenance and repairs includes the cost of maintenance and repairs of investment properties incurred during the reporting financial year and is charged to the income statement. Expenditures that result in an increase in value are capitalized and reflected in the valuations.

5.1.4 Administrative expense

All expenses that cannot be allocated directly to individual investment properties are recorded as administrative expenses. These costs include personnel expenses for the entire Züblin Group as well as the Board of Directors. Additionally, administrative costs include fees for legal, other taxes (e. g. capital taxes), appraisal and audit services, as well as other expenses of an overhead nature. These costs are recorded on an accrual basis.

5.1.5 Result from the sales of investment properties

The result from the sales of investment properties represents the difference between net sales proceeds and the latest reported market value of the individual property, including investments up to the date of the sale. The result is realized at the time of the transfer of risks and rewards, which is usually the date on which the contract is signed in the presence of the notary.

5.1.6 Change in market value of investment properties

Changes in the market value of investment properties are recorded on an accrual basis in the income statement in accordance with IAS 40.

5.1.7 Financial expense

Financial expenses primarily include interest expense on debt financing, including the interest impact from derivative financial instruments. All financial expenses are accrued and recognized in the income statement on the basis of the effective interest method.

5.1.8 Income taxes

Income taxes are comprised of current and deferred taxes. Income taxes are recorded directly in the income statement unless they are incurred as part of a transaction related to the consolidated statement of comprehensive income. In such cases, the income taxes are recorded directly in the consolidated statement of comprehensive income in a manner consistent with the underlying transaction. Current taxes are comprised of taxes due on the taxable earnings of the Company calculated using the tax rate in effect as of the balance sheet date, together with capital gains tax on the sales of assets and adjustments to tax liabilities or receivables from previous periods. Deferred taxes are the sum of all changes in deferred tax assets and liabilities, with the exception of those amounts recorded directly into the consolidated statement of comprehensive income.

5.2 Balance sheet

5.2.1 Investment properties

Investment properties are recorded at market value in accordance with IAS 40. Appraisals of market values are performed semi-annually by external, independent appraisers certified by the Royal Institution of Chartered Surveyors (RICS). The appraisals are calculated using the discounted cash flow method (DCF). See also “Critical accounting estimates and judgments” on page 94. When recording the market values in France, Germany and the Netherlands, future transaction costs are deducted. Development properties are also classified as a part of investment properties and valued at fair value, to the extent that a fair value can be reliably determined. A reliable fair value can only be determined at the point when permission for construction has been received. Development properties are properties that are purchased with the intention to develop. The adjustment to the market value of development properties is recorded in the income statement from the point at which the construction permit is received and is included as part of the net change in market value of investment property in the income statement. Expenses incurred after the purchase of the property are only capitalized if it is likely that future economic benefits will accrue to the Company and if acquisition or construction costs can be reliably measured. All other maintenance and repair costs are recognized immediately in the income statement in the period in which they are incurred. The net result arising from a change in the fair value of investment properties is recognized in the income statement in the period in which it arises. Investment properties are derecognized if they are either sold, are no longer available for permanent use, or no future economic benefit is anticipated from their disposal. Profits or losses from the disposal of investment properties are recognized on an accrual basis in the income statement in the year of disposal.

5.2.2 Investment properties held for sale

In accordance with IFRS 5, investment properties held for sale are reported in the balance sheet under current assets as a separate item “Investment properties held for sale”. The determination as to whether a property is considered to be held for sale is based upon several factors, including:

– A resolution from the Company’s or local Board of Directors to dispose of the property,
– A duly executed letter of intent with a potential buyer,
– A judgment from Group Management that there is a high probability of the conclusion of the transaction within the next twelve months.

The valuation of the property after reclassification is in accordance with IAS 40.

5.2.3 Furnishing

Furnishings, fixtures and equipment are stated at cost less accumulated depreciation. Office refurbishments and office furnishings are subject to straight-line depreciation over ten years and five years respectively, and IT equipment over 2.5 years. An evaluation is performed at every balance sheet date in order to determine whether there are indications that an impairment of the recorded value of furnishings and equipment might be necessary. If evidence exists that the book value is no longer realizable, the difference between the book value of the asset and the realizable value is written off.

5.2.4 Deferred tax assets and liabilities

Deferred taxes are calculated using the Balance Sheet Liability Method and reflect temporary differences as of the balance sheet date between the book value of assets and liabilities in the consolidated financial statements and the underlying tax accounts. The calculation of deferred tax assets and liabilities is based upon local tax rates and regulations applicable as of the balance sheet date. Additionally, in Switzerland a holding period of a minimum of fifteen years applies in the calculation of deferred taxes (see also 3.2.2 "Deferred taxes"). Deferred tax assets from tax loss carry-forwards are only recorded to the extent that it is probable that there will be sufficient taxable income in the future to offset the tax loss carry-forwards and related tax assets. There are no deferred tax liabilities for temporary differences related to undistributed earnings of subsidiaries, since the Züblin Group can manage the reversal of the temporary difference, and it is likely that these differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are netted when there is legal justification for such treatment and when the deferred taxes relate to companies from a single entity for tax purposes and to the same tax authority.

5.2.5 Financial instruments

Financial instruments include both financial assets and financial liabilities and are classified under the following primary categories:

- Financial instruments valued at fair value through the income statement
- Loans and receivables at amortized cost
- Financial investments held to maturity
- Financial investments held for sale
- Financial liabilities at amortized cost
- Derivative financial instruments which are designated as effective hedging instruments

Recognition

Financial assets are recognized in the consolidated balance sheet when the Züblin Group has a contractual right to receive cash or other financial assets from another party. Financial liabilities are recorded when there is a contractual obligation for a cash payment or the delivery of a financial asset.

Derecognition

Financial assets are derecognized if the contractual rights to payments arising from the financial assets expire or if the financial assets are transferred along with all material risks and rewards. Furthermore, financial liabilities are derecognized when the liability is settled via payment or assignment of a financial asset.

Valuation

The first-time valuation of all financial instruments which are relevant for the Züblin Group is at present value plus transaction costs. The subsequent valuation is based upon one of the categories used by the Company, as listed above.

5.2.6 Loans and receivables at amortized cost

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not traded in an active market. Loans and receivables are measured at amortized cost. Interest from items in this category is calculated using the effective interest rate method. The following assets are allocated to this measurement category:

Trade receivables
Trade receivables are comprised of receivables arising from the leasing activities of investment properties.

Other current receivables
Other receivables are those which do not arise from leasing activities of investment properties, particularly those from service charges passed on to tenants and liquid funds which cannot be drawn within three months.

Trade receivables as well as other current receivables are continually reviewed for potential impairment of their value. The determination that an impairment exists is based on individual analysis of the asset in conjunction with any related security. The book value of the receivable is reduced by the amount of the impairment.

Cash and cash equivalents
Cash and cash equivalents are comprised of cash on hand, cash balances in postal and bank accounts, as well as short-term securities with a duration of less than three months.

5.2.7 Financial liabilities at amortized cost

Financial liabilities at amortized cost are non-derivative financial instruments with fixed or determinable payments. The subsequent valuation is at amortized cost under the effective interest method, whereby gains and losses on these positions are recorded in the income statement when they are derecognized or when interest is applied. The following liabilities in the consolidated financial statements are classified under this measurement category:

Mortgages
Mortgages represent loans concluded in order to purchase real estate and are secured by liens on the real estate. The mortgage loan portfolio of the Züblin Immobilien Group includes both variable and fixed rates of interest. A differentiation is made between non-current and current mortgages based on future repayments. Repayments due within twelve months or amounts that are callable within the next twelve months are classified as current, and the rest as non-current. In the case of investment properties held for sale, the property is classified as a current asset. The corresponding mortgage is also reclassified into current liabilities as mortgages held for sale. Mortgages are concluded in the same currency as the underlying investments.

Short-term borrowings
This category includes all borrowings which are not connected with the acquisition of an investment property and have a maturity of less than twelve months.

Bond

Bonds are initially recorded at their net proceeds, meaning deducted by their transaction cost. In subsequent periods, the bonds are disclosed in the consolidated financial statements as financial liability measured at amortized cost. The transaction cost are written down using the amortized cost method until the bond matures. The bond is quoted at the SIX Swiss Exchange. The quote has no impact on the valuation, however it is disclosed in the notes. The effective interest rate comprises of the coupon and the prorated amortisation of the transaction cost.

Mandatory convertible securities

When issuing debt instruments with conversion rights (mandatory convertible bonds), the debt component is calculated based on the market interest rate of comparable debt instruments without conversion rights (reference interest rate). The difference between the debt component and the nominal value, less transaction costs, is treated as equity and recorded in “Equity component convertible bonds”. The difference between the interest expense calculated at the reference interest rate and the coupon rate to be paid on the convertible bonds is reported as a change in the debt component. The debt component is measured at amortized cost using the effective interest rate method until the mandatory convertible bond matures.

Accounts payable

Accounts payable consist of obligations that arise in connection with the investment properties, for example with leasing activities or renovation of a property.

All other short- and long-term liabilities

These include all other liabilities of the Company, lease payments received in advance, tenant deposits, VAT liabilities as well as sundry accruals.

5.2.8 Derivative financial instruments

Derivative financial instruments designated as effective hedging instruments

The Züblin Group uses derivative financial instruments, exclusively interest rate forward contracts and swaps, as part of its active management of the earnings spread between net rental income and refinancing costs. The swaps are treated as cash flow hedges and are recorded at fair value. The Züblin Group applies hedge accounting in accordance with IAS 39. For a financial instrument to be accounted for as a hedging transaction, the hedging instrument and the underlying transaction must satisfy particular requirements in terms of documentation, event probability, effectiveness, and reliability of measurement. As far as these requirements are met, the changes in fair value of underlying hedging instrument are recorded through consolidated statement of comprehensive income. Any remaining ineffective portion would be recorded in the income statement as financial income or expense.

Currency put-options

The Züblin Group acquired currency put-options. Purpose of these currency put-options is hedging future cash flow in other than the functional currency. These instruments initially are recorded at their market values when purchased. In subsequent periods, the currency put-options are stated at their fair values in category derivative financial instruments whereas gains and losses are recognized through profit and loss.

5.2.9 Provisions

Provisions are recorded if a legal or de facto obligation exists based on past events that will result in a probable outflow of funds, and where this outflow can be reliably estimated. Provisions are regularly reviewed and, if required, adjusted. They correspond to the current best estimate of liabilities.

5.2.10 Equity

Equity is comprised of share capital, capital reserves, retained earnings, treasury shares, equity component convertible bonds, reserve for cash flow hedges and foreign currency translation, the last three of which are explained in the respective balance sheet categories. Share capital includes the nominal value of the Company's shares, which are issued and fully paid up. Par value reductions are ordinarily recorded in share capital. All earnings in the income statement are recorded in retained earnings. Other changes in equity are recorded as changes in capital reserves.

5.2.11 Treasury shares

Treasury shares are recorded at acquisition cost in the account "treasury shares" and deducted from equity. Upon sale, the same amount is credited to "treasury shares", with any resultant gain or loss recorded in retained earnings.

5.2.12 Employee benefits – pension obligations

In the Züblin Group, companies in various countries operate different pension schemes. The schemes are generally funded through payments to insurance companies. The Züblin Group has a defined benefit plan in Switzerland and defined contribution plans in Germany, France and the Netherlands. A defined contribution plan is a pension plan under which the Züblin Group pays fixed contributions into a separate entity. The Züblin Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

In the balance sheet, the long-term obligation in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past-service costs and actuarial gains and losses. Changes in the obligation are recorded directly in comprehensive net result (SOIRE Approach). The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. For defined contribution plans, Züblin Group companies pay contributions to privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Züblin Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

5.2.13 Share-based compensation

Group Management can receive a portion of their additional compensation (see also note 25 on page 146) in shares. The amount of compensation received in shares is recorded as salaries and wages on an accrual basis in accordance with IFRS 2. No shares were paid as additional compensation in financial year 2010/2011 nor in financial year 2011/2012.

5.3 Segment reporting (IFRS 8)

Segment reporting is based upon the “management approach”. The internal decision makers of the Züblin Group are aligned with the segments which are based on the geographic location of the investment properties. As supplementary information, the segments are also presented according to investment categories. The Züblin Group has defined its investment categories as follows: office, retail and logistics.