



USI GROUP HOLDINGS AG

ANNUAL REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 2012**



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DIRECTORS AND ADVISORS

DIRECTORS

Dr. Volkert Klaucke (Executive Chairman)
Dr. Doraiswamy Srinivas (Deputy Chairman)
Dr. Robert Bider (Non-Executive) (resigned 26 June 2012)
Mr. Armin Hilti (Non-Executive) (resigned 26 June 2012)
Mr. William Vanderfelt (Non-Executive)
Mr. David Quint (Executive)

COMPANY SECRETARY

Dr. Doraiswamy Srinivas

REGISTRAR

SAG SIS Aktienregister AG
Baslerstrasse 100
Postfach
CH-4601 Olten
Switzerland

REGISTERED OFFICE

Bahnhofstrasse 106
Postfach 1317
8001 Zurich
Switzerland

AUDITORS

PricewaterhouseCoopers AG
Birchstrasse 160
8050 Zurich
Switzerland

ASSET MANAGER

RP&C International Inc.
c/o RP&C International Limited
31a St. James's Square
London
SW1Y 4JR
United Kingdom

LEGAL ADVISORS (as to Swiss Law)

Bär & Karrer AG
Brandschenkestrasse 90
CH 8027 Zurich
Switzerland

REGISTERED NUMBER

CH-020.3.922.903-6



CHAIRMAN'S STATEMENT

The Company is pleased to report its financial results for the year ended 31 December 2012.

The Company's two principal assets at 31st December were a 94.9% interest in a partnership which owns four buildings in Leipzig, Germany leased to the Free State of Saxony (the "Leipzig Properties") and a 20.28% equity holding in Public Service Properties Investments Limited ("PSPI") a property investment company listed on the Alternative Investment Market of the London Stock Exchange which primarily invests in property leased to specialist operators in the care home sector in the UK and Germany.

The Leipzig Properties

The Leipzig Properties were constructed in 1995 and leased until 31 March 2020 to the Free State of Saxony (Covenant strength AAA), which has the right to extend the lease for an additional period of 5 years. Annual rent payable under the lease is currently €9.4 million and is subject to periodic escalations. The purchase price for this acquisition was €166 million, which was principally financed by €121 million of senior debt facilities ("Facilities") provided by a syndicate led by the Royal Bank of Scotland plc – Niederlassung, Frankfurt (the "Syndicate") which was concluded on 4 January 2008.

The Facilities were due for repayment on 30 October 2010 and despite numerous attempts by the Company's advisors and management during 2010 and 2011, the Company and its appointed refinancing agents were not able to obtain alternative financing. As a consequence, the Company negotiated several extensions, the latest of which expired in July, 2012. In April of 2012, USI announced that a tentative agreement had been reached with the Syndicate which would have allowed USI to refinance the Leipzig Properties in a manner that would have involved a reduction in the amount of the Facilities; however, that agreement was stymied when a member of the Syndicate, with the largest participation in the Facilities, sold its participation to a third party.

Later in 2012, another member of the lending syndicate sold its participation to the same third party. Since that time, USI has discussed the Facilities on numerous occasions with the Syndicate culminating with a meeting last September with representatives of the remaining Syndicate members in London. The outcome of that meeting was an agreement, in principle, to enter into a standstill of enforcement rights under the Facilities subject to agreement among Syndicate members as to various points including interest rate, the formal length of the standstill, further injections of equity during the period of the standstill as well as certain technical issues.

Your Board is pleased to advise that it has now finalized terms of a Standstill Agreement (the "Standstill") relating to the Facilities which provides USI the opportunity until 31 December 2014 to complete a satisfactory refinancing. Pursuant to the terms of the Standstill and provided certain conditions continue to be met, the Syndicate has agreed not to demand repayment of the Facilities as a result of non-payment of principal or a breach of the loan to value covenant contained in the Facilities before 31 December 2014 (the "Standstill Period"). USI must reduce the amount owed under the Facilities by a minimum of €3 million by 31 December 2013 and by a further €1 million by 31 December 2014.

During the Standstill Period, the entire cash flow of the Leipzig Properties will continue to be applied first to interest, then to agreed costs and operating expenses, then to the restructuring fee and thereafter to a reduction of principal. As of this date, the principal outstanding on the Facilities is approximately €98.2 million. As previously announced, rent payable by the Free State of Saxony has increased by 5% to €9,386,112 p.a. effective December 2012.

The Board would stress that all rental income has been received from the Leipzig Properties without interruption in accordance with the terms of the lease. The Company's independent valuer slightly reduced the value of the Leipzig Properties to €151.54 million at 31 December 2012 from €151.8m at 30 June 2012; however the Board remains satisfied that the Leipzig Properties offer good long-term value for the Company's shareholders.

PSPI

The Company's investment in PSPI has been held since that company listed on AIM through an initial public offering in March 2007. It held 20.28% of the issued share capital of PSPI as at 31 December 2012, unchanged from 31 December 2011.

PSPI has reported a loss of £54 million (CHF 80 million) for the year ended 31 December 2012 after recognising fair value losses of £39 million (CHF 58 million) on its investment property portfolio. As a result, the Company has reflected a non-cash loss of CHF 16 million on Investment in Associates at 31 December 2012, representing the Company's share of the losses reported by PSPI and an additional impairment provision against the investment of CHF 2 million. PSPI's losses occurred as a result of the sale of the majority of its UK property portfolio, announced at the time of the Interim Report in September 2012, the sale of one Swiss and two German investment properties and the sale of subsidiaries owning 140 smaller investment properties in the US in December 2012. As a consequence of the sale transactions, PSPI has recognised losses on disposal of assets in 2012 of approximately £16 million (CHF 24 million) in addition to fair value losses on its investment property portfolio.

As part of these transactions, PSPI transferred or repaid £105 million (CHF 156 million) of debt and derivative costs between July 2012 and February 2013. PSPI also announced the refinancing of two debt facilities for its retained investment property portfolios of three and seven years, respectively. As a result of the disposals and debt refinancing, PSPI's consolidated leverage has reduced to 35.3% at the current date from 53.6% at the end of 2011. It would appear that the financial position at PSPI has stabilised and that it will produce positive income and cash flow during 2013.

Overall, your Company is reporting a loss of CHF 31 million for the twelve months ended 31 December 2012 compared to a loss of CHF 18 million for the same period in 2011. These numbers reflect CHF 10 million of non-cash fair value losses in respect of the Leipzig Properties and CHF 18 million for its share of non-cash losses reported by PSPI together with the impairment provision. There are a number of other non-cash expense items included in the Company's results, however, which brings the loss adjusted for non-cash items to CHF 2.6 million for the twelve months to 31 December 2012.

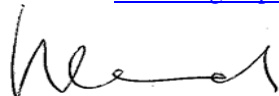
As a result of the net rental income on the Leipzig Properties being used to reduce the principal amount owed to the Syndicate, the Group continues to accrue management fees (which have remained unpaid since August 2010) as well as interest on the second mortgage note (which remains unpaid from October 2011). I am pleased to report that RP&C International, the asset manager of the Company, has agreed to convert outstanding amounts owed to it into equity of the Company once requisite approvals have been obtained. Further details will be provided at a later date.

As stated above, the Directors of your Company have written down the value of the Leipzig Properties in line with the view of its own independent external valuer. As a result of that write down and adjusting for foreign exchange losses, gross assets at 31 December 2012 were CHF 233 million compared to CHF 264 million at the end of 2011 and investment properties at 31 December 2012 totalled CHF 183 million compared to CHF 194 million at the end of 2011. Investment in Associates was carried at CHF 15 million at 31 December 2012 compared to CHF 34 million at the end of 2011.

Shareholders' funds at 31 December 2012 were CHF 36 million compared to CHF 67 million at 31 December 2011 representing a decrease of 46%. Shareholders' funds are stated net of the deficit on translation reserves which totalled CHF 42 million at 31 December 2012, a similar level to the balance at 31 December 2011. The deficit on translation reserves primarily reflects the strength of the Swiss Franc against the net equity invested in the Euro denominated Leipzig Properties and the Sterling denominated PSPI.

The Company's key objective has been to conclude the Standstill Agreement for the Leipzig Properties as mentioned above. While discussions with the Syndicate have been advancing, USI has been negotiating with several groups regarding an injection of assets into USI in exchange for USI shares which also will involve a change of strategic direction for our Company. One of these options is now far advanced and formal announcement will be made once a legally binding agreement has been concluded. As part of those efforts, the Company is likely to raise additional equity and to diversify the geographical focus and nature of the Company's investments. The USI Board recognises that with volatile capital markets, continuing crises in the Eurozone, constrained lending and liquidity and the resultant effect of these factors on economies throughout Europe, the Company must endeavour to be innovative in determining its future strategic direction.

Full information concerning the Company's board members and other matters are available from the Company's website at www.usigroupholdings.ch.



USI Group Holdings AG
Dr. Volkert Klaucke (Chairman)
Approved by the board: 22 April 2013

**USI GROUP HOLDINGS AG
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012**

The Directors present their report and the audited consolidated financial statements to the shareholders for the year ended 31 December 2012.

PRINCIPAL ACTIVITY

The Company's principal activity is that of an investment holding company. The consolidated income statement is set out on page 8. The activities of the subsidiaries are that of investment property companies or intermediate financing and holding companies.

DIRECTORS

The Directors of the Company at 31 December 2012, all of whom have been directors for the whole of the year then ended unless otherwise indicated were:

Dr. Volkert Klaucke (Executive Chairman)
Dr. Doraiswamy Srinivas (Deputy Chairman)
Dr. Robert Bider (Non-Executive) (resigned 26 June 2012)
Mr. Armin Hilti (Non-Executive) (resigned 26 June 2012)
Mr. William Vanderfelt (Non-Executive)
Mr. David Quint (Executive)

SECRETARY

The secretary of the Company at 31 December 2012 was Dr. Doraiswamy Srinivas, who has been secretary since his appointment on 30 June 2005.

AUDITORS

The appointed auditors are PricewaterhouseCoopers AG, Zurich, Switzerland.

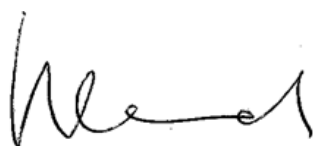
DIRECTORS' INTERESTS

The following Directors' interests in the shares of the Company were as stated below:

	31 December 2012	31 December 2011
Dr. Volkert Klaucke	Nil	Nil
Dr. Doraiswamy Srinivas	Nil	Nil
Dr. Robert Bider (resigned 26 June 2012)	N/A	Nil
Mr. Armin Hilti (resigned 26 June 2012)	N/A	1,992
Mr. William Vanderfelt	44,365	17,365
Mr. David Quint	Nil	Nil

The Company has in issue 36,739 (2011 - 63,739) shares indirectly held by RP&C International (Guernsey) Limited. David Quint and Dr. Doraiswamy Srinivas are both directors of RP&C International Inc, the parent company of RP&C International (Guernsey) Limited. The shares are held by Monkwell Investments Limited (formerly USI Limited), a company incorporated in the British Virgin Islands.

By order of the board



Dr. Volkert Klaucke
Chairman

Date: 22 April 2013



Report of the statutory auditor
to the general meeting of
USI Group Holdings AG
Zurich

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of USI Group Holdings AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements (on pages 8 to 42 and 50 to 52), for the year ended 31 December 2012.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), Article 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Article 17 of the Directive on Financial Reporting (DFR) of the SIX Swiss Exchange and Swiss law.

Emphasis of matter

We draw attention to Note 3 “Financial and Other Risk Management” to these consolidated financial statements, where disclosures by management are made regarding the fact that the Group’s investment property asset is primarily financed by one senior debt facility, which is past due and is currently in default, and that short term loans as well as interest payments on USIGH III Investments Holdings Limited notes cannot be repaid by their contractual due dates.

If the term of the senior debt facilities, short-term loans and debt is not extended or if the financing cannot be substituted, such a case would set the Group at risk of potential illiquidity. This indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Patrick Balkanyi

Michael Ruble

Audit expert
Auditor in charge

Zurich, 22 April 2013

Enclosure:

- Consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders’ equity and notes to the consolidated financial statements

USI GROUP HOLDINGS AG
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 CHF	2011 CHF
Revenue		10,816,685	10,998,939
Fair value (loss) / gain on investment properties	11	(9,839,365)	(9,037,887)
Administrative expenses	6a	(2,461,520)	(3,574,755)
Other income	6b	-	612,325
Finance income	7	190,405	393,144
Operating loss		(1,293,795)	(608,234)
Finance costs	8	(11,410,950)	(13,284,396)
Share of (loss) / profit of associates	12	(16,345,652)	(4,360,167)
Impairment of associate	12	(1,889,002)	-
Loss before income tax expense		(30,939,399)	(18,252,797)
Income tax expense	21	-	20,805
Loss for the year		(30,939,399)	(18,231,992)
Attributable to:			
Equity holders of the Company		(30,939,399)	(18,231,992)
		CHF per share	CHF per share
Basic and diluted loss per share	9	(31.91)	(18.80)

The notes on pages 13 to 42 form part of these financial statements.

USI GROUP HOLDINGS AG
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 CHF	2011 CHF
Loss for the year		(30,939,399)	(18,231,992)
Other comprehensive income			
Share of associates cash flow hedges	12	(433,575)	338,453
Share of associates tax relating to cash flow hedges	12	69,372	(54,152)
Share of associates currency translation differences		(235,438)	(13,486)
Currency translation differences		541,884	(653,429)
Other comprehensive income for the year		(57,757)	(382,614)
Total comprehensive income for the year		(30,997,156)	(18,614,606)
Attributable to:			
Equity holders of the Company		(30,997,156)	(18,614,606)

The notes on pages 13 to 42 form part of these financial statements.

USI GROUP HOLDINGS AG
CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 CHF	2011 CHF
ASSETS			
Non-current assets			
Investment property	11	182,953,036	194,327,850
Investments in associates	12	15,426,339	33,614,870
Receivables and prepayments	15	-	3,079,949
		198,379,375	231,022,669
Current assets			
Receivables and prepayments	15	33,469,558	30,701,147
Cash and cash equivalents		1,567,409	2,450,028
		35,036,967	33,151,175
TOTAL ASSETS		233,416,342	264,173,844
EQUITY			
Capital and reserves			
Share capital	17	67,837,767	67,837,767
Share premium	17	11,617,985	11,617,985
Treasury shares	17	(1,811,769)	(1,811,769)
Cash flow hedging reserve		(142,757)	221,446
Translation reserve		(42,143,678)	(42,450,124)
Retained earnings		442,194	31,381,593
TOTAL EQUITY		35,799,742	66,796,898
LIABILITIES			
Non-current liabilities			
Borrowings	18	31,478,055	31,079,822
Other financial liability	20	-	2,670,255
		31,478,055	33,750,077
Current liabilities			
Trade and other payables		431,119	425,354
Accruals	22	8,727,513	6,662,634
Borrowings	18	154,327,642	156,538,881
Other financial liability	20	2,652,271	-
		166,138,545	163,626,869
TOTAL LIABILITIES		197,616,600	197,376,946
TOTAL EQUITY AND LIABILITIES		233,416,342	264,173,844

The notes on pages 13 to 42 form part of these financial statements.

USI GROUP HOLDINGS AG
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	2012 CHF	2011 CHF
Cash flow from operating activities			
Loss for the year attributable to equity holders:		(30,939,399)	(18,231,992)
<i>Adjustments for:</i>			
- Changes in fair value of investment property/loans	11	9,839,365	9,037,887
- Loss from associate	12	16,345,652	4,360,167
- Impairment of associate	12	1,889,002	-
- Interest expenses and other finance expenses	8	11,410,950	13,284,396
- Interest income	7	(190,405)	(393,144)
- Income tax expense		-	(18,806)
<i>Changes in working capital</i>			
- Changes in other liabilities		156,504	(488,699)
- Changes in receivables and prepayments		221,185	97,387
- Changes in accruals		447,616	3,323,619
Cash generated by operations		9,180,470	10,970,815
Interest paid		(8,545,492)	(9,890,128)
Income tax paid		-	(62,832)
Net cash generated by operating activities		634,978	1,017,855
Cash flow from investing activities			
Dividends received	12	-	1,313,004
Interest received		45,733	245,956
Net cash generated by investing activities		45,733	1,558,960
Cash flow from financing activities			
Proceeds from borrowings		732,467	4,458,073
Payments in relation to borrowings		-	(912,520)
Repayment of borrowings		(2,289,626)	(7,345,223)
Net cash (used) by financing activities		(1,557,159)	(3,799,670)
Net (decrease) in cash and cash equivalents		(876,448)	(1,222,855)
Movement in cash and cash equivalents			
Cash and cash equivalents at beginning of year		2,450,028	3,759,092
Net (decrease) in cash and cash equivalents		(876,448)	(1,222,855)
Foreign currency translation adjustments		(6,171)	(86,209)
Cash and cash equivalents at end of year		1,567,409	2,450,028

The notes on pages 13 to 42 form part of these financial statements.

USI GROUP HOLDINGS AG
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE	Attributable to equity holders of the Company						
	Share capital	Share premium	Treasury Shares	Translation reserve	Retained Earnings	Cash flow hedging reserve	Total Equity
	CHF	CHF	CHF	CHF	CHF	CHF	CHF
Balance as of 1 January 2011	67,837,767	11,617,985	(1,811,769)	(41,783,209)	49,613,585	(62,856)	85,411,503
Profit / (Loss) for the year	-	-	-	-	(18,231,992)	-	(18,231,992)
Other comprehensive income							
Foreign currency translation	-	-	-	(666,915)	-	-	(666,915)
Cash flow hedges – net of tax	-	-	-	-	-	284,302	284,302
Total comprehensive income	-	-	-	(666,915)	(18,231,992)	284,302	(18,614,605)
Transactions with owners							
Purchase of own shares	-	-	-	-	-	-	-
Balance as of 31 December 2011	67,837,767	11,617,985	(1,811,769)	(42,450,124)	31,381,593	221,446	66,796,898
Balance as of 1 January 2012							
Profit / (Loss) for the year	-	-	-	-	(30,939,399)	-	(30,939,399)
Other comprehensive income							
Foreign currency translation	-	-	-	306,446	-	-	306,446
Cash flow hedges – net of tax	-	-	-	-	-	(364,203)	(364,203)
Total comprehensive income	-	-	-	306,446	(30,939,399)	(364,203)	(30,997,156)
Transactions with owners							
Purchase of own shares	-	-	-	-	-	-	-
Balance as of 31 December 2012	67,837,767	11,617,985	(1,811,769)	(42,143,678)	442,194	(142,757)	35,799,742

The notes on pages 13 to 42 form part of these consolidated financial statements.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. GENERAL INFORMATION

USI Group Holdings AG (the “Company”), domiciled in Switzerland with its registered office at Bahnhofstrasse 106, CH-8001, Zürich, Switzerland, is the ultimate parent company of the USI Group. The Company and its subsidiaries (together the “Group”), is an investment property Group with a direct and indirect interest in portfolios in Continental Europe and the UK. It is principally involved in leasing real estate assets where the rental income is primarily generated directly or indirectly from governmental sources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB) and comply with the requirements of SIX Swiss Exchange’s Listing Rules and Additional Rules for the listing of Real Estate Companies. The consolidated financial statements are reported in Swiss Francs unless otherwise stated and are based on the annual accounts of the individual subsidiaries at 31 December 2012 and 2011, which have been drawn up according to uniform Group accounting principles.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of investment properties, other financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results can differ from those estimates.

The Group has adopted the following new standards, amendments to standards and interpretations for the financial year ended 31 December 2012.

Amendments to IFRS 7 ‘Disclosures - Transfers of financial assets’ (effective on 1 July 2011, early application permitted). The amendments require additional disclosures in respect of risk exposures arising from transferred financial assets (e.g. factoring, securitisation), any associated liabilities and it includes additional disclosure requirements in respect of those transfers. The Group has not elected to adopt the amendment before the effective date. The amendment did not have a material impact on the financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year ended 31 December 2012 and have not been early adopted:

IFRS 9 ‘Financial Instruments’ – classification and measurement (effective 1 January 2015, retrospective application, early application permitted). IFRS 9 comprises two measurement categories for financial assets; amortised cost and fair value. All equity instruments are measured at fair value. However, management has an option to present in other comprehensive income unrealised and realised fair value gains and losses on equity investments that are not held for trading. A debt instrument is recognised at amortised cost only if it is the entity’s business model to hold the financial asset to collect contractual cash flows and the cash flows solely represent principal and interest. It will otherwise need to be considered at fair value through profit or loss. The amendment is not expected to have a material impact on the financial statements.

Amendments to IFRS 9 ‘Financial instruments’ (effective 1 January 2015, retrospective application, early application permitted). The amendment includes guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39 without change, except for financial liabilities that are designated at fair value through profit or loss. Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity. The amendment is not expected to have a material impact on the financial statements.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

2.1 Basis of preparation (continued)

IFRS 10, 'Consolidated financial statements', (effective for annual periods beginning on or after 1 January 2013, retrospective application, earlier application permitted if together with IFRS 11, IFRS 12, IAS 27R and IAS 28R). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 and SIC-12. IAS 27 is renamed and continues to be a standard dealing solely with separate financial statements. The key changes are as follows:

Definition of control: focus on the need to have both power and variable returns before control is present and power is the current ability to direct the activities that significantly influence returns. As SIC-12 criteria no longer exists, existing relationships are in the scope of this standard;

De facto control: it is now embedded in the standard; although not a new concept, now there is explicit application guidance in the standard;

Principal-agent relationships: new factors for an entity to consider in determining if it is acting as a principal or an agent, which has a direct impact on the decision who has control;

Potential voting rights: only substantive potential voting rights have to be considered.

The Group has not elected to adopt the standard before the effective date. The amendment is not expected to have a material impact on the financial statements.

Amendments to IFRS 10, 12 and IAS 27 – 'Investment entities' (effective for annual periods beginning on or after 1 January 2013). The amendment provides an exception to the consolidation requirement for entities that meet the specific requirements of an investment entity as defined in the amendment. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Classification and Measurement. The exception is not available on consolidation level unless the parent company also meets the definition of an investment entity. The amendment is not expected to have a material impact on the financial statements.

IFRS 11, 'Joint arrangements', (effective for annual periods beginning on or after 1 January 2013, earlier application permitted if together with IFRS 10, IFRS 12, IAS 27R and IAS 28R). The definition of joint control is unchanged, but the new standard introduces new terminology – joint arrangements is now the umbrella term used to describe all of the arrangements, and there exist only two types i.e. joint operations and joint ventures. The classification is purely based on substance not on legal form. The existing policy choice of proportionate consolidation for joint ventures has been eliminated. Equity accounting according to IAS 28 is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today. The amendment is not expected to have a material impact on the financial statements.

IFRS 12, 'Disclosure of interests in other entities', (effective for annual periods beginning on or after 1 January 2013, earlier application permitted). IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28 'Investments in associates'. IFRS 12 requires entities to disclose information about the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The amendment is not expected to have a material impact on the financial statements.

Amendments to IFRS 10, 11 and 12 (effective for annual periods beginning on or after 1 January 2013) – 'consolidated financial statements, Joint arrangements and Disclosure of interest in other entities: Transition Guidance'. The amendment clarifies, that the date of initial application is the beginning of the annual reporting period in which IFRS 10 is applied the first time. No adjustments are required if an entity would be consolidated/not be consolidated in accordance with IAS 27/SIC-12 and IFRS 10. If the consolidation conclusion under IFRS 10 differs from IAS 27/SIC-12, only the immediately preceding comparative period need to be restated. When changing from proportionate consolidation to the equity method, an entity shall recognise its investment in the joint venture as at the beginning of the immediately preceding period. The amendment is not expected to have a material impact on the financial statements.

IFRS 13, 'Fair value measurement', (effective prospective for annual periods beginning on or after 1 January 2013, earlier application permitted). IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value of a liability therefore reflects non-performance risk (that is, own credit risk). The amendment is not expected to have a material impact on the financial statements.

2.1 Basis of preparation (continued)

Amendments to IAS 1 'Presentation of items of other comprehensive income', (effective for annual periods beginning on or after 1 July 2012, retrospective application, earlier application permitted). The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on PP&E or re-measurements of net pension assets or liabilities will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is not expected to have a material impact on the financial statements.

IAS 19 (revised) 'Employee benefits', (effective for annual periods beginning on or after 1 January 2013, retrospective application, earlier application permitted). According to IAS 19R, the annual costs for defined benefit plans comprise the net interest costs, measured on the funded status applying the same discount rate for plan assets and DBO. Actuarial gains and losses (renamed to 're-measurements') will be recognised immediately in other comprehensive income. The corridor approach or recognition immediately in profit or loss will no longer be permissible. Additional disclosures are proposed regarding the characteristics of the entity's benefit plans, amounts recognised in the financial statements, impacts on future cash flows and risks arising from defined-benefit and multi-employer plans. Finally, the definition of a termination benefit is amended: any benefit that has a future-service obligation is not a termination benefit. This will reduce the number of arrangements that meet the definition of termination benefits. The amendment is not expected to have a material impact on the financial statements.

2.2 Principles of consolidation

2.2.1 Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Accounting for business combinations under IFRS 3 only applies if it is considered that a business has been acquired. The Group may invest in subsidiaries that hold properties but do not constitute a business. These transactions are therefore treated as asset acquisitions rather than business combinations.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

All the Group companies have 31 December as their year end. Consolidated financial statements are prepared using uniform accounting policies for like transactions. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.2 Changes in ownership interests in subsidiaries without change in control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.3 Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.4 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the income statement.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

2.3 Segmental reporting

Segmental reporting has been prepared in accordance with IFRS 8 (Segment Reporting).

The chief operating decision maker has been identified as the board of directors, who review the Group's internal reporting and management information in order to assess performance and allocate resources.

It has been determined that the board of directors reviews management information, considers the business and makes decisions based on the nature of the underlying business. As such, the Group has been organised into the following segments:

- Investments in Government Tenanted Property
- Investments in Associated Undertakings

The board of directors assess the performance of the business using a number of measures; however particular emphasis is placed on net profit.

Total segment assets and liabilities excludes certain assets and liabilities which are managed on a central basis, these form the reconciliation to total balance sheet assets.

2.4 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in Swiss Francs, which is the Company's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where deferred in equity as qualifying cash flow hedges and qualifying investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented net in the income statement within finance costs and finance income respectively, unless they are capitalised. All other foreign exchange gains and losses are presented net in the statement of comprehensive income.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet are translated at the closing rate at the date of the balance sheet.
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

The translation rates used are disclosed in Note 5 in the notes to the consolidated financial statements.

2.5 Investment property

Property held for long-term rental yields or for capital appreciation or both and not occupied by the Group is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property comprises freehold land and buildings. Investment property is initially recognised at historic cost including related transaction costs and borrowing costs. After initial recognition investment property is held at fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with guidance issued by the International Valuation Standard Committee and are reviewed annually by external valuers.

Land held under operating leases is classified and accounted for by the Group as investment property when the definition of investment property would otherwise be met. The operating lease is accounted for as if it were a finance lease.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. In accordance with IAS 40, these items are capitalised at cost as the fair value of the expenditure is not reasonably determinable. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Changes in fair values are recorded in the income statement. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement, when necessary.

2.6 Leases

Finance lease

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Operating lease

The Group currently treats all of its investment property leases as operating leases, however this classification is considered by the directors for each property on acquisition. An operating lease is a lease in which substantially all the risks and rewards of the asset (investment property) remain with the lessor and as such these assets remain in the Group's balance sheet. Lease payments from the lessee are recognised as rental income and as such disclosed in the income statement on a straight-line basis over the period of the lease.

Lease classification

The Group determines the classification of leases on each asset having regard to whether substantially all risks and rewards incidental to ownership of the asset is transferred to the lessee.

2.7 Loans and receivables

Loans are classified as non-current assets unless management has the express intention of holding the loans for less than 12 months from the balance sheet date, in which case they are included in current assets. The directors determine the classification of the loans at initial recognition and re-evaluate the designation at every reporting date.

Purchases and sales of loans are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Loans are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of loans. In the case of loans, the financial position of the underlying companies and their ability to repay the preference share capital is considered in determining whether the loans are impaired.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. Loans are derecognised when the rights to receive cash flows from the loans have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. When investments are sold the resulting gains and losses are included in the income statement as gains and losses from loans.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Impairment losses on goodwill are not reversed.

2.9 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recognised in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

However, if the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the costs of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Put options that contain an obligation to purchase own equity instruments are recognised as a financial liability for the discounted, expected redemption amount. The liability is disclosed as Other Financial Liabilities (see Note 20). Call options that contain an option of the Company to repurchase own debt instruments, are recognized as a financial liability for the expected conversion amount. The liability is disclosed as Options (see Note 16).

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the trade receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings under current liabilities.

2.12 Share capital

Ordinary shares are classified as equity. Any transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.

2.13 Trade payables and other payables

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as an interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to tax authorities.

Deferred income tax is recognised, using the liability method, on temporary timing differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Due to the tax jurisdictions of the Group companies no tax impact is anticipated.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Revenue recognition

Revenue consists of minimum lease rentals payable over the terms of the operating leases, recognised on a straight line basis, and incremental lease rentals payable under rent escalation clauses in the leases recognised as they arise. Operating lease agreements are based on long-term leasing contracts.

2.19 Finance income and expense

Interest income and expense are recognised within 'finance income' and 'finance costs' in profit or loss using the effective interest rate method, except for borrowing costs relating to qualifying assets, which are capitalised as part of the cost of that asset. The Group has chosen to capitalise borrowing costs on all qualifying assets irrespective of whether they are measured at fair value or not. 'Finance income' is presented before operating profit and 'Finance costs' are presented after operating profit

2.20 Compound financial instruments

Compound financial instruments issued by the group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

3. FINANCIAL AND OTHER RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency and price risk, cash flow and fair value interest rate risk), credit risk and liquidity rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. However, at 31 December 2012 and 2011 no hedging instruments for the Group were outstanding, other than the hedging instrument of the associate.

Risk management is carried out by the senior management of the asset manager under policies approved by the board of directors. Senior management identifies, evaluates and hedges financial risks. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Pound Sterling. Limited foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. However, most operating entities have limited exposure to exchange risk outside their functional currencies.

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in Continental Europe are managed primarily through borrowings denominated in the relevant foreign currencies, although the directors monitor and permit currency exposure in this regard as an element of its financing strategy.

Historically the Group has not entered into any currency hedging transactions in respect of the net assets of subsidiaries denominated in currencies other than Swiss Francs. The Group will review this policy from time to time.

At 31 December 2012, if the Swiss Franc had increased by a three year average movement of 10.0% (2011 – 11.4%) against the Pound Sterling with all other variables held constant, profit for the year would have increased by CHF 3,245 (2011 - CHF 13,471) different, mainly as a result of foreign exchange losses on translation of Pound Sterling denominated cash balances. The equity impact of a 10% movement would be CHF 1,731,534.

At 31 December 2012, if the Swiss Franc had increased by 10.0% (2011 – 9.0%) against the Euro with all other variables held constant, profit for the year would have increased by CHF 659 (2011 – CHF 6,216) different due to foreign exchange losses on translation of Euro denominated cash balances. The equity impact of a 10% movement would be CHF 6,633,002.

Exchange rate volatility is calculated on the basis of historic price movements.

(ii) Cash flow and fair value interest rate risk

The Group's interest-rate risk mainly arises from long-term borrowings, derivative financial instruments and to a limited extent, from cash and cash equivalents. Borrowings issued at variable rates expose the Group to cashflow interest-rate risk. Borrowings issued at fixed rates and derivative financial instruments expose the Group to fair value interest-rate risk. Group policy is to maintain a significant percentage of its borrowings in fixed rate instruments. The board regularly meet to review levels of fixed and variable borrowings and takes appropriate action as required.

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3. FINANCIAL AND OTHER RISK MANAGEMENT (CONTINUED)

The table below shows the sensitivity of profit and equity to movements in market interest rates for continued business:

	CHF 2012	CHF 2011
Shift in basis points	50	50
Profit impact of increase	(607,144)	(706,821)
Profit impact of decrease	607,144	706,821
Equity impact of increase	0	0
Equity impact of decrease	0	0

(b) Credit risk

Credit risk arises from cash, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to rental customers, including outstanding receivables. The table below shows the credit rating and balance of the three major bank counterparties at the balance sheet date.

Counterparty	2012 Rating	2011 Rating	2012 Balance	2011 Balance
Bank A	A+	A+	352,671	1,346,260
Bank B	BB	BB	33,643	123,456
Bank C	A	A	1,178,130	971,765

Bank B is Allied Irish Bank (UK) plc which is a wholly owned subsidiary of Allied Irish Banks plc ("AIB"). In October 2010, Standard and Poor's downgraded AIB. In December 2010, AIB was effectively nationalised by the Irish Government.

The Group's concentration of credit risk with non financial institutions is primarily with its rental customers. Management has assessed that the credit risk is low as the rental contracts are granted to, directly or indirectly, governmental customers with good credit history and due to the good record of recovery of receivables. As a result, the Group has not incurred any significant losses.

Other receivables of CHF 30 million (€25 million) are held on short term deposit as collateral for a €25 million credit facility outlined in Note 18, these balances are held with Bank A.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

In addition, the Group's investment property asset is substantially financed by one senior debt facility, which came due in 2011 and is in default. Since the due date in 2011, the Group has been obtaining short-term extensions on the loan repayment date from the lender, of which the final extension ended in December 2011. In 2012, the Group continued to search for refinancing opportunities or alternative refinancing but was unsuccessful due to a change in members of the senior debt facility syndicate. In the fourth quarter of 2012, an agreement was signed transferring a majority of the outstanding debt in the syndicate to a new debtor. The transfer of the debt left significantly unchanged the commitments, contingencies, and obligations of the senior credit facility. In November 2012, a standstill agreement was formalised by the Board of Directors and provided to the lender for approval. The standstill agreement would allow time for the Group to raise additional capital and secure a long-term lease agreement to stabilise future cash flows. The standstill extends the full repayment of the debt facility until 31 December 2014, subject to several restrictive terms and conditions placed by the lenders. The agreement has not been signed by the lender.

The Group also pays interest to its USIGH III Investments Holdings Limited loan note holders on a quarterly basis, with the next payment due on the last day of April 2013. The Group is not forecasted to have available cash to fully repay this interest. The Board has proposed to offer loan note holders to maintain their current position and accrue interest until a refinancing of the investment property can be established, or to accept conversion of their loan notes into equity of the Group. The Group is also considering the issuance of additional equity at a discount to the current share price as well as convertible notes to achieve additional working capital and to partially repay outstanding loans.

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FINANCIAL AND OTHER RISK MANAGEMENT (CONTINUED)

The Group also currently has outstanding a loan from Green Street Global Investments in the sum of CHF 4.5 million, including accrued interest, which matured in March 2013. The Group is not forecasted to have available cash to fully repay this principal. The Board has proposed an extension on the loan to maintain their current position or to accept conversion of their loan notes into equity of the Group.

The Group also currently has outstanding accrued liabilities on the balance sheet, which are past due or require payment within 0 to 90 days. The Group is not forecasted to have available cash to fully repay these amounts upon their due dates. In order to repay these balances, the Group has entered into discussions with the counter-parties to convert such debt amounts to equity or to reduce the outstanding fees.

In February 2013, the Group borrowed USD 1.2 million from Venus Global Macro Fund Limited for short term working capital purposes. The loan is repayable on 31 December 2014 and bears interest at a rate of 7% per annum. The loan is guaranteed by the Company. If the lender requests, USIGH Limited has agreed to repay the loan, together with accrued interest thereon, by procuring that the Company issues to the lender shares of the Company at an issue price of CHF 10 per share, equivalent in value to the loan and all accrued interest. Such issue of shares is subject to all necessary approvals being first obtained.

If the term of the senior debt facilities, short-term loans and accrued debt is not extended, reduced, or if the financing cannot be substituted, such a case would set the Group at risk of potential illiquidity. This indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings	156,281,503	16,248,695	18,264,384	-
Trade and other payables	431,119	-	-	-
Other financial liabilities (Note 20)	2,652,271	-	-	-
Total	159,364,893	16,248,695	18,264,384	-
At 31 December 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years
Borrowings	157,989,213	1,450,286	29,583,315	-
Trade and other payables	425,354	-	-	-
Other financial liabilities (Note 20)	-	2,670,255	-	-
Total	158,414,567	4,120,541	29,583,315	-

d) Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders (if free cash is available for dividend declaration), return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. The Group's intention is to maintain the gearing ratio below 75%>

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3. FINANCIAL AND OTHER RISK MANAGEMENT (CONTINUED)

(d) Capital risk management (continued)

The gearing ratios at 31 December 2012 and 2011 were as follows:

	CHF 2012	CHF 2011
Total borrowings (Note 18)	185,805,697	187,618,703
Less: cash and cash equivalents	(1,567,409)	(2,450,028)
Net debt	184,238,288	185,168,675
Total equity	35,799,742	66,796,898
Total capital	220,038,030	251,965,573
Gearing ratio	83.73%	73.49%

The gearing ratio of 83.73% has exceeded the Group's target of 75% due to the substantial reduction in total equity in the year ended 31 December 2012 and the factors mentioned in Note 3.1 (c).

3.2 Fair value estimation

The table below provides disclosure of fair value measurements at 31 December by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

2012	NOTE	Level 1	Level 2	Level 3	Total
Liabilities					
Financial liabilities at fair value through profit or loss					
-Other financial liabilities	20	-	-	2,652,271	2,652,271
-Option fair value	16	-	-	-	-
Total liabilities		-	-	2,652,271	2,652,271
2011					
Liabilities					
Financial liabilities at fair value through profit or loss					
-Other financial liabilities	20	-	-	2,670,255	2,670,255
-Option fair value	16	-	-	-	-
Total liabilities		-	-	2,670,255	2,670,255

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

For consistency purposes, the short term cash deposits of CHF 30 million and short term credit facility of CHF 30 million have been reclassified to loan receivable and borrowings respectively, based on additional consideration of the Group.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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3. FINANCIAL AND OTHER RISK MANAGEMENT (CONTINUED)

3.2 Fair value estimation (continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting values discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Refer to Note 16 and Note 20 for additional disclosure about level 3 instruments.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012:

	Other financial liabilities	Options	Total balance
At 31 December 2010	3,227,755	-	3,227,755
Additions	-	-	-
Gains and losses recognised in income statement or foreign exchange	(557,500)	-	(557,500)
Settlements	-	-	-
At 31 December 2011	2,670,255	-	2,670,255
Additions	-	-	-
Gains and losses recognised in income statement or foreign exchange.	(17,984)	-	(17,984)
Settlements	-	-	-
At 31 December 2012	2,652,271	-	2,652,271

3.3 Other risk factors

The Group is exposed to property price and market rental risks. Wherever possible the Group builds into the terms of its leases indexation linked to consumer price indices, in order to manage its market rental risk.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstance. The Group makes estimates and assumptions concerning the future. By definition, the resulting accounting estimates may not equal the related actual results. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

(a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making this judgment, the Group considers information from a variety of sources including:

- i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) Principal assumptions for management's estimations of fair value

If information on current or recent prices or assumptions underlying the discounted cash flow approach investment properties are not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market.

The Group relies on valuations produced by qualified independent valuation companies. Were the discounted rate used in preparing the independent valuation reports to differ by 5% compared to the rate used by the independent valuer, the net effect of the carrying amount of investment properties after deferred taxation would be an estimated CHF 7.3 million lower or CHF 8.1 million higher.

The expected future market rentals are determined based on the specific terms of the rental contracts. However, were rental income to differ by 10% to the amount in the current rental contract the net effect of the carrying amount of investment properties after deferred taxation would be an estimated CHF 15.4 million higher or lower. Management has assumed that the current rent being received in respect of its investment property will be maintained on expiry of the lease. This is a material assumption in supporting the valuation of the investment property on each valuation date.

(c) Treatment of property acquisition in 2007

In December 2007, the Group acquired a 94.9% interest in a partnership owning 4 investment properties in Leipzig, Germany. This acquisition has been accounted for as an asset acquisition which comprises a group of assets without significant processes and activities and not as a business combination under IFRS 3. The acquired property did not constitute a business as defined by IFRS.

(d) Lease classification

The Group has determined that its lease is an operating leases. The key factor in making the classification between finance leases and operating leases is the estimated life of the property. The Group estimated the life of the buildings between 70 years and 75 years. The lease period is approximately 20 years.

(e) Impairment of investments in associates.

In the process of its impairment assessment, the Group makes certain assumptions regarding the recoverable amount of associate's net assets. These assumptions include recoverability of the associates assets and liabilities not held at fair value, such as deferred tax. A sensitivity analysis has been performed to ascertain the sensitivity of the value of the Group's holding in PSPI to fluctuations in the fair value of items on its balance sheet. This determined that a 5% increase in the value of the Investment Properties held by PSPI would result in a CHF 1.0 million movement in the fair value of the Group's holding. Were this to be a downwards movement this would result in a potential impairment of CHF 0.7 million as at 31 December 2012.

5. FOREIGN EXCHANGE RATES

	Balance Sheet		Income Statement and Cash Flow Statement	
	2012	2011	average	average
	CHF	CHF	CHF	CHF
GBP	0.67790	0.6887	0.67332	0.70568
USD	1.09490	1.0643	1.06710	1.13225
EUR	0.82830	0.8219	0.82983	0.81269

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6. a) ADMINISTRATIVE EXPENSES

	2012 CHF	2011 CHF
Professional fees and other costs	723,099	1,137,367
Audit fees	137,342	199,691
Property rent, maintenance and sundry expenses	407,654	665,638
Management fees	1,193,425	1,572,059
	2,461,520	3,574,755

Included in property rent, maintenance and sundry expenses are repairs of CHF 309,464 (2011 – CHF 244,536) in respect of investment properties generating rental income. These costs were incurred in respect of investment properties where the Group is responsible for structural and roof repairs. There were no repairs and maintenance costs incurred in respect of investment properties that did not generate rental income.

b) OTHER INCOME

	2012 CHF	2011 CHF
Fair value adjustment through income statement	-	612,325
	-	612,325

The above balance represents the fair value adjustment charged to the income statement in relation to the liability from the put option. For further information refer to Note 20.

7. FINANCE INCOME

	2012 CHF	2011 CHF
Interest income	190,405	393,144
	190,405	393,144

8. FINANCE COSTS

	2012 CHF	2011 CHF
Interest costs		
- Interest on notes	2,075,231	2,263,478
- Interest on mortgages	7,969,441	7,021,641
- Amortisation of debt issue costs	156,321	2,608,412
- Other interest and borrowing expenses	1,008,797	386,198
- Net foreign exchange losses	77,853	946,596
- Interest expense on put option	123,307	58,071
	11,410,950	13,284,396

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9. EARNINGS PER SHARE

Basic (loss) / earnings per share (EPS) is calculated by dividing the net (loss) / profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the period.

	2012 CHF	2011 CHF
Net profit / (loss) attributable to shareholders	(30,939,399)	(18,231,992)
Weighted average number of ordinary shares outstanding	969,629	969,629
Basic and diluted loss per share (CHF per share)	(31.91)	(18.80)

In January 2004, the Company issued CHF 7 million of 4% Senior Unsecured Pre-IPO Notes due in 2011. Each noteholder received warrants attached to the notes which may be exercised up to two years after a public offering of the Company's shares. The warrants entitle the noteholders to subscribe for the Company's shares at a discount to the public offering of shares between 5% - 20% depending on the timing of a public flotation of the Company's shares. As at 31 December 2012, CHF Nil (2011- CHF Nil) of 4% Senior Unsecured Pre-IPO Notes were outstanding. New warrants entitling the holders to 42,505 shares were issued at an exercise price of CHF 152.20 per share. These warrants were cash settled by the Company up to the expiry date of 31 October 2010.

In July 2005, the Company approved a stock option plan for management. The plan allows for options of up to 6% of the issued number of shares to be awarded to management at an exercise price of CHF 161.91 per share since inception. Up to 31 December 2012, no options had been awarded nor had conditional capital been granted for this purpose since inception of the plan.

In October 2006, the Company issued CHF 15 million of 3.5% subordinated Convertible Notes due in 2011 that are unconditionally and irrevocably guaranteed by, and convertible into registered shares of the Company. During 2010, the Company issued CHF 13,215,200 of 4.0% subordinated Convertible Notes due in 2015. Of these, CHF 9,914,000 were converted from the CHF 15 million Notes due in 2011. In 2011, a further CHF 2.7 million were converted into the new notes issued in 2010 with the balance being repaid.

Management has estimated that the maximum number of additional ordinary shares that could be issued at 31 December 2012 as 132,368 (2011 – 132,368). However due to the loss in the year these have an anti-dilutive effect and have not been considered in the calculation of diluted earnings per share.

10. DIVIDENDS

No dividends were paid in 2012 or 2011.

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11. INVESTMENT PROPERTY

	2012 CHF	2011 CHF
As at 1 January	194,327,850	208,230,163
Net (losses) / gains on fair value adjustment	(9,839,365)	(9,037,887)
Net change in fair value due to exchange differences	(1,535,449)	(4,864,426)
As at 31 December	<u>182,953,036</u>	<u>194,327,850</u>
Fire insurance value	<u>118,592,297</u>	<u>119,515,756</u>

Bank borrowings of the group are secured on investment property as outlined in Note 18.

On 21 December 2007, the Group acquired a 94.9% interest in a partnership which owns 4 investment properties in Leipzig, Germany. These were acquired for a purchase price of €166 million which, in part, was funded by senior debt of €121 million (See Note 18).

Valuation of the investment properties was made as at 31 December 2012 by Botta Management AG, (“Botta”) an independent Property Consultant. A discounted cash flow method was used to calculate market value assuming an 8 year calculation period and a terminal value. This resulted in a gross capital valuation of €151.54 million (2011 - €159.71 million).

The fire insurance value is set at €98.23 million (2011 - €98.23 million).

Further information required in accordance with the SIX Swiss Exchange’s Additional Rules for the Listing of Real Estate Companies can be found on pages 50 to 52. This information is part of the notes to the consolidated financial statements.

Included in property rent, maintenance and office expenses as detailed in Note 6 (a), are repairs of CHF 309,464 (2011 – CHF 244,536) in respect of investment properties generating rental income. There were no repairs and maintenance costs incurred in respect of investment properties that did not generate rental income.

USI Group Holdings AG has a contractual obligation to perform certain repairs and maintenance on the investment properties in Leipzig.

12. INVESTMENTS IN ASSOCIATES

	2012 CHF	2011 CHF
As at 1 January	33,614,870	39,077,184
Share of loss	(16,345,652)	(4,360,167)
Impairment of associate	(1,889,002)	-
Exchange differences	417,907	(69,440)
Dividends received	-	(2,050,599)
Scrip dividend participation	-	737,595
Share of cash flow hedging reserve	(371,784)	280,297
As at 31 December	<u>15,426,339</u>	<u>33,614,870</u>

The Group’s shareholding in its associate has been pledged as security for loans as outlined in Note 18.

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12. INVESTMENTS IN ASSOCIATES (CONTINUED)

It has been assumed that any sale of PSPI would be performed at fair value. Consequently, all items on the balance sheet of PSPI as at 31 December 2012 have been compared on a line by line basis to their deemed fair value at the same date, less selling costs of 5%.

This indicated that the recoverable amount was CHF 1,889,002 below the carrying value and as such an impairment has been recognised.

Additionally, a sensitivity analysis has been performed to ascertain the sensitivity of the value of the Group's holding in PSPI to fluctuations in the fair value of items on its balance sheet. This determined that a 5% increase in the value of the Investment Properties held by PSPI would result in a CHF 1.0 million (2011 - CHF 2.8 million) movement in the fair value of the Group's holding. Were this to be a downwards movement this would result in a potential impairment of CHF 0.7 million (2011 - CHF 2.7 million) as at 31 December 2012, including the impact of deferred taxation.

In addition, related to the Group's investment in PSPI, PSPI's investment property assets are substantially financed by concentrated debt facilities. As per the debt agreements, £10.6 million (approximately 32%) of the total borrowings are scheduled to be repaid in December 2013 to a sole lender. Additional repayments totalling £1.7 million of the total borrowings are also classified as current as at 31 December 2012 and payable in 2013. In addition, as per the debt agreements £5.5 million (approximately 17%) of the total borrowings are scheduled to be repaid in February 2014 to a sole lender. A three year refinancing of the debt facility due in February 2014 was concluded in April 2013 with the same institution which provided the debt facility due in December 2013. Management expect the existing debt facility will be renewed with the same lender prior to December 2013. Alternatively, PSPI will seek other lenders to arrange a repayment, although there is a risk that this may not be completed by December 2013. PSPI and the Group will monitor the situation.

13. FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per balance sheet 2012	Notes	Assets at fair value through the profit and loss designated	Available for sale	Loan receivable	Derivatives used for hedging	Total
		CHF	CHF	CHF	CHF	CHF
Loan and other receivables	15	-	-	33,402,782	-	33,402,782
Cash and cash equivalents		-	-	1,567,409	-	1,567,409
Total		-	-	34,970,191	-	34,970,191

Cash and cash equivalents is denominated in the following currencies:

Pounds Sterling	32,408
Euro	1,179,366
Swiss Francs	355,635
	1,567,409

Liabilities as per balance sheet 2012		Liabilities – Fair value through the profit and loss designated	Other financial liabilities	Derivatives used for hedging	Total
		CHF	CHF	CHF	CHF
Borrowings	18	-	185,805,697	-	185,805,697
Other financial liabilities	20	2,652,271	-	-	2,652,271
Trade and other payables		-	431,119	-	431,119
Total		2,652,271	186,236,816	-	188,889,087

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13. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Assets as per balance sheet 2011	Notes	Assets at fair value through the profit and loss designated	Available for sale	Loan receivable	Derivatives used for hedging	Total
		CHF	CHF	CHF	CHF	CHF
Loan and other receivables	15	-	-	33,614,646	-	33,614,646
Cash and cash equivalents		-	-	2,450,028	-	2,450,028
Total		-	-	36,064,674	-	36,064,674

Cash and cash equivalents is denominated in the following currencies:

Pounds Sterling	118,120
Euro	1,042,163
Swiss Francs	1,289,745
Total	2,450,028

Liabilities as per balance sheet 2011		Liabilities – Fair value through the profit and loss designated	Other financial liabilities	Derivatives used for hedging	Total
		CHF	CHF	CHF	CHF
Borrowings	18	-	187,618,703	-	187,618,703
Other financial liabilities	20	2,670,255	-	-	2,670,255
Trade and other payables		-	425,354	-	425,354
Total		2,670,255	188,044,057	-	190,714,312

14. INVESTMENTS IN SUBSIDIARIES

The subsidiaries of the Group are :

	Country of Incorporation	Ownership Percentage	
		2012	2011
USIGH Limited	BVI	100%	100%
USI AG+	Switzerland	100%	100%
USIGH II Investments Limited *	BVI	100%	100%
USI III Investments Holdings Limited	BVI	100%	100%
USI IV Investments Holdings Limited*	BVI	100%	100%
USI Germany Limited	BVI	100%	100%
USI Leipzig Limited	BVI	100%	100%
USI Verwaltungszentrum Leipzig GbR	Germany	94.9%	94.9%
USIEC Limited+	BVI	50.0%	50.0%
Holdings in associated undertakings:			
Public Service Properties Investments Limited	BVI	20.28%	20.28%

*- Dissolved on 12 March 2013

+ - Dormant company

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15. RECEIVABLES AND PREPAYMENTS

	2012 CHF	2011 CHF
Non-current		
Loan receivable	-	3,079,949
Current		
Loan and other receivables	33,402,782	30,534,697
Prepayments	66,776	166,450
	33,469,558	33,781,096

Included in Loans and other receivables is an amount of CHF 30 million (€25 million) which is held on short term deposit as collateral for the €25 million credit facility outlined in Note 18.

Included in Loans and other receivables is a loan at a nominal amount of €2 million, which was lent on 31 March 2008 to Ridgemont Holdings Limited, a subsidiary company of RP&C Inc. Interest of CHF 144,672 (2011 – CHF 151,200) has been accrued in the year on this balance and is included in Loans and other receivables. This balance is due in May 2013 and no allowance was deemed necessary.

16. DERIVATIVE FINANCIAL INSTRUMENTS

The call option attached to the convertible bonds issued in 2011 and 2012 (see Note 18) has been valued at zero and, as such not separated from the host instrument. However, the valuation of the instrument may change in future periods and as such will be revalued as required.

17. SHARE CAPITAL

	2012 CHF	2011 CHF
Authorised, allotted, called up and fully paid:		
Equity interests:		
985,298 (2011 – 985,298) Ordinary shares of CHF 68.85 (2011 – 68.85) each	67,837,767	67,837,767

	Number of shares	Ordinary shares CHF	Share premium CHF	Total CHF
At 31 December 2011 and 31 December 2012	985,298	67,837,767	11,617,985	79,455,752

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17. SHARE CAPITAL (CONTINUED)

There were no movements in share capital in 2012 or 2011.

Authorised share capital

The share capital may be increased by a maximum amount of up to CHF 33,918,884 until 26 June 2014 through the issuance of up to 492,649 fully paid in additional registered shares with a nominal value of CHF 68.85 each.

Conditional share capital

The share capital may be increased by a maximum of CHF 33,918,884 through the issuance of up to 492,649 registered shares with a nominal value of CHF 68.85 each in respect of conditional capital for management, advisors, bondholders and creditors.

As at 31 December 2012, the Group held 15,669 shares (31 December 2011 – 15,669 shares).

Treasury Shares	2012	2011	2012	2011
	shares	shares	CHF	CHF
Balance at 1 January and 31 December	15,669	15,669	1,811,769	1,811,769

18. BORROWINGS

	2012	2011
	CHF	CHF
Non-current		
Notes	31,478,055	31,079,822
	31,478,055	31,079,822
Current		
Mortgages	149,818,610	153,294,463
Other loans	4,509,032	3,244,418
Notes	-	-
	154,327,642	156,538,881
Total borrowings	185,805,697	187,618,703

Total borrowings include secured liabilities (Mortgages and other borrowings) of CHF 124,145,341 (2011 – CHF 126,121,554). These borrowings are secured by the assets of the Group. There are various pledges and covenants included in the loan agreements of the Group which are regularly reviewed and tested to ensure compliance at least annually.

Notes

Notes consist of CHF 15.9 million convertible bonds due in 2015. The bonds have a principal amount of CHF 1,000, a cash coupon of 4.0%, a yield to maturity (including redemption premium) of 6.25% and a conversion price of CHF 120.00. During 2010, holders of pre-existing CHF 15 million convertible bonds were given the option to convert into the new notes issued. Of the CHF 15 million, CHF 9.9 million of the note holders converted to the new notes (for CHF 11.1 million new notes including accrued interest to date) leaving CHF 5.1 million of old notes due in 2011. Additionally CHF 2.2 million of new cash subscriptions were received for the new notes. In total CHF 13.2 million of new notes were issued. During 2011, upon maturity of the notes due in 2011 CHF 2.7 million converted into the new notes issued in 2010 with the balance being repaid in cash, giving a total of CHF 15.9 million.

In addition, the notes issued in 2010 and 2011 contained a conversion option that was determined to be a multi-element arrangement. At the time of issuance, the fair value of the notes was determined to be equal to the book value of the debt, and as such, no equity component was recognized. Also, the new notes contain a call option on behalf of the Company. Refer to Note 16 for consideration of this call option.

During 2009 the Group secured €11.5 million (CHF 13.9 million) of second mortgage funding. These take the form of a number of loan notes to third parties. They are secured against the property in Leipzig, Germany, run for a five year term to May 2014 and attract 7.0% interest and 2.0% fees over this period. During 2011 an additional €1.0 million (CHF 1.2 million) was secured which attracts 9.0% interest and 5.0% fees.

18. BORROWINGS (CONTINUED)

Mortgages

During 2008, the funding of the acquisition of the investment properties in Leipzig, Germany was concluded. The acquisition was funded by the utilisation of €121 million of senior debt, with the balance being paid from existing cash resources of the Group. The senior debt runs for a three year term with a one year extension at the option of the borrower. Interest is payable quarterly at the Euribor rate plus a margin of 120 bps per annum. The senior debt is securitised by first ranking and fully enforceable land charges over the property acquired. The cost of arranging the financing totalled €3,343,786 and will be amortised over the initial term of the loan. On the same date an interest rate swap was executed for a principal sum to match that of the senior debt which fixed the interest rate payable over the 3 year term at 4.52% and provided a 100% hedge throughout its duration.

During 2009, the Group repaid €14.6 million of the above senior debt of €121 million. This was done in order to remedy the covenant breach for the period ending 31 December 2008 and to bring the loan to value back within the 70% prescribed in the facility agreement. As a result of the repayment a waiver of the applicable debt covenant was obtained for 2010.

As a result of the above repayment, the Group also terminated a proportionate amount of the interest rate swap associated with the borrowings. This resulted in a cash loss to the Group of CHF 978,942, based on the mark to market prices at the time of the transaction. On 20 October 2010 the loan facility expired and the associated interest rate swap lapsed. The loan was renewed for a six month term to 20 April 2011 at a margin of 300bps over Euribor to 20 December 2010 and then 400bps over Euribor to maturity. The final formal extension ended on 16 December 2011, and as such the debt is currently in default. In the course of negotiations with the lenders, additional extensions have been obtained up to July 2012.

In addition, the Group's investment property asset is substantially financed by one senior debt facility, which came due in 2011 and is in default. Since the due date in 2011, the Group has been obtaining short-term extensions on the loan repayment date from the lender, of which the final extension ended in December 2011. In 2012, the Group continued to search for refinancing opportunities or alternative refinancing but was unsuccessful due to a change in members of the senior debt facility syndicate. In the fourth quarter of 2012, an agreement was signed transferring a majority of the outstanding debt in the syndicate to a new debtor. The transfer of the debt left significantly unchanged the commitments, contingencies, and obligations of the senior credit facility. In November 2012, a standstill agreement was formalised by the Board of Directors and provided to the lender for approval. The standstill agreement would allow time for the Group to raise additional capital and secure a long-term lease agreement to stabilise future cash flows. The standstill extends the full repayment of the debt facility until 31 December 2014, subject to several restrictive terms and conditions placed by the lenders. The agreement has not been signed by the lender.

The borrowings in respect of the Leipzig properties have been included in current liabilities in both 2011 and 2012.

On 30 November 2007, the Group entered into a one year agreement for a CHF 30 million (€25 million) credit facility. The full amount was drawn down on 3 January 2008 and renewed on 3 January 2009, 2010, 2011 and 2012 for a further year. The average interest rate charged in 2011 was 0.84% (2010 – 0.96%) whilst the current interest rate is 0.75%.

Other Loans

During 2011 a new loan with Green Street Global Investments was entered into for an amount of CHF 3,158,866. This amount attracts 15% interest and was originally due to mature in July 2012 until subsequently extended. During 2012 a further loan of CHF 274,761 was granted from the same loan facility. The shares of PSPI were pledged to secure this loan. Additional loans of CHF 457,705 were entered into under the same facility, which were assigned to RPC International Guernsey Limited. The Green Street Global Investments loan agreement, which is scheduled to mature on 31 March 2013, has not been extended and is not expected to be paid as of the maturity date.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

18. BORROWINGS (CONTINUED)

The maturity of non-current is as follows:

	2012 CHF	2011 CHF
Between 1 and 2 years	15,029,562	-
Between 2 and 5 years	16,448,493	31,079,776
Over 5 years	-	-
Non-current borrowings	31,478,055	31,079,776

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2012 CHF	2011 CHF	2012 CHF	2011 CHF
Notes	31,478,055	31,079,776	32,120,301	31,742,507
	31,478,055	31,076,776	32,120,301	31,742,507

The fair values are based on cash flows discounted using a rate based upon a borrowings rate of 6.25% to 9.0% (2011 – 6.25% to 9.0%).

The carrying amounts of the Group's total borrowings are denominated in the following currency:

	2012 CHF	2011 CHF
Swiss francs	16,448,493	16,002,282
US dollars	4,509,032	3,244,418
Euros	164,848,172	168,372,003
	185,805,697	187,618,703

19. DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	2012 CHF	2011 CHF
Deferred tax liabilities to be recovered after more than 12 months	-	-

The gross movement on the deferred income tax account is as follows:

	2012 CHF	2011 CHF
Beginning of the year	-	81,673
Income statement charge (Note 21)	-	(83,637)
Net changes due to exchange differences	-	1,964
End of the year	-	-

In prior years, deferred taxation has been provided on the fair value gains on investment property (see Note 11) at a rate of 15.83%. The fair value of the investment property is now below the acquisition price (see values in Note 11), however no deferred tax asset has been recognised as the Group is uncertain as to its future recovery (See Note 21).

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

20. OTHER FINANCIAL LIABILITIES

	2012 CHF	2011 CHF
Liability from put option	2,652,271	2,670,255
	<u>2,652,271</u>	<u>2,670,255</u>

The above financial liability relates to the minority holding of 5.1% in the acquired partnership USI Verwaltungszentrum GbR, therefore no minority is disclosed within equity.

The seller has an irrevocable right (put option) to sell its 5.1% holding at a value based on a pre-determined formula within the option agreement to USI during a specified period, the earliest date being 1 March 2013. In addition, included within the liability is the fair value of a 5.1% profit share arrangement implicit within the partnership agreement with the holder of the put option.

The Group (buyer) has an irrevocable right (call option) to buy the 5.1% holding at a value based on a pre-determined formula within the option agreement from the seller during a specified period, the earliest date being 1 March 2013.

The parties agree that the purchase for the shares corresponds to their market value which will be calculated on the basis of the following formula: 5.1% of the average net annual basic rent paid for the lease object in the years 2008 – 2012 (or in the 5 years preceding the year in which the purchase or sales option was executed, if not executed in the year 2013) (inclusive) x 4.2.

21. INCOME TAXES

	2012 CHF	2011 CHF
Current tax	-	(62,832)
Deferred tax (Note 19)	-	83,637
	<u>-</u>	<u>20,805</u>

The tax on the Group's profit before tax is based on the applicable tax rate of the parent company of 7.83% (2011 - 7.83%).

	2012 CHF	2011 CHF
Loss before tax per consolidated income statement	(30,939,399)	(18,252,797)
Tax calculated at domestic tax rates applicable to profits in the respective countries	2,422,555	1,429,194
Tax losses for which no deferred tax asset was recognised	(2,775,430)	(1,250,145)
(Expenses) not tax deductible / income not taxable	(266,037)	(686,320)
Local tax rate different to parent tax rate	618,912	528,076
Tax charge	<u>-</u>	<u>20,805</u>

As at 31 December 2012, the Group had unused tax losses of CHF 112.3 million (2011 - CHF 80.3 million), which expires between 2013 and 2018. These losses were not capitalised as it is unlikely that they will be utilised by the Group. The expenses not tax deductible / income not taxable includes companies in jurisdictions without any income tax. The tax rate for Germany was 16%, which is significantly higher than that of the parent company.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

22. ACCRUALS

	2012 CHF	2011 CHF
Payable to RP&C	3,238,958	1,941,214
Payable to the Estate of Dr. iur. V Lanfranconi	987,216	1,790,931
Deferred income	899,305	906,307
Loan interest	2,575,210	558,339
Audit fees	172,656	123,167
Other accrued expenses	854,168	1,342,676
	8,727,513	6,662,634

23. RELATED PARTY TRANSACTIONS

Dr. iur. V. Lanfranconi was the majority beneficial owner of the Group's issued share capital, these shares are now held in the name of Mrs B. Lanfranconi. David Quint and Dr. Doraiswamy Srinivas are directors of RP&C International Inc (RP&C), the Group and some of its subsidiaries. William Vanderfelt is also a non-executive director of RP&C and the Group. RP&C is the parent company of RP&C International (Guernsey) Limited which held 3.73% of the issued ordinary share capital of the Group at 31 December 2012 (31 December 2011 – 6.47%).

The Group was charged CHF 1,193,425 (2011 – CHF 1,572,059) for management fees for services rendered by RP&C.

At 31 December 2012, RP&C was owed CHF 3,132,638 (2011 – CHF 1,941,214) for management fees by the Group. The estate of Dr. iur. V. Lanfranconi was owed CHF 987,216 (2011 – CHF 1,790,930) for management related expenses.

For the year ended 31 December 2012, the Group was charged CHF Nil (2011 – CHF 138,742) for office, secretarial and related expenses by the estate Dr. iur. V. Lanfranconi.

For the year ended 31 December 2012, the Group was charged CHF Nil (2011 – CHF 106,320) other charges and expenses by RP&C.

During the year ended 31 December 2008, a loan of CHF 2,434,180 (€2 million) was made to Ridgemont Holdings Limited, a wholly owned subsidiary of RP&C International Inc. Interest totalling CHF 144,608 has been accrued during the year on this loan (2011 – CHF 147,657).

During the year ended 31 December 2010, a loan of CHF 1,655,910 (£1,139,996) was made by RP&C International Inc to the Group. During 2011, £902,567 (CHF 1,265,575) of this amount was offset against amounts owed to the estate of Dr. Lanfranconi leaving a principle amount outstanding of £237,430 (CHF 344,751).

During the year ended 31 December 2011, a loan of CHF 3,158,865 was made by Green Street, an entity wholly owned by a subsidiary of RP&C, further loans totalling CHF 274,761 were made in 2012, in addition to a further CHF 457,705 which was assigned to RPC International (Guernsey) Limited. Interest totalling CHF 532,146 had been accrued during the year on this loan. In addition, the shares of PSPI were pledged to secure this loan.

During 2012, five of the Directors made working capital loans of £20,000 (CHF 29,289) each to the Group. These are interest free and total CHF 146,446 as at 31 December 2012. The Directors in question were Mr William Vanderfelt, Dr. Volkert Klauke, Mr. Armin Hilti, Mr. David Quint and Dr. Doraiswamy Srinivas.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

23. RELATED PARTY TRANSACTIONS (CONTINUED)

The following directors' fees were recognised in 2012 and 2011. Of these amounts, CHF 90,000 (2011 – CHF 120,000) was outstanding at the year end.

	2012 CHF	2011 CHF
Dr. Robert Bider (resigned 26 June 2012)	15,000	30,000
Mr. Armin Hilti (resigned 26 June 2012)	15,000	30,000
Dr. Volkert Klaucke	30,000	30,000
Mr. William Vanderfelt	30,000	30,000

The total compensation of key management are only directors fees in the total amount of CHF 90,000 (2011 – CHF 120,000) (Note 27).

24. EMPLOYEES

The Company had no employees at 31 December 2012 (2011 – none).

25. FINANCIAL COMMITMENTS

The Company had no financial commitments at 31 December 2012 (2011 – none).

26. SUBSEQUENT EVENTS

On 8 February 2013, the Group borrowed \$1.2 million from Venus Global Macro Fund Limited for working capital purposes. The loan is repayable on 31 December 2014 and bears interest at a rate of 7% per annum. The loan is guaranteed by the Company. USIGH Limited has agreed to repay the loan, together with all accrued interest thereon, by procuring that the Company will issue to the lender shares of the Company at the volume-weighted average price at which the shares have traded for the 60 days prior to the date on which conversion was agreed, equivalent in value to the loan and all accrued interest. Such issue of shares is subject to all necessary approvals being first obtained.

On 5 April 2013, the Group exited a credit facility in the amount of CHF 30 million (€25 million) and also other receivables in the amount of CHF 30 million (€25 million) which was held on short term deposit as collateral for the credit facility.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

27. DISCLOSURE OF COMPENSATION AND PARTICIPATIONS OF BOARD OF DIRECTORS AND GROUP MANAGEMENT (As required by Art. 663b bis and Art. 663c. Swiss Code of Obligations)

All amounts in CHF	Basic remuneration 2012		Basic remuneration 2011	
	Fee	Total	Fee	Total
Board of Directors				
Dr. Robert Bider	15,000	15,000	30,000	30,000
Mr. Armin Hilti	15,000	15,000	30,000	30,000
Dr. Volkert Klaucke	30,000	30,000	30,000	30,000
Mr. William Vanderfelt	30,000	30,000	30,000	30,000
Mr. David Quint	-	-	-	-
Dr. Doraiswamy Srinivas	-	-	-	-
Total	90,000	90,000	120,000	120,000
Group Management				
RP&C International Inc.	1,193,425	1,193,425	1,572,059	1,572,059
Total	1,193,425	1,193,425	1,692,059	1,692,059

Basic remuneration of Group Management relates to payments made by the Group in accordance with the asset management agreement. No variable remuneration or options were paid.

On 31 December 2012, there were no loans or credit provided by the Group to individual members of the Board of Directors.

As at 31 December, the following numbers of participations were held by the Board of Directors and the Group Management (including persons closely related to these members):

	Shares 2012	Shares 2011
Board of Directors		
The Estate of Dr. iur V. Lanfranconi	541,565	541,565
Dr. Robert Bider (resigned 26 June 2012)	N/A	-
Mr. Armin Hilti (resigned 26 June 2012)	N/A	1,992
Dr. Volkert Klaucke	-	-
Mr. William Vanderfelt	44,365	17,365
Mr. David Quint	-	-
Dr. Doraiswamy Srinivas	-	-
Total	585,930	560,922
Group Management		
RP&C International Inc.	36,739	63,739
Total	36,739	63,739

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

28. SEGMENT INFORMATION

Year ended 31 December 2012	Investments in Government Tenanted Property CHF	Investments in Associated Undertakings CHF	Reconciling Central Costs CHF	Total CHF
Revenue	10,816,685	-	-	10,816,685
Net loss on fair value movement on investment properties	(9,839,365)	-	-	(9,839,365)
Share of loss of associates	-	(16,345,652)	-	(16,345,652)
Impairment of associate	-	(1,889,002)	-	(1,889,002)
Loss profit after tax	(8,880,773)	(18,234,654)	(3,823,972)	(30,939,399)
Assets				
Investment properties (Note 11)	182,953,036	-	-	182,953,036
Investments in associates (Note 12)	-	15,426,339	-	15,426,339
Cash	1,178,130	-	389,279	1,567,409
Segment assets for reportable segments	184,131,166	15,426,339	389,279	199,946,784
Liabilities				
Total borrowings (Note 18)	134,665,871	-	51,139,826	185,805,697
Segment liabilities for reportable segments	134,665,871	-	51,139,826	185,805,697
Year ended 31 December 2011	CHF	CHF	CHF	CHF
Revenue	10,998,939	-	-	10,998,939
Net loss on fair value movement on investment properties	(9,037,887)	-	-	(9,037,887)
Share of loss of associates	-	(4,360,167)	-	(4,360,167)
Loss profit after tax	(9,066,516)	(4,360,167)	(4,805,309)	(18,231,992)
Assets				
Investment properties (Note 11)	194,327,850	-	-	194,327,850
Investments in associates (Note 12)	-	33,614,870	-	33,614,870
Cash	1,478,263	-	971,765	2,450,028
Segment assets for reportable segments	195,806,113	33,614,870	971,765	230,392,748
Liabilities				
Total borrowings (Note 18)	137,954,816	-	49,663,887	187,618,703
Segment liabilities for reportable segments	137,954,816	-	49,663,887	187,618,703

All revenue derived from Investments in Government Tenanted Property is derived from one external customer in Germany. The column Reconciling Central Costs represents expenses, assets and liabilities that relate to the Group and cannot be separately allocated between segments.

USI GROUP HOLDINGS AG
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

28. SEGMENT INFORMATION (CONTINUED)

Reportable segments' assets are reconciled to total assets as follows:

Year ended 31 December	2012 CHF	2011 CHF
Total reportable segment assets	199,946,784	230,392,748
Receivables and prepayments (Note 15)	33,469,558	33,781,096
Total assets per balance sheet	<u>233,416,342</u>	<u>264,173,844</u>

Reportable segments' liabilities are reconciled to total liabilities as follows:

Year ended 31 December	2012 CHF	2011 CHF
Total reportable segment liabilities	185,805,697	187,618,703
Other financial liability (Note 20)	2,652,271	2,670,255
Trade payables and accruals	9,158,632	7,087,988
Total liabilities per balance sheet	<u>197,616,600</u>	<u>197,376,946</u>

29. ASSESSMENT OF RISK (as required by Art. 663b bis Par 12, Swiss Code of Obligations)

Financial risk assessment and management is an integral part of the USI Group Holdings AG Group-wide enterprise risk management and is governed by policies reviewed by the Board of Directors. The policies provide guidance on operational risk limits, types of authorized financial instruments and monitoring procedures. Such monitoring procedures contain regular review of accounting policy assessment including changes in accounting policy, significant accounting matters, and items requiring significant management judgment and estimates. The implementation of the accounting policy, the adherence to the regulation and the monitoring on a day-to-day risk basis are carried out by the relevant accounting and treasury functions. Regular reporting on the review of the financial risk management is performed by the relevant accounting and controlling functions.

The Group has established a yearly process driven by management evaluating in detail financial risk assessment in the areas of accounting complexity, control environment, market dynamics, cultural and individual parameters.

The major financial risks identified and therefore the most critical accounting policies consist of revenue recognition, accounting for acquisitions and strategic alliances, intangible assets and Impairments, accounting for associates, foreign exchange risk, equity based compensation and contingencies.

The major financial risks in the area of control environment consist of information systems complexity, outsourcing of critical processes, timely review of results, and the robustness of the documentation of processes. The major financial risks identified in the area of market dynamics consist of the local customs and practices, country specific risks and overall market dynamics.

30. BOARD APPROVAL

The consolidated financial statements on pages 8 to 42 are subject to approval by the AGM and have been authorised by the board of directors on 22 April 2013 and were signed on its behalf by:



Report of the statutory auditor
to the general meeting of
USI Group Holdings AG
Zurich

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of USI Group Holdings AG , which comprise the balance sheet, income statement and notes (pages 45 to 48), for the year ended 31 December 2012.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

Emphasis of matter

We draw attention to Note 8 "Financial and other risk management" to these financial statements, where disclosures by management are made regarding the fact that USI Group Holdings AG's investment property asset is primarily financed by one senior debt facility, which is past due and is currently in default, and that short term loans as well as interest payments on USIGH III Investments Holdings Limited notes cannot be repaid by their contractual due dates.

If the term of the senior debt facilities, short-term loans and debt is not extended or if the financing cannot be substituted, such a case would set USI Group Holdings AG at risk of potential illiquidity. This indicates the existence of a material uncertainty which may cast significant doubt about the ability of USI Group Holdings AG to continue as a going concern, due to its outstanding intercompany receivables. Our opinion is not qualified in respect of this matter.

In addition, the above mentioned issue may cause concerns that the accumulated deficit exceeds the share capital in relation to article 725 paragraph 2 Swiss Code of Obligations and the Board of Directors would need to comply with the corresponding regulations.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

Furthermore we draw to your attention that the accumulated deficit exceeds one half of the share capital and legal reserves (Article 725 paragraph 1 of the Swiss Code of Obligations).

PricewaterhouseCoopers AG

Patrick Balkanyi

Michael Ruble

Audit expert
Auditor in charge

Zurich, 22 April 2013

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of accumulated deficit

BALANCE SHEET
USI Group Holding AG

	31.12.2012	31.12.2011
	CHF	CHF
ASSETS		
Cash and cash equivalents	7,979	1,174,127
Receivables third parties	1,939	116,634
Intercompany receivables	35,903,180	64,794,573
Marketable securities – treasury shares	237,310	565,808
Total current assets	36,150,408	66,651,142
Investments in subsidiaries	4,327,978	4,327,978
Total non-current assets	4,327,978	4,327,978
TOTAL ASSETS	40,478,386	70,979,120
LIABILITIES AND SHAREHOLDERS' EQUITY		
Due to shareholders	4,486,474	4,008,764
Accrued expenses	192,170	173,458
Total liabilities	4,678,644	4,182,222
Share capital	67,837,767	67,837,767
Legal reserves from capital contributions	56,295,292	56,295,292
Reserves for treasury shares from capital contributions	1,811,769	1,811,769
Other legal reserves	(19,283,462)	(19,283,462)
Accumulated deficit	(70,861,624)	(39,864,468)
<i>Balance carried forward from prior year</i>	(39,864,468)	(24,438,599)
<i>Annual loss</i>	(30,997,156)	(15,425,869)
Total shareholders' equity	35,799,742	66,796,898
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	40,478,386	70,979,120

INCOME STATEMENT
USI Group Holding AG

1 January – 31 December

	2012	2011
	CHF	CHF
Other income	-	-
Directors' fees	(90,000)	(90,000)
Professional fees	(18,185)	(25,695)
Tax consultancy	(32,292)	(2,882)
Audit fees	(96,000)	(134,651)
Listing fees	(12,876)	(13,894)
Insurance	(21,158)	(18,962)
Management charges	(1,193,425)	(1,572,059)
Capital tax expenses, maintenance and general administration	(79,175)	(368,357)
Impairment provision of treasury shares	(328,498)	(1,245,961)
Impairment provision of intercompany receivables	(29,104,209)	(11,882,278)
Loss before financial items	(30,975,818)	(15,354,739)
Finance expenses	(4,847)	(19,852)
Foreign exchange losses	(16,546)	(51,435)
Finance income	55	157
Loss before income tax expenses	(30,997,156)	(15,425,869)
Income tax expense	-	-
Loss for financial items	(30,997,156)	(15,425,869)

NOTES
USI Group Holding AG

To the financial statements at 31 December 2012

Disclosures required by Swiss law:

1) Company information

There were no movements in share capital in 2012 or 2011.

Authorised share capital

The share capital may be increased by a maximum amount of up to CHF 33,918,884 until 26 June 2014 through the issuance of up to 492,649 fully paid in additional registered shares with a nominal value of CHF 68.85 each.

Conditional share capital

The share capital may be increased by a maximum of CHF 33,918,884 through the issuance of up to 492,649 registered shares with a nominal value of CHF 68.85 each in respect of conditional capital for management, advisors, bondholders and creditors.

2) Significant shareholders

At the year end, the following significant shareholders were listed in the share register with shareholdings in excess of 5% of issued share capital.

	31.12.12	31.12.11
The Estate of Dr Victor Lanfranconi and Mrs Beatrix Lanfranconi Spaeti	54.97%	54.97%
Esquire Consolidated Limited	5.78%	5.78%
RP&C International (Guernsey) Limited	3.73%	6.47%

3) Guarantees

The Company has granted a guarantee for USIGH Limited in the amount of EUR 25 million.

4) Significant investments

Company name	Domicile	Share capital	Shares held	Type of shares and nominal value	Ownership
USI AG	Switzerland	CHF 15,000,000	150,000	Ordinary CHF 100	100%
USIGH Limited	British Virgin Islands	\$0.02	2	Ordinary USD 0.01	100%

The companies are holding and finance companies.

5) Treasury shares

Treasury shares

	2012	2011	2012	2011
	Shares	Shares	CHF	CHF
Balance at 1 January	15,669	15,669	565,808	1,811,769
Impairment of shares	-	-	(328,498)	(1,245,961)
Sale of shares	-	-	-	-
Balance at 31 December	15,669	15,669	237,310	565,808

6) Assessment of risk (art. 663b bis para. 12 CO)

USI Group Holdings AG, as ultimate parent company of the Group, prepares a centralised risk management system for the Group (including USI AG). This risk management system separates strategic risks from operative risks. All identified risks are quantified according to their realisation, probability and impact. These risks are the objective of an annual discussion process in the Group's Board of Directors and Audit Committee meetings. The identification and remediation of risks is a key management objective.

Risks that arise from the accounting and financial reporting process are included in the risk assessment process. The Internal Control System framework over financial reporting includes relevant control measures, which reduce the overall financial reporting risk. Non-financial reporting risks are categorised depending on their possible impact (low, average and high) and appropriately monitored.

7) DISCLOSURE OF COMPENSATION AND PARTICIPATIONS OF BOARD OF DIRECTORS AND GROUP MANAGEMENT (As required by Art. 663b and Art. 663c. Swiss Code of Obligations)

Refer to Note 27 of the consolidated financial statements.

8) Financial and other risk management

Due to the significant outstanding intercompany receivable balances due from subsidiaries, risks to these subsidiaries, and the Group as a whole, have been considered in relation to the stand-alone entity.

In addition, the Group's investment property asset is substantially financed by one senior debt facility, which came due in 2011 and is in default. Since the due date in 2011, the Group has been obtaining short-term extensions on the loan repayment date from the lender, of which the final extension ended in December 2011. In 2012, the Group continued to search for refinancing opportunities or alternative refinancing but was unsuccessful due to a change in members of the senior debt facility syndicate. In the fourth quarter of 2012, an agreement was signed transferring a majority of the outstanding debt in the syndicate to a new debtor. The transfer of the debt left significantly unchanged the commitments, contingencies, and obligations of the senior credit facility. In November 2012, a standstill agreement was formalised by the Board of Directors and provided to the lender for approval. The standstill agreement would allow time for the Group to raise additional capital and secure a long-term lease agreement to stabilise future cash flows. The standstill extends the full repayment of the debt facility until 31 December 2014, subject to several restrictive terms and conditions placed by the lenders. The agreement has not been signed by the lender.

The Group also pays interest to its USIGH III Investments Holdings Limited loan note holders on a quarterly basis, with the next payment due on the last day of April 2013. The Group is not forecasted to have available cash to fully repay this interest. The Board has proposed to offer loan note holders to maintain their current position and accrue interest until a refinancing of the investment property can be established, or to accept conversion of their loan notes into equity of the Group. The Group is also considering the issuance of additional equity at a discount to the current share price as well as convertible notes to achieve additional working capital and to partially repay outstanding loans.

The Group also currently has outstanding a loan from Green Street Global Investments in the sum of CHF 4.5 million, including accrued interest, which matured in March 2013. The Group is not forecasted to have available cash to fully repay this principal. The Board has proposed an extension on the loan to maintain their current position or to accept conversion of their loan notes into equity of the Group.

The Group also currently has outstanding accrued liabilities on the balance sheet, which are past due or require payment within 0 to 90 days. The Group is not forecasted to have available cash to fully repay these amounts upon their due dates. In order to repay these balances, the Group has entered into discussions with the counter-parties to convert such debt amounts to equity or to reduce the outstanding fees.

In February 2013, the Group borrowed USD 1.2 million from Venus Global Macro Fund Limited for short term working capital purposes. The loan is repayable on 31 December 2014 and bears interest at a rate of 7% per annum. The loan is guaranteed by the Company. If the lender requests, USIGH Limited has agreed to repay the loan, together with accrued interest thereon, by procuring that the Company issues to the lender shares of the Company at an issue price of CHF 10 per share, equivalent in value to the loan and all accrued interest. Such issue of shares is subject to all necessary approvals being first obtained.

If the term of the senior debt facilities, short-term loans and accrued debt is not extended, reduced, or if the financing cannot be substituted, such a case would set the Group at risk of potential illiquidity. This indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern.

The Company has lost more than half of its share capital and legal reserves. However, as there is sufficient share capital and legal reserves at 31 December 2012 against which retained losses may be offset through a capital reduction at any time upon a resolution of the shareholders' meeting, the Board of Directors did not consider necessary to call an extraordinary shareholders meeting for proposing reorganisation measures according to article 725 para.1 of the Swiss Code of Obligations.

Proposal of the Board of Directors for appropriation of accumulated deficit at 31 December 2012

in CHF

Accumulated deficit

Accumulated deficit at 1 January 2012	(39,864,468)
Offsetting balance of accumulated deficit carry forward with legal reserve on general meeting of shareholders on 7 June 2013	-
Balance after general meeting of shareholders on 7 June 2013	(39,864,468)
Loss for 2012	(30,997,156)
Accumulated deficit	-
Offsetting balance of accumulated deficit carry forward with legal reserve	-
Accumulated deficit carried forward	(70,861,624)

USI GROUP HOLDINGS AG
OTHER INFORMATION (Audited)
FOR THE YEAR ENDED 31 DECEMBER 2012

Additional Rules for the Listing of Real Estate Companies of the SIX Swiss Exchange

General Information

Property Details

<i>Name, address</i>	<i>Owner¹</i>	<i>Ownership status²</i>	<i>Approximate Year of construction</i>	<i>Year of renovation</i>	<i>% of leased usable space</i>	<i>As % of Investment Properties Portfolio</i>	<i>Gross lettable area M³</i>
Germany Office Building - Behördenzentrum, Free State of Saxony, Schongauerstrasse 1-17, 04328, Leipzig, Germany.	USI GbR	FH	1995	-	100	100	50,707

1 USI Gbr = USI Verwaltungszentrum Leipzig GbR

2 FH = Freehold (100%)

3 Gross lettable area comprises 49,879 sqm of three office buildings plus 828 sqm single-storey facilities.

Significant lessees of USI Group owned properties

Name of Lessee	Location	Details of leased properties	Lease period expiry date	Aggregate annual lease payments	Percentage of total lease payments to the USI Group:
Free State of Saxony	Leipzig, Germany	3 four-storey office buildings and 1 single-storey building.	March 2020	€ 8,976,010 (CHF 10,816,685 [*])	100.00%

Equity Ownership of the Company and/or the USI Group in Real Estate Companies

Other than the subsidiaries disclosed above, the Company and/or the USI Group do not own equity interests in any other real estate companies.

^{*} Exchange rate based on EUR: CHF = 0.82983

Independent appraisal firms and valuation methods

The USI Group has commissioned Botta Management AG for the purpose of estimating the fair value of the real estate holdings owned by the USI Group.

Valuation method of Botta Management AG (“Botta”)

The valuation method of Botta is the discounted cash flow analysis. This method stems from the calculation of the capitalised income value of an undertaking. Thereby all future profits are converted into present cash value.

Capitalised Value of Property: With respect to the calculation of a property, all future estimated earnings and expenses (without interest on capital accounts and amortisation) are - as is the case when evaluating an undertaking - being collected. The difference between the respective earnings and expenses results in the cash flow. The cash flow can be positive or negative. This future cash flow is recalculated to the present value by using a cash equivalent factor. The later - expressed in years - this cash flow accrues, the lower the present value of such a cash flow is. Since properties represent very durable values, most properties still show a significant residual value after the examination period (normally 10 years) has expired. Thus, the residual value of the property has to be calculated at the end of the examination period. The residual value will then also be recalculated expressing the present cash value. The sum of all present cash values from the annual earnings and the cash value of the residual value results in the present capitalised income value of the property (DCF-value).

The sum of all cash values over a certain period of time and a possible residual value result in the capitalised income value of the undertaking.

The following basic data needs to be defined when applying this method:

- i) Object: name of the property.
- ii) Initial year: determination of the point in time, on which the calculation will be conducted. Normally this will be the present year.
- iii) Examination period: as examination period as the duration of the lease – which means until 2020. Over this period exact information relating to the future earnings and expenses can normally be given. After the expiration of the lease, a residual value will be calculated and will be discounted.
- iv) Discount factor: The discount factor is the interest rate by which future earnings are being discounted to the present value. Starting point for the determination of the interest rate is normally the actual sustainable interest rate for 10 year German Government Bonds. A risk premium is charged additionally. Thereby market risks relating to the property are accounted for. The risk premium varies for a normal customary property between 0.5% and 1.5%. Main factors are the location of the property with respect to the use and the risk of renting out. For purposes of valuing the Leipzig Property, a risk premium of 1.5% / 1.7% is applied. That is a very conservative assumption in view of the quality of the property. A discount factor of 4.2% was used for the valuation at 31 December 2012 (2011 – 4.3%).
- v) Capitalisation factor, calculation of residual value: With this interest rate the residual value of the property can be calculated. The capitalisation factor is, depending on the examination period and the condition of the property, 0.7% higher than the discount factor at 4.9% (2011 – 5.0%).
- vi) For the calculation of the annual amounts, the effective rental income is reduced by costs of the lessor such as insurance, real estate tax and maintenance. These were assumed to be at 4.7% of rental income (2011 – 3.7%).
- vii) General increase in renting costs: Thereby future general increase in prices with respect to earnings in connection with a property can be recorded.
- viii) General increase in costs: Thereby future general increases in prices with respect to expenses in connection with a property can be recorded.
- ix) Adjustment Amount: Extraordinary expenses can be recorded.
- x) Rental growth rate assumed by Botta of 1.2% (2011 – 1.4%) and inflation rate assumed by Botta of 2.0% (2011 – 2.2%).

USI GROUP HOLDINGS AG
OTHER INFORMATION (Audited)
FOR THE YEAR ENDED 31 DECEMBER 2012

Market Value

With regard to the above, Botta are of the opinion that the Market Value of the subject property as at 31 December 2012 is **EUR 151,540,000** (2011: €159,705,000).

Neither the Company nor any member of the USI Group has any relationship with this appraisal firm.

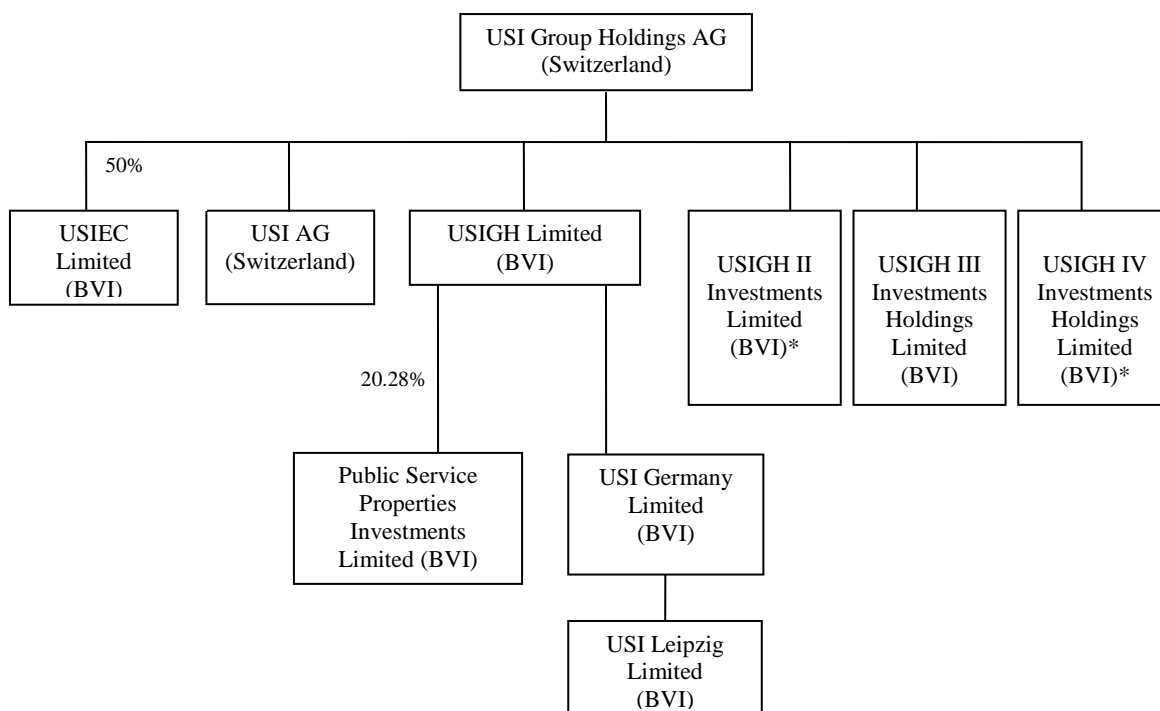
I Corporate Governance

This report describes certain key information relating to corporate governance at USI Group Holdings AG (the "**Company**"). The report's content is structured along the disclosure items of the "Directive on Information Relating to Corporate Governance" of the SIX Swiss Exchange currently in force.

1 Group Structure and Shareholders

1.1 Group Structure

At 31 December 2012, the corporate structure of the group (the "**USI Group**") was as follows (for the internal organizational structure, refer to sections 3.3 and 4):



* Dissolved on 12 March 2013.

USI Group Holdings AG has its address at Bahnhofstrasse 106, 8001 Zurich, Switzerland, and its registered shares are listed on the SIX Swiss Exchange under the listing standard for real estate companies. For its ISIN, Security Number and SIX Swiss Exchange Symbol see section 9. The Company's market capitalization as at 31 December 2012 was CHF 14,089,761.

At 31 December 2012, the principal shareholdings of the USI Group were in the following non-listed companies:

Company	Number of Shares Owned	Type of Shares and Nominal Value	Direct / Indirect Ownership %	Voting Rights %
USIGH Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1039705	2	Ordinary US\$ 0.02	100	100
USI AG, Bahnhofstrasse 106, 8001 Zurich, Switzerland	150,000	Ordinary CHF 100	100	100
USI Germany Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1440436	1	Ordinary US\$ 1.0	100	100
USI Leipzig Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1417877	1,000	Ordinary No par value	100	100
USIGH II Investments Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1439903	1	Ordinary US\$ 1.0	100	100

USIGH III Investments Holdings Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1531975	1	Ordinary US\$ 1.0	100	100
USIGH IV Investments Holdings Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1532071	1	Ordinary US\$ 1.0	100	100
USIEC Limited, Nerine Chambers, Road Town, Tortola, BVI, registered number 1660465	1	Ordinary No par value	50	50

In addition, the Company had a minority participation of 20.28% in Public Services Properties Investments Limited (BVI) ("PSPI"), a property investment company listed on the Alternative Investment Market ("AIM") of the London Stock Exchange (ISIN: VGG729641024, Symbol: PSPI), as of 31 December 2012. The market capitalization of this company as at 31 December 2012 was £15,014,615 (CHF 22,150,300), and the value of the USI Group's participation was £3,044,964 (CHF 4,492,080).

The USI Group also owns 94.9% of a partnership named USI Verwaltungszentrum Leipzig Gbr and has an option to purchase the remaining 5.1% of such partnership.

1.2 Significant shareholders

The Company has the following major shareholders:

Name of Holder	No of registered shares with a nominal value of CHF 68.85	Percentage ownership of total equity capital and voting rights
Estate of Dr Victor Lanfranconi and Mrs Beatrix Lanfranconi Spaeti	541,565	54.97%
Esquire Consolidated Limited ¹	56,948	5.78%
Equinox USI Limited ² c/o Herndon Plant Oakley Limited, One Shoreline Plaza, 800 North Shoreline, Suite 2200, South Tower, Corpus Christi, Texas 78401, USA	48,019	4.87%
Petercam Luxembourg SA ³ Rue Pierre d'Aspelt 1a, L-1142 Luxembourg	44,365	4.50%
USI – USA II ⁴ 4571 Stephen Circle NW, Suite 200 Canton OHIO 44718 USA	40,595	4.12%
RP&C International (Guernsey) Limited ⁵ of First Floor, Challenge House, The Grange, St Peter Port, Guernsey GY1 2QJ	36,739	3.73%
USI – USA I ⁶ 4571 Stephen Circle NW, Suite 200 Canton OHIO 44718 USA	34,037	3.45%
European Asset Value Fund	16,736	1.70%

¹ Of which 10,420 Shares held through Monkwell Investments Limited. The company is administered by Ardel Trust Company (Guernsey) Limited, PO Box 175, Frances House, Sir William Place, St Peter Port, Guernsey, Channel Islands GY1 4HQ. The balance of the shares are held through J. P. Morgan Securities Limited and J. P. Morgan (Suisse) S.A.

² Held through Monkwell Investments Limited. Candies Family Investment LLC owns 41% of Equinox USI Limited.

³ Held as nominee for the ultimate beneficial owner William Vanderfelt, Chemin de Cli, CH- 1936, Verbier, Switzerland.

⁴ Held through Monkwell Investments Limited. Henry S Belden IV, Marathon, Florida, USA, owns 54.5% of the shares of USI-USA II, Limited. In addition, he holds a 90% interest in Southgate Investment, which holds 28.1% of the shares of USI-USA II, Limited.

⁵ Shares held on behalf of RP&C International (Guernsey) Limited by Monkwell Investments Limited, as nominee.

⁶ Held through Monkwell Investments Limited. Henry S Belden IV, Marathon, Florida, USA, is a trustee of HSB Charitable Trust and BVB Charitable Trust, which in aggregate hold 72.1% of the shares of USI-USA I Limited.

1 Boulevard Royal, L2449, Luxembourg		
Treasury Shares	15,669	1.59%
Other existing shareholders	150,625	15.29%
Total	985,298	100%

Disclosure notices of significant shareholdings made to the Company and the SIX Swiss Exchange Ltd Disclosure Office during the year under review pursuant to art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading may be viewed on the exchange's electronic publication platform at the following address:

http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

1.3 Crossholdings

There are no cross-shareholdings between the Company and any other entity that would exceed 5% of capital or voting rights on both sides.

2 Capital structure

2.1 Capital

The Company's share capital amounts to CHF 67,837,767.30, divided into 985,298 registered shares with a par value of CHF 68.85, fully paid in.

The conditional capital for management and advisors amounts to CHF 3,155,326.65 and the conditional capital for bondholders and other creditors amounts to CHF 30,763,557.00.

The authorized capital amounts to CHF 33,918,883.65.

2.2 Authorized and conditional capital

2.2.1 Authorized capital

Pursuant to an authorization in Article 3c of the Company's articles of incorporation (the "**Articles**") the board of directors may increase the share capital in the amount of up to CHF 33,918,883.65 until 26 June 2014 through the issuance of up to 492,649 fully paid in additional registered shares with a nominal value of CHF 68.85 each. An increase in partial amounts is permitted. The date of issuance, the issue price, the payments with regard to the issue price, the dividend entitlement as well as the allocation of not-exercised subscription rights shall be determined by the board of directors. The board of directors may restrict or withdraw subscription rights in connection with mergers, acquisitions of interests, financing and/or re-financing of mergers or acquisitions of interests, or other investment projects, national or international placements of shares, conversion of loans or other equity securities into shares and for the broadening of the shareholder basis. The new registered shares are subject to the transfer restrictions specified in Article 4 of the Articles.

2.2.2 Conditional capital

According to Article 3a of the Articles the share capital may be increased by a maximum amount of CHF 3,155,326.65 through the issuance of up to 45,829 fully paid registered shares with a nominal value of CHF 68.85 each through the exercise of option rights granted to the management and advisors of the company or its subsidiaries. The subscription rights of the shareholders shall be excluded. The conditions of the option rights, the issue price, the dividend entitlement as well as the type of contribution shall be determined by the board of directors. The acquisition of registered shares through the exercise of option rights as well as every subsequent transfer of shares shall be subject to the restrictions set forth in Article 4 of the Articles.

Furthermore, pursuant to Article 3b of the Articles the share capital may be increased by a maximum amount of CHF 30,763,557.00 through the issuance of up to 446,820 fully paid registered shares with a nominal value of CHF 68.85 each through the exercise of conversion rights, warrant rights or option rights which have been or will be granted to bondholders or other creditors of the company or its subsidiaries. The subscription rights of the shareholders shall be excluded. The conditions of the option rights and of the conversion rights, the issue price, the dividend entitlement as well as the type of

contribution shall be determined by the board of directors. The board of directors may restrict or withdraw the right for advance subscription (*Vorwegzeichnungsrecht*) of the shareholders in connection with (i) the financing (refinancing inclusively) of acquisitions of enterprises or parts thereof, participations or other investment projects of the company and/or its subsidiaries or (ii) the issuance of bonds with option or conversion rights on national or international capital markets. If the right of advance subscription (*Vorwegzeichnungsrecht*) is excluded, (i) the bonds or bonds with warrants (*Anleihen oder Optionsanleihen*) have to be offered at market conditions, with (ii) the period of time for exercising the conversion and the options rights being not more than 10 years from the issue date, and (iii) the exercise price of the new registered shares corresponding to the market conditions at the time of issue. The acquisition of registered shares through the exercise of conversion and/or option rights as well as every subsequent transfer of these shares shall be subject to the restrictions set forth in Article 4 of the Articles. Part of this conditional capital has been reserved for issues of shares pursuant to the securities referred to in section 2.7.1 and section 2.7.2.

2.3 Changes in capital in the past three years

In the three past years (2010-2012), there were no changes to the Company's issued share capital.

2.4 Shares and participation certificates

As at 31 December 2012, the Company has 985,298 registered shares with a par value of CHF 68.85 fully paid in. The shares rank equally among each other in all respects (including in respect of entitlements to dividends and liquidation proceeds). Each share confers one vote in the shareholders' meeting.

The Company has not issued any participation certificates.

2.5 Profit sharing certificates

The Company has not issued any profit sharing certificates.

2.6 Limitation on transferability and nominee registration

2.6.1 Limitations on transferability for each share category; indication of statutory group clauses and rules for granting exceptions

The board of directors can refuse the approval of an acquirer of registered shares as a shareholder with the right to vote, if the holdings of the shareholder together with his shares already registered exceed the limit of 2% of all the shares recorded in the commercial register. Legal entities and associations that are linked together by capital, voting power, management or in other manner, as well as all persons, entities and partnerships that are acting in concert with a view to circumvent the percentage limit, are deemed one person.

2.6.2 Reasons for granting exemptions in the year under review

There have been no exemptions from the limitations on transferability of shares (see section 2.6.1) granted in the year under review.

2.6.3 Nominee registration

Pursuant to the Articles, the board of directors can register nominees as shareholders with the right to vote, based on separate regulations or individual agreements.

2.6.4 Procedure and conditions for cancelling statutory privileges and limitations on transferability

The Articles do not provide for any privileges. The limitations on the transferability of shares (see section 2.6.1) may be abolished by a vote of the absolute majority of the shares represented at a shareholders' meeting.

2.7 Convertible bonds and warrants/options

The Company has not issued any convertible bonds, warrants or options, other than mentioned in the following sections. Please also refer to sections 5.1.2 and 5.1.5.

2.7.1 CHF 25,000,000 of 4% Convertible Bonds Due 2015

In September 2010, USIGH Limited issued CHF 25,000,000 of convertible bonds due 2015 (the "**2010-2015 Bonds**"). The 2010-2015 Bonds have a principal amount of CHF 100 each, a cash coupon of 4%, a yield to maturity of 6.25% and a conversion price of CHF 120. As at 31 December 2012, 2010-2015 Bonds in the aggregate principal amount of CHF 15,884,200 were outstanding.

Subject to adjustment under their terms, 132,046 registered shares with a nominal value of CHF 68.85 each of the Company would have to be issued under the terms of the 2010-2015 Bonds if all bondholders fully exercised their conversion rights. By 31 December 2012, no shares had been issued under the 2010-2015 Bonds.

2.7.2 Directors' Loan Agreement dated 19 April 2012

In April 2012, Dr. Volkert Klaucke, Doraiswamy Srinivas, David Quint, Armin Hilti and William Vanderfelt each lent CHF 29,289 to USIGH Limited in order to enable the USI Group to meet its short term working capital requirements. The loans are repayable on 30 April 2013 and bear interest at a rate of 4% per annum. Each lender has the right at his sole discretion, subject to all shareholder and other requisite approvals and to any applicable laws and regulations, to convert some or all of his loan and/or interest accrued thereon into registered shares of the Company on the repayment date. The price at which shares will be issued to repay the loan is 75% of the volume weighted average price of the Company's shares on the SIX Swiss Exchange on the 30 trading days immediately preceding the repayment date. Each loan is guaranteed by the Company. The lenders have agreed to extend repayment of the loans, until such time as conversion into shares can take place, and four of the five lenders have agreed to convert their loans at CHF 20 per share.

2.7.3 RP&C International (Guernsey) Limited Loan

In November 2012, RP&C International (Guernsey) Limited, a wholly owned subsidiary of the RP&C group, entered into a loan agreement with USIGH Limited for an amount of \$494,170. Interest accrues on this loan at a rate of 15% per annum and the loan was repayable on 31 March 2013. The loan is guaranteed by the Company. USIGH Limited has agreed, if the lender so requests, to repay the loan, together with all accrued interest thereon, by procuring that the Company issues to the lender, subject to all necessary approvals, shares of the Company at the volume weighted average price ("**VWAP**") at which the shares have traded for the 60 days prior to the date of agreement to convert. The lender has agreed to extend repayment of the loan, until such time as conversion into shares can take place, and to convert in accordance with the terms of the loan at CHF 13.5 per share.

2.7.4 Venus Global Macro Fund Limited Loan

On 8 February 2013, USIGH Limited borrowed \$1.2 million from Venus Global Macro Fund Limited for working capital purposes. The loan is repayable on 31 December 2014 and bears interest at a rate of 7% per annum. The loan is guaranteed by the Company. USIGH Limited has agreed to repay the loan, together with all accrued interest thereon, by procuring that the Company will issue to the lender shares of the Company at the VWAP at which the shares have traded for the 60 days prior to conversion, equivalent in value to the loan and all accrued interest. Such issue of shares is subject to all necessary approvals being first obtained.

3 Board of Directors

The members of the board of directors (the "**Board**") are responsible for the overall management and operation of the Company. As at 31 December 2012, the Board consisted of 4 individuals.

	Nationality	Function	Member since	End of tenure
Non executive members				
William W. Vanderfelt	GB	member	2005	2013
Executive members				
Dr. Volkert Klaucke	D	chairman	2005	2014
Dr. Doraiswamy Srinivas	USA/GB	deputy chairman	2005	2013
David Quint	USA/GB	member	2005	2015

3.1 Members of the Board

Dr Volkert Klaucke (1946), German citizen, has over 30 years of experience in investment banking. He worked for nearly 20 years at Deutsche Bank in Luxembourg, Tokyo, New York and Frankfurt where he was primarily responsible for corporate finance and mergers and acquisitions. Dr Klaucke joined Pricewaterhouse, Frankfurt in 1991-1994 as a Partner and Member of the Corporate Finance Executive Committee for Europe. From 1994-1995, he was Managing Director of Mees Pierson, Germany. Dr Klaucke has served on the boards of directors and advisory committees of various European and American corporations including Caisse Depot et Consignation GmbH in Frankfurt, Deutsche Börse in Düsseldorf and Vespucci Income Shares Inc. (a subsidiary of Munich Re) in New York. Dr Klaucke holds a doctorate in Business Management from the University of Hamburg. Dr Klaucke is also a member of the board of the German Foundation against World Hunger.

Dr Doraiswamy Srinivas (1951), U.S./UK citizen, Director of Investor Relations, is Chief Operating Officer of RP&C International Inc (“**RP&C**”) and is a director of RP&C and related companies. He has advised the USI Group since 1989 and has been a director of various USI Group subsidiaries for more than 10 years. Dr Srinivas previously served as Managing Director, Corporate Finance at SBCI Swiss Bank Corporation Investment Bank in New York where he was responsible for private placements and structured finance in North America. He subsequently held similar positions at Leu Securities and Guinness Mahon Capital Markets (now Investec) in London. Dr Srinivas attended the University of St. Gallen and the Columbia Business School. He holds a doctorate in finance and economics.

Mr David Quint (1950), U.S./UK citizen, is a co-founder and Chief Executive Officer of RP&C. Prior to founding RP&C in 1992, Mr Quint served as Managing Director of Belden & Blake Corporation’s United Kingdom subsidiary and as an attorney with Arter & Hadden. Mr Quint is a graduate of the University of Notre Dame where he received a degree in Modern Languages and a Juris Doctorate. He is also a non-executive director of Global Energy Development plc.

Mr William W. Vanderfelt (1942), UK citizen, served as a Managing Director of the Petercam Group, Belgium, a leading independent member firm of Euronext, Brussels until his retirement in 2001. He serves as a director of Renn Universal Growth Investment Trust PLC and Chairman of Vietnam Opportunity Fund. He is also a director of RP&C. He holds an Oxford & Cambridge General Certificate.

William W. Vanderfelt is also a non-executive director of USIGH Limited, but otherwise did not have any involvement in the management of the Company or any of the Company's subsidiaries in the three financial years preceding the period under review, nor does he have any significant business connection with the Company or any of the Company's subsidiaries.

3.2 Elections and terms of office

Pursuant to the Articles, the members of the Board shall hold office for at most three years. A year shall be the period from one ordinary shareholders' meeting to the next. The tenure of office is defined separately for each member of the Board and is usually three years. Members elected in a by-election step into the tenure of office of their predecessors. Members of the Board may be re-elected after their tenure of office expires, without limitation. A separate vote is taken, at the Company's shareholders' meetings, in respect of each director who stands for election or re-election.

The remaining term of office for each member of the Board is disclosed above.

3.3 Internal organizational structure

3.3.1 Board

The Board may take decisions on all matters which by law or the Articles are not allocated to the general meeting of shareholders (Article 698 of the Swiss Code of Obligations (hereinafter "CO")).

According to the internal organizational regulations of the Company of 27 July 2005, as amended on 20 July 2006 (hereinafter the "**Regulations**"), the Board acts, in principle, as a collective body. Its members may not act alone on behalf of the Company and may not give instructions on their own, except where the Articles, the Regulations or a decision of the Board otherwise permit.

Each year at the first meeting following the annual general meeting of shareholders, the Board appoints a chairman (the "**Chairman**"). The Board chooses the secretary, who may or may not be a member of the Board. Re-election of any member is permitted for any position.

The Chairman has the following duties:

- chairing meetings of the Board and general meetings;
- determining the agenda for meetings of the Board except in cases where proposals are made by other members of the Board;
- representation of the Board to the public, to public authorities and to the shareholders;
- supervision of the execution of measures which have the approval of the Board;
- preparation of amendments to the Articles, conduct of the voting procedures and other matters to be addressed at any general meeting;
- in association with RP&C, preparation of materials concerning strategic planning, short-term corporate goals, financial planning and budgets to be approved by the Board;
- decisions concerning non-budgeted investments and expenditures up to CHF 2.25 million and up to CHF 100,000 respectively; and
- decisions requiring urgent action or in exceptional circumstances which would otherwise be addressed by the Board, the nomination and compensation committee or the audit committee. Such decisions shall be submitted for approval to the responsible bodies as soon as possible.

3.3.2 Committees

The Board has formed two committees, the audit committee (hereinafter the "**Audit Committee**") and the nomination and compensation committee (hereinafter the "**Nomination and Compensation Committee**"), which presently consist of all members of the Board and are chaired by Dr. Klaucke. Each committee must report to the Board on a regular basis, not less than once a year.

3.3.2.1 Audit Committee

The responsibilities of the Audit Committee are determined in a special Audit Committee Charter. The Committee's primary duties are to:

- review the semi-annual and annual financial statements and consider whether they are complete and reflect appropriate principles;
- monitor the integrity and effectiveness of the Company's financial reporting process and systems of internal controls regarding finance and accounting, operational processes as well as manual and automatic finance and accounting data processing;

- oversee the qualifications of the public accounting firm engaged as the Company's independent auditor to prepare or issue an audit report on the financial statements of the Company;
- monitor the independence and performance of the Company's external and internal auditors (if any);
- provide for appropriate communication among the independent external auditors, RP&C and the Board;
- review and monitor the Company's financial strategies and procedures; and
- report to the Board on the Committee's activities and findings.

The Board has not delegated any decision-making powers to the Audit Committee.

The Audit Committee has the authority to conduct or authorize investigations into any matter within the scope of its duties and responsibilities pursuant to the Audit Committee Charter. It is empowered to:

- retain outside counsel, accountants or other experts to advise the Committee or assist it in the conduct of an investigation;
- seek any information it requires from RP&C or from the Company's employees – all of whom are directed to cooperate with the Committee's requests – or external parties;
- meet with RP&C, external auditors or outside counsel, as deemed necessary or appropriate.

3.3.2.2 Nomination and Compensation Committee

The responsibilities of the Nomination and Compensation Committee are determined in a special Nomination and Compensation Committee Charter. Its primary duties are to:

- assist the Board in discharging its responsibilities relating to compensation of directors of the Company;
- approve or establish proposals for all compensation plans, policies and programs relating to compensation and benefits for directors and direct employees (if any);
- propose to the Board compensation of directors and direct employees (if any);
- ensure that newly elected directors receive the appropriate introductions and orientation and the elected directors receive the adequate continuing education and training to fully discharge their obligations;
- assist the Board in identifying individuals who are qualified to become Board members, when vacancies arise;
- recommend to the Board the director nominees for the next annual shareholders' meeting;
- recommend to the Board a set of corporate governance principles to be published in a directive on corporate governance;
- prepare any disclosure statement on compensation and corporate governance required by applicable law, regulations or the rules of a stock exchange on which the Company's shares are listed or traded;
- lead the Board in its annual review of the Board's performance; and

- recommend to the Board director nominees for each committee.

The Board has not delegated any decision-making powers to the Nomination and Compensation Committee.

The Committee has the authority to conduct or authorize investigations into any matter within the scope of its duties and responsibilities pursuant to the Nomination and Compensation Committee Charter. It is empowered to:

- retain outside counsel, accountants or other experts to advise the Committee or assist it in the conduct of an investigation;
- seek any information it requires from the Company's employees – all of whom are directed to cooperate with the Committee's requests – or external parties;
- meet with RP&C, external auditors or outside counsel, as deemed necessary or appropriate.

3.3.3 Work methods of the Board and its committees

3.3.3.1 Board

The Chairman, or the secretary, convenes the meetings of the Board as often as business affairs of the Company require, usually not less than four times each year. Meetings are also held by telephone conference and actions may be taken pursuant to circular resolutions, if no member of the Board requests in writing that the item to be resolved or discussed be considered at a meeting. The usual length of the meetings is 1-2 hours. In the year under review, eight meetings were held. At all meetings, senior officers of RP&C (in addition to the executive directors of the Company) were present. External legal consultants may attend meetings at the invitation of the Chairman.

The Nomination and Compensation Committee reports its actions at the next meeting of the Board. The Audit Committee reports to the Board as required at each Board meeting about its activities, decisions, findings and recommendations. It reports at least semi-annually on the interim and final accounts at the board meeting which approves such accounts. The two Committees' primary duties and responsibilities are set out above (see section 3.3.2).

3.3.3.2 Audit Committee

In the year under review no separate meeting was held as all Audit Committee decisions were taken by the Board as a whole.

3.3.3.3 Nomination and Compensation Committee

In the year under review no separate meeting was held.

3.4 Definition of areas of responsibility

The Board has the responsibilities and duties set forth in the CO, in particular in Article 716a CO.

Furthermore, the Regulations state that the following matters shall be reserved to the Board:

- passage of resolutions regarding any authorised capital increases as well as any resulting amendments to the Articles;
- determination of the beginning and the end of each fiscal year of the Company pursuant to the Articles;
- the adoption of any stock option plan and the issuance of shares to option holders on exercise of such options;

- the formation, acquisition, merger, sale and/or liquidation of subsidiaries with a value in excess of CHF 2.25 million;
- the acquisition, sale and hypothecation of assets with a value in excess of CHF 2.25 million;
- the initiation and/or settlement of judicial and administrative proceedings or disputes of any nature with a value in excess of CHF 100,000;
- business decisions of a long-term nature or which involve unusual or extraordinary risks;
- the approval of expenditures or obligations in excess of CHF 100,000 for individual transactions or CHF 1,000,000 in the aggregate in any one fiscal year, unless such expenditures do not exceed the budget or other Board approved guidelines;
- the entry into any transaction which is not in the ordinary course of business of the Company, including any sale or lease of the Company's assets in excess of CHF 2.25 million;
- the entry into new projects with expenditures or obligations in excess of CHF 2.25 million, unless such projects have been approved in the Company's budget or other Board approved documents;
- the conclusion of any merger arrangements between the Company and any other entity or the decision to wind up or liquidate the Company, including any proposals to be made to shareholders at a general meeting of shareholders regarding the merger, liquidation or winding-up of the Company;
- the formation or acquisition of interests in other companies, irrespective of their legal form, or the purchase of other businesses in whole or in part if the value of any such purchase exceeds CHF 2.25 million;
- regarding subsidiaries of the Company:
 - the execution, alteration or termination of articles of association;
 - the voluntary liquidation, merger or continuation of a subsidiary after the occurrence of any matter requiring its liquidation;
 - the approval of the annual accounts and the distribution of dividends or other distributions to shareholders, or the exercise of any other shareholders' rights;
 - the appointment and/or termination of managers and Board members as well as the execution, alteration or termination of employment or pension arrangements with managers or Board members;
 - the resolution of matters which, pursuant to law or the articles of association, require the approval of the shareholders.
- any participation in revenues or profits of the Company in any form except commissions which can be viewed as usual in the trade, or the provision of benefits or remuneration to individual employees in excess of CHF 50,000 p.a.;
- the grant of pension entitlements to any employees;
- any decisions concerning the appointment of the management;
- borrowing in excess of CHF 500,000;

- the grant of a loan or the creation of a contingent liability to, or in respect of, third parties in excess of CHF 500,000;
- the approval of any transaction between the Company and members of the Board;
- the adoption and/or alteration of the Regulations.

In accordance with Article 716b CO, and subject to inalienable and reserved matters as described above, the Board has delegated the management to a third party, whose responsibilities are set out below (see section 4).

3.5 Information and control instruments vis-à-vis senior management

The management provides the Chairman with a copy of management accounts on a quarterly basis. In addition, the management provides each member of the Board, within 60 days after the end of each interim reporting period, with a provisional half-yearly report and, within 90 days after the end of each fiscal year, with a provisional annual report.

Furthermore, the executive Board members and senior officers of RP&C who are present (cf. section 3.3.3.1 above) inform the Board at each Board meeting (i.e. usually not less than four times a year, cf. section 3.3.3.1 above) of all current matters, important events and deviations from the budget. Extraordinary transactions and issues must be reported by the management to the Board immediately. Each member of the Board is entitled to request and receive information on all matters of the Company and has access to the Company's and the Company's subsidiaries' property, records and personnel. Board members may make use of this right by requesting documents, in particular in the area of financial planning and reporting.

The Audit Committee's primary duties and its authority are set out above (see section 3.3.2.1). The Company has not appointed an internal audit function. Its risk management is described in the notes to the financial statements (see Notes 3 and 29 to the consolidated annual financial statements and Note 6 to the stand-alone annual financial statements). The Board does not use any IT-based Management Information System (MIS) for its information.

4 Senior management

Pursuant to the Regulations, the responsibility for the day-to-day management and ongoing operations is vested with the management, which remains under the supervision of the Board. Members of management are appointed by the Board and serve at the discretion of the Board, subject to any applicable agreement.

RP&C has been appointed as the USI Group's exclusive manager, adviser and administrator under the management agreement between the Company and RP&C, last amended as of 1 June 2007 (the "**Management Agreement**"). RP&C is also responsible for identifying, advising on the acquisition of, financing and monitoring the USI Group's properties.

RP&C is an investment banking firm established in 1992 to provide specialist advisory services and financial solutions to public and private companies.

Without the prior consent of the Company, RP&C shall not assign, subcontract or delegate the performance of its duties to any other person except for certain administrative functions such as accounting tasks. Notwithstanding the foregoing, the Company approves the delegation of certain advisory functions to RP&C's subsidiaries, RP&C International Limited and RP&C International (Securities) Inc, and certain administrative functions to Fides Corporate Services Limited.

4.1 Members of the senior management of RP&C

Mr David Quint (see section 3.1)

Dr Doraiswamy Srinivas (see section 3.1)

Ralph Beney (1961), English citizen, the Finance Director of RP&C and Chief Financial Officer of USI Group, was previously a Director of Guinness Mahon Capital Markets in London, where he was responsible for fund advisory relationships and structured finance as well as for accounting for the capital markets division. Prior to joining Guinness Mahon in 1993, Mr. Beney spent seven years as the Chief Financial Officer of various Bank Leu subsidiaries. He is a Chartered Accountant and a member of the Securities Institute.

Richard Borg (1966), English citizen, the General Counsel of RP&C and of the USI Group, was previously a solicitor at Norton Rose in London, where he was a member of the Corporate Finance Department specializing in investment funds. He also serves as a director, officer and registered representative of RP&C International (Securities) Inc. Mr. Borg read law at the University of Oxford.

4.2 Other activities and vested interests

Important other activities and vested interests of the members of the senior management of RP&C are described in their individual profiles as appropriate (see sections 3.1 and 4.1).

4.3 Management contract

According to the Management Agreement between the Company and RP&C, the Company has appointed RP&C to be the USI Group's exclusive manager, adviser and administrator. RP&C is domiciled at c/o RP&C International Limited, 31a St. James's Square, London, SW1Y 4JR, United Kingdom. RP&C is entitled to receive from the Company an annual management fee equal to 2% of the consolidated net asset value of the USI Group less 1% of cash and cash equivalents as determined from time to time in accordance with the provisions in the Management Agreement. The amounts of the management fees paid in the year under review and in the prior year are disclosed in Notes 6a and 23 to the Consolidated Financial Statements.

The Management Agreement has no fixed term. The Company can terminate the appointment of RP&C, *inter alia*, by giving not less than 36 months' written notice to RP&C.

4.3.1 Duties of RP&C as manager and adviser

Pursuant to the Management Agreement, RP&C has the following duties as manager and adviser to the Company:

- advising the Company on its business plan and strategy, including the generic identification of properties which meet the criteria laid down by the Board for acquisitions from time to time;
- monitoring operation of the assets, liaising with the operators of the assets, and reporting to the Board with respect thereto;
- advising the Company generally in connection with conditions in the capital markets;
- carrying out reviews and evaluations of the assets whenever RP&C shall deem such actions are necessary or when the Company shall reasonably so require;
- advising generally on the holding of investments and assets;
- advising and instructing the administrator on administrative requirements in order to implement the Board's decisions;
- co-operating with the custodian with respect to the performance of its duties;
- instructing the administrator to pay out of the investments of the USI Group such amounts as may be required from time to time in order to enable RP&C to perform its duties under the Management Agreement and to discharge the proper expenses of the USI Group. In this connection, and for these purposes, RP&C is authorized to give instructions with respect to the bank accounts of the USI Group and to instruct bankers of the USI Group as to deposits and currencies;

- supplying, as and when requested by the Company, such information as may be in its possession or may reasonably be obtained or provided by it;
- providing to the Company on a quarterly basis a detailed breakdown of the composition of the assets and investments including a summary of all transactions undertaken during the previous quarter as well as an analysis of current market conditions;
- attending quarterly meetings of the Board for the purposes, *inter alia*, of discussing the information provided as described above; and
- providing the Company with such additional advice as the Board shall require for the purposes of properly assessing its assets and investments.

Subject to the terms of the Management Agreement and to such directions as may from time to time be given by the Board, RP&C is authorized to act for the companies of the USI Group and on their behalf either by itself or through its authorized agents in the same manner and with the same force and effect as the companies of the USI Group might or could do.

RP&C shall keep or cause to be kept on behalf of the Company such records and statements as shall give a complete record of all transactions carried out by RP&C on behalf of the companies of the USI Group in relation to the investments and the assets, including such records as will enable the Company to publish its yearly and half-yearly report and accounts, and as are otherwise reasonably required by the Company in the proper discharge of its obligations to shareholders and creditors. RP&C shall permit the Company and its agents and auditors to inspect such records and statements at all times.

4.3.2 RP&C's authority and obligations

Pursuant to the Management Agreement, subject to the prior approval of the Board in certain cases as described in section 3.4 above, RP&C has the authority, power and right, for the account of and in the name of the USI Group, to implement the investment policy laid down by the Board from time to time in respect of the USI Group's investments and assets. In that connection, RP&C is authorized:

- to issue orders and instructions with respect to the investments and assets;
- to exercise rights for the account of the companies of the USI Group and effect transactions on behalf of, and for the account of, the companies of the USI Group in connection with any such assets or investments;
- to implement borrowings and the sale of debt and/or equity securities of the companies of the USI Group as authorized from time to time by the Board; and
- to enter into, make and perform on behalf of the companies of the USI Group all contracts, agreements and other undertakings as may, in the opinion of RP&C, be necessary or advisable or incidental to carrying out the objectives of the Management Agreement (subject to the prior approval of the Board in certain cases as described in section 3.4 above).

4.3.3 Duties of RP&C as administrator

Pursuant to the Management Agreement, RP&C has the following duties as administrator to the Company:

- maintaining and establishing necessary accounting records of the USI Group;
- maintaining all necessary books and records of the USI Group required by law or deemed necessary for the proper operation of the assets and investments. Such documents shall be kept in accordance with statutory provisions for the time being in force and the Articles;
- preparing and delivering all statutory returns to the registrar of companies and other competent authorities and performing all duties and services normally performed by the secretary of a company;

- preparing monthly statements and annual accounts of the USI Group and submitting the latter promptly to the Board and to the auditors of the USI Group for audit;
- dispatching to shareholders, to creditors, to directors and to the auditors of the USI Group such circulars, notices of meetings, reports, financial statements and other written material as may be required or as may be requested from time to time by the Board;
- informing the Board from time to time of all amounts due and payable by the USI Group and paying on behalf of the USI Group and from the USI Group's funds all costs, expenses and taxes properly charged to or levied on the USI Group;
- collecting any and all amounts due to the USI Group and applying to relevant authorities for any tax rebates and other payments which may be due to the USI Group;
- upon the instruction of the Board, taking out and maintaining in the USI Group's name such policies of insurance as the Board shall determine to be appropriate;
- submitting to the Board such reports and information as it may reasonably require from time to time and, in consultation with the Chairman of the Board, preparing an agenda in advance of each Board meeting and distributing a copy of it together with any supporting papers to members of the Board prior to each meeting;
- preparing and circulating draft minutes of meetings for approval by the Board;
- preparing tax computations of the USI Group at the end of each financial year and submitting them to the auditors and appropriate taxation authorities;
- monitoring the custodian and otherwise supervising and administering all bank accounts and investments of the USI Group and performing the treasury activities of the USI Group; and
- with the agreement of the Board, retaining and supervising such outside firms of auditors, lawyers, taxation advisers or other agents as shall be deemed desirable to properly administer the assets and investments and/or to discharge RP&C' duties.

5 Compensations, shareholdings and loans

Details on compensation and participation of members of the Board and of group management are disclosed on Note 27 to the Consolidated Financial Statements.

5.1.1 Content and method of determining compensation and shareholding programs

The Nomination and Compensation Committee is competent to establish the Company's general compensation policy for directors and direct employees (if any). The Board determines, normally upon proposal by the Nomination and Compensation Committee, the amount of any remuneration payable to its members. Persons whose remuneration is decided upon do not have a right to participate in the relevant meeting, or otherwise to participate in the process. The Company does not employ external advisors or use external benchmarks for fixing compensation.

The compensation of RP&C is determined by the Management Agreement (see section 4.3). The terms of the Management Agreement defining RP&C's compensation were approved by the Board, at the time of their adoption in 2007, in a discretionary decision in which interested directors abstained from voting.

5.1.2 Compensation

Dr. Volkert Klaucke has the right to receive an annual fee of CHF 60,000 (before statutory deductions) for his services as Chairman of the Board. Each of William Vanderfelt, Dr. Srinivas and David Quint receive a fee of CHF 30,000 per annum. The annual compensation provided by the Company to Dr. Klaucke and the other directors was decided in June 2012 by the Board, in a discretionary decision in which all members participated. It has no performance-related component.

It has been agreed that directors' fees which had not been paid may be converted into shares of the Company at a conversion price of CHF 20 per share at a later date, subject to all necessary approvals.

5.1.3 Options

The Board adopted a stock option plan in July 2005, under which the Board may select the members of Management to be granted options or stock appreciation rights, determine the number of options and stock appreciation rights to be granted, the date each option or stock appreciation right shall be granted and the other particulars of the option and stock appreciation rights. The plan allows for options for up to 6% of the issued number of shares to be awarded to management at an exercise price of CHF 161.91 per share. Up to 31 December 2012, no options had been awarded nor had conditional capital been allocated for this purpose since inception of the plan.

5.1.4 Loans to members of governing bodies

USI Group had not granted loans to any member of the Board or of the senior management of RP&C at 31 December 2012. However, on 4 April 2008, the Group advanced a loan to Ridgemont Holdings Limited, a subsidiary of RP&C in the amount of €2 million. The loan is repayable on 31 March 2013 and bears interest at the rate of 6% per annum.

5.1.5 Loans from members of governing bodies

USI Group has received loans from certain members of the Board at 31 December 2012 as set out in section 2.7.2 above. The USI Group has also entered into a loan agreement with Green Street Global Investments Limited for an amount of US\$ 3,956,441. This amount attracts 15% annual interest and was due to mature on 31 December 2012. The maturity has been extended by agreement with Green Street Global Investments Limited and Green Street Global Investments Limited has agreed to convert the loan and accrued interest into equity of the Company at the VWAP at which the shares have traded for the 60 days prior to the date on which the agreement to convert was made (CHF 13.5 per share) subject to all necessary approvals. The loan is secured by a pledge of the shares held by USIGH Limited in PSPI. The loan is guaranteed by the Company and USIEC Limited. A redemption fee of \$25,000 is also payable on redemption. David Quint and Dr Srinivas indirectly own 27% and 21% of the issued shares of Green Street Global Investments Limited respectively. Other directors and clients of RP&C own the remainder. RP&C International (Guernsey) Limited, in which David Quint and Doraiswamy Srinivas are indirectly interested has also lent CHF 457,706 to the USI Group as described in Section 2.7.3 above.

6 Shareholders' participation

6.1 Voting rights and representation restrictions

Each share carries one vote. The Board may refuse to enter an acquirer of registered shares in the share register as a shareholder with the right to vote, if the holdings of the shareholder together with his shares already registered exceed the limit of 2% of all the shares recorded in the commercial register. Legal entities and associations that are linked together by capital, voting power, management or in other manner, as well as all persons, entities and partnerships that are acting in concert with a view to circumventing the percentage limit, shall be deemed one person (see section 2.6.1).

No exemptions from the above rules have been granted during the year under review. See also section 2.6.2.

The limitations on the transferability of shares (see section 2.6.1) may be abolished by a vote of the absolute majority of the shares represented at a shareholders' meeting.

A shareholder may be represented at the shareholders' meeting only by his legal representative, by a member of the Board, by the independent proxy, by a representative of deposited shares or by another shareholder with the right to vote.

6.2 Statutory quorums

Resolutions of the general meeting of shareholders are passed by the majorities set forth in the applicable legal provisions. The Articles do not change the applicable majorities.

6.3 Convocation of the general meeting of shareholders

The general meeting of shareholders must be called, at the latest, twenty days prior to the day of the meeting.

6.4 Agenda

One or more shareholders representing together at least ten percent of the share capital or shareholders representing shares with an aggregate par value of one million Swiss Francs may request items to be included in the agenda for a general meeting of shareholders. Items for inclusion in the agenda shall be requested at least 60 days prior to the meeting in written form listing the items and the proposed motions of such shareholder(s).

6.5 Record date for entry into the share register

The record date for the inscription of registered shareholders into the share register in view of their participation in the general meeting of shareholders, as set by the Board, is a date falling in between 10 and 20 days prior to the meeting.

7 Changes of control and defence measures

7.1 Duty to make an offer

According to Article 7 of the Articles, persons acquiring shares of the Company directly, indirectly or acting in concert with third parties shall be exempt from the obligation to make a public purchase offer pursuant to Article 32 of the Swiss Federal Act on Stock Exchanges and Securities Dealing, irrespective of the number of voting rights conferred by the shares acquired ("**opting out**").

7.2 Clauses of change of control

See section 4.3 for the termination period which applies in respect of the Management Agreement.

8 Auditors

PricewaterhouseCoopers AG, Zurich, are the Company's auditors.

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, Zurich assumed its existing auditing mandate in 1992. They were re-elected as auditors for the financial year 2012 by the annual general meeting held on 26 June 2012.

The lead engagement partner, Patrick Balkanyi, responsible for the existing auditing mandate took up office in respect of the financial year ended 2006.

The Board proposes to the annual general meeting due to be held on 7 June 2013 to re-elect PricewaterhouseCoopers AG as auditors for the 2013 financial year. The rotation interval applicable to the lead engagement partner is seven years (art. 730a para. 2 CO).

8.2 Auditing fees

The total fees for auditing the 2012 consolidated financial statements and all group companies are estimated to be CHF 138,000, of which CHF 68,000 have been invoiced at the date of this report. Additional auditing fees of CHF 15,000 were charged for audit fees not related to the 2012 consolidated financial statements of the Company.

8.3 Additional fees

Additional fees of approximately CHF 21,950 were charged by PricewaterhouseCoopers AG during 2012 for tax compliance work.

8.4 Informational instruments pertaining to the external audit

Most communication between the auditors and the Company takes place through RP&C; there is an ongoing dialogue, via telephone and email correspondence and periodic meetings between the auditors and RP&C throughout the year.

The Board and the Audit Committee also liaise directly with the auditors regarding the annual audit work to be carried out and discuss the results of such audits. On request, representatives of the auditors attend meetings of the Board and of the Audit Committee in which such matters are discussed. At the relevant Board or Audit Committee meetings, the auditors present a detailed planning report and a detailed report on the conduct of the audit of the financial statements. This details findings on material financial accounting and reporting issues in addition to findings on the Group's internal control system (ICS).

In the year 2012, representatives of the auditors were present at all meetings of the Board of Directors in which matters concerning the Audit Committee's responsibilities were discussed (namely, at one such meeting).

The Board of Directors annually reviews the selection of the auditors in order to propose their appointment to the General Meeting. The Audit Committee assesses the effectiveness and the quality of the auditors as well as their independence based on the reports received and general discussions. Their quality, their knowhow, their cost consciousness and timely reporting are major factors in the assessments of the auditor's work. PricewaterhouseCoopers AG monitors its independence throughout the year and confirms this to the Audit Committee annually.

9 Information policy

Financial reporting consists of semi-annual and annual reports. Financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), in compliance with Swiss law and the standards laid down by the SIX Swiss Exchange's Listing Rules.

The Company shall publish information according to the following schedule:

Reporting

26 April 2013 - Publication of audited annual report and accounts for the financial year ending 31 December 2012

26 Sept 2013 - Publication of unaudited accounts for the six months ending 30 June 2013

Meetings of Shareholders

7 June 2013 - Annual general meeting of shareholders

The news releases of the Company (including releases issued pursuant to ad-hoc publicity rules) are available under www.usigroupholdings.ch/?task=usi01, where stakeholders may also subscribe to the Company's e-mail alert service to receive its news releases.

Additional information and all publications (including this annual report) are available under www.usigroupholdings.ch

Investor Relations

Dr. D. Srinivas, phone: +44 (0) 20 7766 7020

E-mail: info@usigroupholdings.ch

SIX Swiss Exchange Symbol: USIN

Security Number: 227101

ISIN: CH0002271010