Offering Circular and Listing Prospectus of October 31, 2003

allreal holding

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This English translation is for convenience purposes only. It does not constitute in itself an offering circular and listing prospectus and investors should rely solely on the information in the German "Emissions- und Kotierungsprospekt".

	Allreal Holding AG **with registered office in Baar**
Offering	The present transaction consists of a rights offering to all existing shareholders (the "Rights Offering") as well as an anticipated public placement in Switzerland and an anticipated private placement with institutional investors in certain foreign countries (with the exception of the USA in particular) (the "Placement", together with the Rights Offering the "Offering").
Rights Offering	
Offered Shares	Up to 1626 205 registered shares of Allreal Holding AG, Baar (the "Company"), with a nominal value of CHF 50 each (the "Offered Shares") that are being offered to the existing shareholders in compliance with their subscription rights.
Subscription Ratio	4 existing registered shares of the Company with a nominal value of CHF 50 each entitle the holder to purchase 1 Offered Share (the registered shares with a nominal value of CHF 50 each are hereinafter referred to as "Registered Share" or "Registered Shares").
Subscription Price	CHF 74.00 per Offered Share
Subscription Period	The Subscription Period is expected to run from November 5, 2003 until November 13, 2003, 12 noon (CET).
Allotment of Subscription Rights	Record date for the allotment of subscription rights is anticipated to be November 4, 2003 after the close of trading.
Trading in Subscription Rights	The Registered Shares are expected to be traded ex rights as from November 5, 2003. Trading in subscription rights on the Swiss Stock Exchange (the "SWX") is expected to take place from November 5, 2003 until November 11, 2003.
Swiss Control	With a view to the required Swiss control of the Company, a consortium agreement between 9 shareholders exists (the "Core Shareholders") that together hold Registered Shares carrying voting rights representing 58.1% of the votes as of September 30, 2003. The Core Shareholders are obliged to subject 51.0% of the Registered Shares to the sales restrictions under the consortium agreement. Together with a new investor (the "New Investor") the Core Shareholders are expected to subscribe to Offered Shares in connection with the total subscription rights to which the Core Shareholders are entitled. The New Investor is expected to accede to the consortium agreement.
Payment	The Subscription Price is expected to be payable with value date of November 14, 2003.
Delivery	Delivery by book entry form of the Offered Shares is expected to be made on November 18, 2003 (the "Delivery Date").
Placement	
Shares to be Placed	Offered Shares that will not be subscribed to under the Rights Offering (the "Shares to be Placed").
Placement Price	The Placement Price will be fixed applying the book-building procedure.
Placement Date	Shares to be Placed are expected to be offered for sale on November 14, 2003 to the extent the stock exchange price of the Registered Shares at that time equals at least the Subscription Price.
Delivery and Payment	Delivery of the Shares to be Placed against payment is expected to be made on the Delivery Date.
General	
Dividend Entitlement	The Offered Shares are entitled to dividends as from January 1, 2003.
Listing	An application for the listing of the Offered Shares on the SWX starting November 17, 2003 has been made and approved. An application for the admission of the subscription rights to trading on the SWX starting November 5, 2003 has been made and approved.
Risks	**The purchase of Offered Shares bears certain risks. See "Risk Factors".**
Sales Restrictions	In particular USA, U.S. persons, United Kingdom, The Netherlands
Governing Law	Swiss law
Securities Id. Numbers/ISIN/ Ticker Symbol	Registered Share: 883 756/CH0008837566/ALLN Subscription right from Registered Share: 1699 196/CH0016991967/ALLN1

UBS Investment Bank
Lead Manager

Bank Vontobel AG
Joint Lead Manager

The Company assumes responsibility for the contents of the German "Emissions- und Kotierungsprospekt" pursuant to Section 4 of Scheme D of the Listing Rules of the SWX and declares that to the best of its knowledge the information in the German "Emissions- und Kotierungsprospekt" is correct and no material aspects have been omitted.

When examining the purchase of Offered Shares and/or subscription rights, investors should rely solely on the information contained in the German "Emissions- und Kotierungsprospekt". No person is authorized to give any information or make any representation not contained in the German "Emissions- und Kotierungsprospekt", and if given or made, such information or representation must not be relied on by investors as having been authorized by the Company or its subsidiaries (the Company and its subsidiaries together the "Allreal Group") or their corporate bodies or by the Lead Manager or the Joint Lead Manager (the Lead Manager and the Joint Lead Manager together the "Managers"). Neither the delivery of this Offering Circular nor any sale of Offered Shares and/or subscription rights made hereunder shall, under any circumstances, create any implication that the information in this Offering Circular is correct and complete as at any time subsequent to the date of this Offering Circular or that there has been no change in the affairs of the Company since such date.

Neither the Company nor its subsidiaries are investment funds as defined by the Swiss Investment Fund Act of March 18, 1994. Neither the Company nor its subsidiaries are subject to this Act or the supervision of the Swiss Federal Banking Commission. Therefore, the Swiss Federal Banking Commission has neither verified the information contained in this Offering Circular nor given a corresponding approval.

The distribution of this Offering Circular and the offer or sale of the Offered Shares and/or subscription rights is restricted by law in certain jurisdictions. The Company and the Managers require individuals gaining possession of this Offering Circular to familiarize themselves with and observe all such restrictions. Neither the Company nor the Managers accept any legal responsibility for any violation of such restrictions through third persons, irrespective of whether such person is a potential buyer nor not. This Offering Circular does not constitute an offer to sell/purchase or a solicitation to subscribe to Offered Shares and/or subscription rights in any jurisdiction in which such an offer or solicitation is unlawful. Except in connection with the Offering and the sale of Offered Shares in Switzerland, neither the Managers nor the Company have taken any precautions in any other jurisdiction that are necessary for a public offering of Offered Shares and/or subscription rights or the possession or distribution of this Offering Circular or other material in connection with the Offering.

Neither the Registered Shares nor the subscription rights have been and will be registered under the United States Securities Act of 1933 as amended (the "Securities Act") and may not, unless so registered, be offered or sold within the United States of America or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ["Regulation S"]) except to certain persons in offshore transactions in reliance on Regulation S. For a description of certain restrictions on resales of the Shares, see "Offering/Sales Restrictions".

This Offering Circular is directed solely at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "Relevant Persons"). This Offering Circular must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this Offering Circular relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

In the Netherlands, the Offered Shares and the subscription rights may be offered, sold, delivered or transferred solely to individuals or legal entities which trade or invest in securities in the conduct of a profession (including banks, investment banks, securities firms, insurance companies, pension funds or other institutional investors as well as treasury departments and finance companies of large enterprises).

In connection with the Offering the Lead Manager or one of its affiliates or a person authorized by the Lead Manager can perform transactions in accordance with applicable statutory provisions that stabilize or maintain the market price of the Registered Shares at levels which might not otherwise prevail in the open market. Such transactions include sales which lead to a short position of the Managers and purchases of Registered Shares after completion of the Offering to cover short positions. Such transactions may be effected on the SWX, in off-exchange trading or in another way. Stabilization measures can be discontinued at any time and without prior notice and will be discontinued in any case 30 days after the Delivery Date.

Table of Contents

General Information for the Investor

This Offering Circular serves as offering circular for the Offered Shares and as listing prospectus for the admission to trade of the Offered Shares on the SWX.

This Offering Circular and the Investment Guidelines can be obtained free of charge from the Company, Zugerstrasse 40, 6340 Baar, Switzerland, T +41 41 711 33 03, F +41 41 711 33 09.

This Offering Circular contains forward-looking statements concerning financial and operational developments and results as well as other forecasts that are future-oriented or contain subjective opinions including, without limitation, statements using the words "believe", "estimate", "assume", "anticipate", "expect", "intend" and words of similar import. Such forward-looking statements are made on the basis of assessments, assumptions and indications that appear reasonable to the Company at the time. A number of factors, for example the risks and uncertainties described in this Offering Circular, can lead to actual events, including the actual business, results and financial situation of the Company, deviating substantially from the projections. Potential investors should also consider that past trends are not a guarantee for future trends.

Information and data on markets and industries presented in this Offering Circular are based on external publications and were compiled by external professionals or organizations. Such publications generally state that the information provided therein has been obtained from sources believed to be reliable. The Company did not independently verify the market and industry data provided by external publications or third parties and takes no responsibility for the accuracy and completeness of such information and data.

Summary

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular, including the financial information contained herein and the notes thereto.

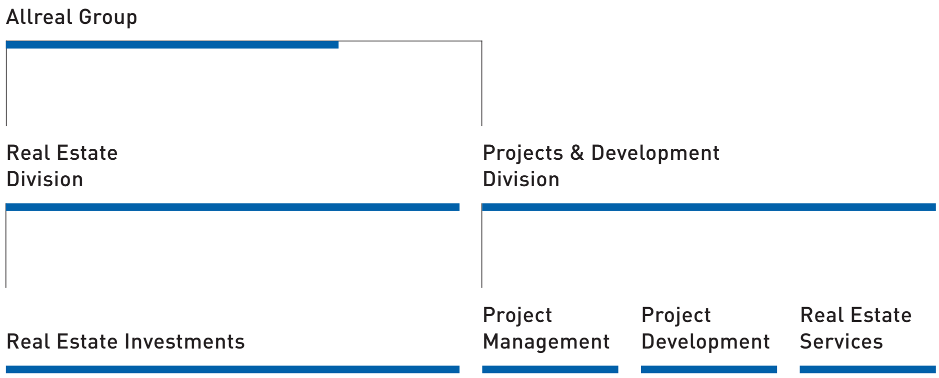
Allreal Group

The Company

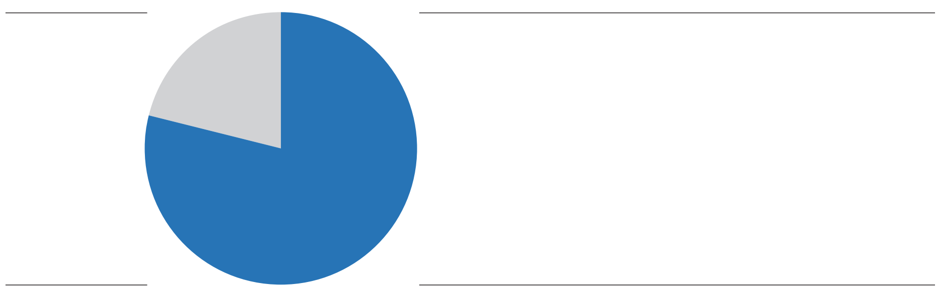
The Company is a corporation under Swiss law (Art. 620 et seq. Swiss Code of Obligations) with registered office in Baar. It was formed on May 7, 1999 and registered in the Commercial Register of the Canton of Zug on May 17, 1999. The Registered Shares have been listed on the SWX since March 3, 2000.

Business Activities

The Company is a real estate company and, together with its subsidiaries, forms the Allreal Group. The Allreal Group is active exclusively in Switzerland focusing on the Greater Zurich Area in the two business divisions Real Estate and Projects & Development. In its Real Estate Division, it actively manages its real estate portfolio consisting of commercial and residential properties by buying, holding and selling real estate; in this context, it has delegated the property management to third parties. In the Projects & Development Division, the Allreal Group renders comprehensive general contracting services for projects involving new and converted buildings as well as renovations, in particular in connection with project development and real estate services of all types, thus satisfying its own needs for such general contracting services as well as those of third parties.

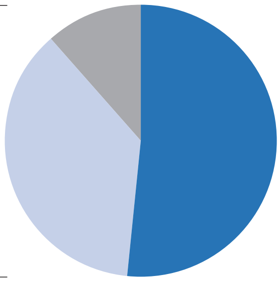


Split between Commercial and Residential Properties as of September 30, 2003



Commercial properties 78.9 %   Residential properties 21.1 %

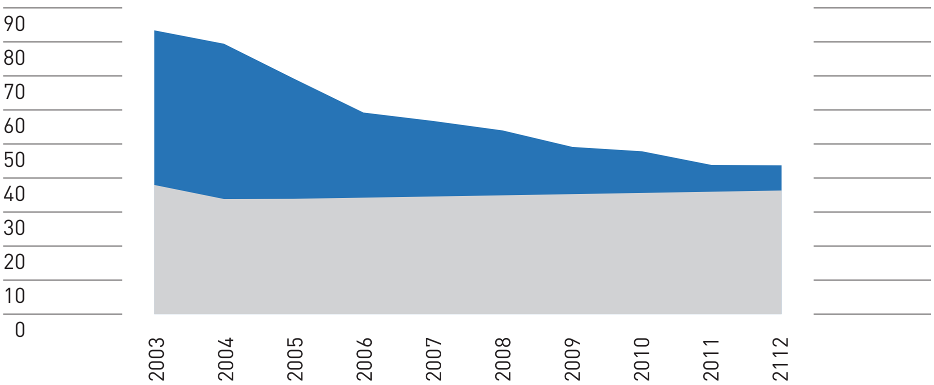
Value Commercial and Residential Properties as of September 30, 2003
Regions



City of Zurich	51.6%
Remaining Canton of Zurich	36.9%
Other regions	11.5%

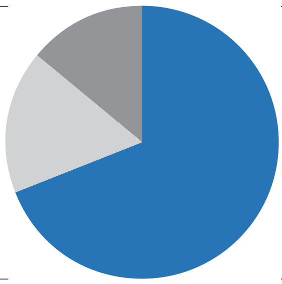
Lease Term Profile as of September 30, 2003

in million CHF



Construction Volume for Third Party Projects and Own Projects as of September 30, 2003

in million CHF



Third party projects	227.8	(69.2%)
Own projects for sale to third parties	56.1	(17.0%)
Own projects to be transferred to real estate investments portfolio	45.3	(13.8%)
Total	**329.2**	

As of September 30, 2003 the real estate portfolio of the Allreal Group was valued at CHF 1357.6 million. This value includes the revaluation of the commercial and residential properties pursuant to the discounted cash flow method ("DCF Method") performed by the independent valuation expert, Ernst & Young AG, Real Estate in the amount of CHF 1242.7 million as well as properties under construction at cost and land reserves at market values in the amount of CHF 114.9 million. Real estate for development in the amount of CHF 139.1 million as of June 30, 2003 was held by Allreal Generalunternehmung AG and amounted to 9.4% of the overall portfolio. As of September 30, 2003, 58.0% of the construction volume of CHF 329.2 handled between January 1, 2003 and September 30, 2003 in the Projects & Development Division was attributed to residential properties and 42.0% to commercial properties.

For commercial properties, the vacancy costs cumulated between January 1, 2003 and September 30, 2003 totaled 1.5% – calculated in % of the cumulated budgeted gross rent for the same period, and 1.1% for residential properties, for commercial and residential properties in total 1.4%. As of September 30, 2003, the remaining average duration of the fixed-term lease agreements for commercial properties weighted on the basis of rental income totaled 5.4 years.

Strategy

The strategy pursued by the Allreal Group is based on the one hand on the successful and independent development of its two divisions

- active real estate portfolio management (Real Estate Division)
- general contracting services, innovative project development and real estate services (Projects & Development Division)

and on the other hand on the realization of synergies resulting from the combination of these two business divisions.

In the Real Estate Division the Allreal Group actively manages its real estate portfolio to ensure that a sustained added value is being provided. Individual properties or entire portfolios are bought and managed or, depending on the objectives and the market situation, renovated and sold. The real estate portfolio of Allreal Group is to rank among the three largest portfolios of listed Swiss real estate companies focusing on first-class objects with an attractive location. In the Projects & Development Division the Allreal Group provides services in the area of project development and project management for new, converted or renovated buildings from a single source, such services ranging from market analyses, planning and project structuring to marketing. Projects that are balanced in economic and ecological terms are developed and realized on the basis of an integral point of view and in consideration of economic, urban development, architectural, topographical and structural requirements and parameters. The Projects & Development Division is to rank among the three largest general contractors in Switzerland and become market leader in the Greater Zurich Area.

Competitive Advantages

Proven business model

The Allreal Group pursues a strategy based on two pillars: the management of a real estate portfolio with a stable yield in combination with the activities of a general contractor and project developer. It covers the whole value chain of a property and can take advantage of resulting synergies. Comprehensive knowledge of the market and the in-depth know-how of the Projects & Development Division acquired over many years make it possible to exploit the potential offered by the management of the real estate portfolio. The financial strength of the Real Estate Division opens up possibilities for the Projects & Development Division to develop projects and to finance development projects on cost-effective terms.

Balanced Portfolio Composition

The Allreal Group manages a real estate portfolio that, in contrast to the portfolios of most of the other real estate companies listed on a stock exchange in Switzerland, includes residential properties in addition to commercial real estate. Since economic fluctuations have a much stronger effect on commercial real estate than on residential property, the share of residential properties, which in terms of value makes for about one fifth of the real estate portfolio, increases the investment stability of the portfolio of the Allreal Group. Since the Allreal Group has the possibility of increasing the share of residential property to up to one third of the total assets, it has a high degree of flexibility for taking advantage of market opportunities and optimizing its portfolio according to the market situation. In addition, the Allreal Group also gives foreign investors access to investments in residential property which would be much more difficult otherwise due to the Swiss regulatory environment.

Investment Strategy Creating Sustained Value

The Allreal Group pursues a conservative investment strategy designed to keep the risks of the overall portfolio as low as possible. The overall portfolio is characterized by a wide range of utilization, diversification in tenant mix, staggered lease terms and a high degree of flexibility regarding the possibilities of use.

Longstanding Excellent Performance Record of Management

The Allreal Group benefits from the team spirit and the in-depth knowledge of its management gathered over many years. The Group Management has effectively implemented the two pillar strategy in the past and has a longstanding excellent performance record. It ensured the success of the Allreal Group in difficult times by developing and implementing innovative concepts. The dynamic development of the Company is proof of this.

Systematic Asset & Liability Management

Real estate companies are exposed to potentially high interest rate risks. The Allreal Group constantly monitors the interest rate development and systematically analyzes interest rate exposure with the assistance of a modern asset & liability model. Through this in-depth analysis and the systematic management of its interest rate exposure as well as with the help of corresponding hedging instruments, the Allreal Group has guaranteed a very advantageous interest maturity profile in the short and medium term.

Proven Risk Management in the Projects & Development Division

The Projects & Development Division is exposed to various risks. Due to its long years of experience and the use of institutionalized instruments of analysis, the Allreal Group is in a position to prepare precise project budgets, for example in terms of costs and time. The current portfolio of projects under development ensures that the Projects & Development Division is running at full capacity. Projects under development that can be started at any time hold a significant potential to add value.

The Offering

Offering	The present transaction consists of the Rights Offering and the Placement. Offered Shares not taken up by the existing shareholders when exercising their subscription rights are expected to be offered for sale by the Managers on a commission basis in a public placement in Switzerland and a private placement with institutional investors in certain foreign countries (with the exception of the USA in particular).
Rights Offering	
Offered Shares	The Rights Offering comprises up to 1 626 205 Registered Shares that are being issued in a capital increase based on the existing authorized share capital of the Company pursuant to Art. 3a of the Articles of Association of the Company ("Articles of Association") and that are being offered for sale to the existing shareholders exercising their respective subscription rights. The Offered Shares rank pari passu to each other and to all other Registered Shares. See "Capital Structure and Voting Rights – Share Capital" and "Share Capital Changes – Share Capital Increase in Connection with the Offering".
Subscription Ratio	4 existing Registered Shares entitle the holder to purchase 1 Offered Share.
Subscription Price	CHF 74.00 per Offered Share.
Subscription Period	The Subscription Period for the exercise of the subscription rights is expected to run from November 5, 2003 until November 13, 2003, 12 noon (CET).
Allotment of Subscription Rights	Record date for the allotment of subscription rights is anticipated to be November 4, 2003 after the close of trading.
Trading in Subscription Rights	The Registered Shares are expected to be traded ex rights as from November 5, 2003. Trading in subscription rights on the SWX is expected to take place from November 5, 2003 until November 11, 2003. Trading in subscription rights is subject to the planned capital increase being completed and the Offered Shares actually being created.
Exercise of Subscription Rights	The subscription rights must be exercised according to the instructions of the depositary bank. The declaration regarding the exercise of the subscription rights must be received by an official subscription agent in Switzerland at the latest on November 13, 2003, 12 noon (CET).
Official Subscription Agents	UBS AG, Bank Vontobel AG
Cash Compensation	Subscription rights that are not exercised expire without compensation after expiration of the Subscription Period. However, it is in the discretion of the Company to pay a compensation for any subscription rights not exercised for a maximum period of six months following the expiration of the Subscription Period.
Swiss Control	With a view to the required Swiss control of the Company, a consortium agreement between 9 shareholders exists (the "Core Shareholders") that together hold Registered Shares carrying voting rights representing 58.1% of the votes as of September 30, 2003. The Core Shareholders are obliged to subject 51.0% of the Registered Shares to the sales restrictions under the

consortium agreement. Together with a new investor (the "New Investor") the Core Shareholders are expected to subscribe to Offered Shares in connection with the total subscription rights to which the Core Shareholders are entitled. The New Investor is expected to accede to the consortium agreement.

Payment	The Subscription Price is expected to be payable with value date of November 14, 2003.
Delivery	Delivery by book entry form of the Offered Shares is expected to be made via the system of SIS SegaInterSettle AG, Olten, Switzerland ("SIS"), on the Delivery Date. The shareholder is not entitled to the printing and delivery of share certificates for Registered Shares (interests in shares are represented electronically in the book-entry system of SIS – (aufgehobener Titeldruck); however, he/she can request the Company at any time to issue a confirmation regarding the Registered Shares in his/her ownership. See "Capital Structure and Voting Rights – Certification of the Registered Shares".
Placement	
Shares to be Placed	Offered Shares that are not subscribed to under the Rights Offering will be offered for sale to investors.
Placement Price	The Placement Price will be fixed applying the book-building procedure.
Placement Date	Shares to be Placed are expected to be offered for sale on November 14, 2003 to the extent the stock exchange price of the Registered Shares at that time equals at least the Subscription Price.
Delivery and Payment	Delivery of the Shares to be Placed against payment is expected to be made on the Delivery Date via the SIS system.
General	
Use of Net Proceeds	The Allreal Group intends to use the net proceeds for the acquisition of additional commercial and residential properties, entire real estate portfolios as well as for the financing of own projects in accordance with its Investment Guidelines. Until the complete investment of the proceeds, any excess liquidity is to be used to repay short-term borrowings.
Stamp Tax	The Company will bear the stamp tax on the issuance of securities.
Transfer Restrictions	The Board of Directors can refuse a buyer of Registered Shares as a shareholder with full rights to the extent the number of Registered Shares held by him exceeds 5.0% of the total number of Registered Shares recorded in the Commercial Register. Legal entities and partnerships with legal capacity which are combined in terms of capital or voting rights, by uniform direction or in a similar manner, as well as individuals or legal entities or partnerships which with a view to circumventing the registration restriction act in a coordinated way, are considered one buyer with respect to this provision (Art. 6 of the Articles of Association). See "Capital Structure and Voting Rights – Transfer of Registered Shares".

Stabilization	In connection with the Offering the Lead Manager or one of its affiliates or a person authorized by the Lead Manager can perform transactions in accordance with applicable statutory provisions that stabilize or maintain the market price of the Registered Shares at levels which might not otherwise prevail in the open market. Stabilization measures can be discontinued at any time and without prior notice and will be discontinued in any case 30 days after the Delivery Date.
Lock-Up Undertaking	Subject to certain exceptions, the Company has undertaken not to issue either directly or indirectly shares or securities that entitle the holder to the subscription or the purchase of shares or that may be converted into shares without the consent of the Lead Manager for a period of six months after the Delivery Date. See "Offering/Sales Restrictions".
Listing	An application for the listing of the Offered Shares on the SWX starting November 17, 2003 has been made and approved. An application for the admission of the subscription rights to trading on the SWX starting November 5, 2003 has been made and approved.
Voting Right	The shareholders listed in the share register are entitled to vote at the shareholders' meeting and each Registered Share carries one vote. See "Capital Structure and Voting Rights – Shareholders' Meeting".
Dividend Entitlement	The Offered Shares are entitled to dividends for the 2003 financial year, ie as from January 1, 2003. See "Dividend Policy".
Recognized Representative	The Lead Manager acts as recognized representative as defined in Art. 50 of the Listing Rules of the SWX.
Governing Law	Swiss law
Place of jurisdiction	Baar
Securities Id. No./ ISIN/Ticker Symbol	*Registered Share* Securities Id. No.: 883 756 ISIN: CH0008837566 Common Code: XS10914361 Ticker Symbol: ALLN *Subscription Right from Registered Share* Securities Id. No.: 1 699 196 ISIN: CH0016991967 Ticker Symbol: ALLN1
Sales Restrictions	In particular USA, U.S. persons, United Kingdom, The Netherlands
Amendments and Supplements	Any amendments of or supplements to the terms of this Offering and any announcements in connection with the listing of the Offered Shares on the SWX will be published in the Neue Zürcher Zeitung and Le Temps.

Selected Financial Information

The following tables summarize the financial information contained in the consolidated financial statements for the years ended December 31, 2002 and 2001 and the interim financial statements as of June 30, 2003 and also contain the segment information of the corresponding consolidated financial statements. Investors should read the entire consolidated financial statements presented in the financial section at the end of the Offering Circular and not rely exclusively on the selected financial information.

Income statement

		Financial year 1.1.–31.12.2002 or as of 31.12.2002	Financial year 1.1.–31.12.2001 or as of 31.12.2001	Financial year 1.1.–31.12.2000 or as of 31.12.2000	Half year 1.1.–30.6.2003 or as of 30.6.2003	Half year 1.1.–30.6.2002 or as of 30.6.2002
Allreal Group						
Income from real estate	in million CHF	73.2	52.0	46.5	46.1	31.8
Income from projects & development	in million CHF	60.7	72.7	63.3	35.7	29.6
Revaluation gains	in million CHF	26.8	16.6	35.9	0.2	17.4
Total income	in million CHF	160.7	141.3	145.7	82.0	78.8
Operating expense	in million CHF	–53.2	–55.4	–50.1	–28.9	–26.9
EBITDA	in million CHF	107.5	85.9	95.6	53.1	51.9
Depreciation and amortisation	in million CHF	–2.8	–3.2	–4.7	–1.1	–1.4
EBIT	in million CHF	104.7	82.7	90.9	52.0	50.5
Finance income	in million CHF	1.3	1.5	2.2	0.7	0.3
Finance expense	in million CHF	–23.7	–16.4	–16.0	–12.3	–10.6
Tax	in million CHF	–31.2	–17.2	–19.6	–9.1	–9.1
Net profit	in million CHF	51.1	50.6	57.5	31.3	31.1
Total income excl. revaluation gains	in million CHF	133.9	124.7	109.8	81.8	61.4
EBITDA excl. revaluation gains	in million CHF	80.7	69.3	59.7	52.9	34.5
EBIT excl. revaluation gains	in million CHF	77.9	66.1	55.0	51.8	33.1
Net profit excl. revaluation gains	in million CHF	39.9	38.2	33.9	31.6	18.6
Segment Information Real Estate[1]				[2]		
Income from operations	in million CHF	74.5	52.3	46.5	46.3	32.3
Revaluation gains	in million CHF	26.8	6.6	35.9	0.2	17.4
Total income	in million CHF	101.3	58.9	82.4	46.5	49.7
Operating expenses	in million CHF	–13.1	–13.8	–8.7	–8.1	–6.8
EBITDA	in million CHF	88.2	45.1	73.7	38.4	42.9
Depreciation and amortisation	in million CHF	0.0	0.0	0.0	0.0	0.0
EBIT	in million CHF	88.2	45.1	73.7	38.4	42.9
Net finance expense	in million CHF	–22.2	–13.9	–11.4	–12.1	–10.0
Income tax	in million CHF	–16.7	–5.7	–18.5	–5.9	–6.5
Net profit	in million CHF	49.3	25.5	43.8	20.4	26.4
EBITDA excl. revaluation gains	in million CHF	61.4	38.5	37.8	38.2	25.5
EBIT excl. revaluation gains	in million CHF	61.4	38.5	37.8	38.2	25.5
Net profit excl. revaluation gains	in million CHF	38.1	20.6	n.a.	20.7	13.91
Segment Information Projects & Development[1]			[3]	[3]		
Total income	in million CHF	62.8	84.1	64.9	36.9	30.8
Operating expenses	in million CHF	–42.5	–41.7	–41.0	–21.1	–21.4
EBITDA	in million CHF	20.3	42.4	23.9	15.8	9.4
Depreciation and amortisation	in million CHF	–1.1	–1.0	–0.9	–0.3	–0.5
EBIT	in million CHF	19.2	41.4	23.0	15.5	8.9
Net finance expense	in million CHF	–0.3	–0.8	–1.8	0.4	–0.4
Income tax	in million CHF	–13.9	–11.4	–3.6	–3.0	–2.5
Net profit	in million CHF	5.0	29.2	17.6	12.9	6.0
EBITDA excl. revaluation gains	in million CHF	20.3	32.4	23.9	15.8	9.4
EBIT excl. revaluation gains	in million CHF	19.2	31.4	23.0	15.5	8.9
Net profit excl. revaluation gains	in million CHF	5.0	21.7	17.6	12.9	6.0

[1] Based on reciprocal debtors and creditors and on revenue and expenses, the addition of the segments does not amount to the total of the consolidated accounts
[2] Corresponds to the addition of the "Office" and "Home" segments in the 2001 financial report
[3] Corresponds to the "Projects & Development" segment in the 2001 financial report

Balance sheet

		Financial year 1.1.–31.12.2002 or as of 31.12.2002	Financial year 1.1.–31.12.2001 or as of 31.12.2001	Financial year 1.1.–31.12.2000 or as of 31.12.2000	Half year 1.1.–30.6.2003 or as of 30.6.2003	Half year 1.1.–30.6.2002 or as of 30.6.2002
Allreal Group						
Real estate investments	in million CHF	1 505.9	1 025.5	770.6	1 347.2	1 308.2
Real estate for development	in million CHF	157.6	206.4	220.6	139.1	245.1
Fixed assets	in million CHF	1 672.5	1 259.9[4]	1 007.4[4]	1 503.0	1 565.6
Current assets	in million CHF	73.1	81.0[4]	237.9[4]	95.6	45.3
Total equity	in million CHF	1 745.6	1 340.9	1 245.3	1 598.6	1 610.9
Shareholders' equity	in million CHF	611.3	593.3	552.2	629.0	600.6
Long-term borrowings	in million CHF	853.8	489.4	235.8	730.6	680.8
Short-term borrowings	in million CHF	30.0	122.7	210.6	35.0	110.0
Total liabilities	in million CHF	1 134.3	747.6	693.1	969.6	1 010.3
Total equity and liabilities	in million CHF	1 745.6	1 340.9	1 245.3	1 598.6	1 610.9

Additional key figures

Allreal Shares						
Earnings per share incl. revaluation gains	CHF	8.25	8.01	9.75	4.96	5.01
Earnings per share excl. revaluation gains	CHF	6.44	6.04	5.75	5.01	3.00
Dividend per share	CHF	4.50	3.00	0.00	–	–
Net asset value (NAV) per share	CHF	98.63	94.55	86.60	98.60	96.81
Share price as at 31 December	CHF	78.75	82.00	87.00	87.25	80.00
Dividend yield	%	5.7	3.7	0.0	–	–
Operating key figures						
Net yield real estate investments[5]	%	5.7	5.4	5.7	5.6	5.5
Average interest rate on financial liabilities as at 31 December	%	2.4	3.8	3.6	2.8	3.2
Operating margin Projects & Development Division[6]	%	30.6	34.7	35.4	42.0	28.9

[4] For comparison purposes in this table, development real estate for the year 2000 is included in fixed assets.
In the 2001 financial report it is included in current assets.
[5] Real estate income as a percentage of annualised market value
[6] EBIT excluding revaluation and reintegration of value corrections on projects as a percentage of income from business activity

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Risk Factors

Investors contemplating the purchase of the Offered Shares or subscription rights should carefully consider the risk factors below in addition to the other information contained in this Offering Circular before making an investment. The occurrence of any of the following events could adversely affect the business, financial condition and operating results as well as adversely affect the value of the Registered Shares and/or the subscription rights. Additional risks not currently known to the Company or known risks that are currently deemed immaterial may also harm the Company.

Dependency on Economic Developments

The Allreal Group is dependent on the general economic development in Switzerland, for example the interest rate levels, the inflation rate or the attractiveness of the location of the key Swiss economic areas by international comparison. The Allreal Group is further dependent on general economic developments influencing its two divisions, Real Estate and Projects & Development, which in addition may vary greatly regionally.

The real estate market is subject to cyclical fluctuations of supply and demand both on the tenant market and the transaction market. For example, the local supply of rental space can be increased considerably due to the realization of new construction projects resulting in an excessive supply of rental space or marketable real estate. In the past, excessive availability of commercial and residential properties has led to a decrease in rental income and in real estate valuation and prices, whereas a reduction of available rental space resulted in higher valuations. Demand, in particular for commercial rental space, primarily has been dependent on general macroeconomic developments. Slow economic development, for instance, can lead to higher vacancy rates for commercial properties with corresponding negative consequences for the Allreal Group.

Development in the area of general contracting, which is related to development in the construction sector, is subject to considerable economic and cyclical fluctuations. Even though the economic development of the Real Estate and Projects & Development Divisions does not run parallel timewise so that a downturn in one area can at most be compensated in part by an upswing in the other area, economic fluctuations can have an adverse effect on the business, financial and earnings situation of the Allreal Group.

Factors based on Location, Force Majeure

The real estate market is by nature subject to factors that are based on location so that the performance of a property can be quite different depending on the location. The location factors in one region can deteriorate considerably over time, for example due to a crisis of an industry located primarily in one region, and thus have an adverse effect on the performance of the real estate. Since the properties of the Allreal Group are concentrated in the Greater Zurich Area, the Allreal Group is particularly dependent on developments in the Greater Zurich Area.

The elements of force majeure (eg natural disasters (earthquakes, storms etc), wars and terrorist attacks, acts of sabotage) can have an adverse effect on the value of the real estate and thus on the business, financial and earnings situation of the Allreal Group.

Valuation of Real Estate

The valuation of a property is dependent on numerous factors and founded on assumptions based on experience and general market observances, but in the end always includes a certain subjective assessment. It cannot be guaranteed that the determined value of a property can be realized in a sale. Whereas the valuation is merely an estimate of the sales price that may be realized at the time of the valuation, the sales price is based on supply and demand at the time of the sale. In addition, in Switzerland, the amount of data publicly available on current real estate sales prices and the increase in value of real estate is rather limited in comparison to other European countries, which can make the valuation more difficult.

The independent valuation expert performs a comprehensive revaluation of the properties of the Allreal Group pursuant to the DCF Method each December 31. As of each June 30, for the first time as of June 30, 2003, certain parameters on which the respective last comprehensive revaluation was based are reviewed which may lead to a value adjustment for certain objects. Ernst & Young AG, Real Estate carried out the valuation as of June 30, 2003 and December 31, 2002. A valuation by another valuation expert, different underlying assumptions, the valuation according to a method other than the DCF Method or a subsequent valuation of the real estate on the basis of the then current market situation may lead to a different valuation result.

Competition

Changes in the management of commercial properties, in particular an increase in renting rather than buying commercial properties for own use, as well as the separation of real estate and/or real estate management from the operative core business, can lead to a stronger dynamic on the real estate market. The decisions of some industrial enterprises, financial services groups and public sector companies to sell real estate and to concentrate on the operative core business have brought about a trend towards an increased supply of properties on the Swiss real estate market. At the same time, in addition to traditional institutional real estate buyers such as pension funds, insurance companies, real estate investment funds or real estate investment foundations, various new real estate companies have entered the market during the last few years, resulting in an increased demand for real estate. It cannot be excluded that further real estate companies will be founded, increasing the number of competitors of the Allreal Group.

The bilateral agreements between Switzerland and the European Union (the "EU") or a possible entry of Switzerland into the EU could also lead to a considerable increase in demand and thus to stronger competition due to the related opening up of the labour market as well as the possible partial or complete opening up of the Swiss real estate market to foreign investors (liberalization of the Federal Law on the Acquisition of Real Estate by Non-Residents of December 16, 1983, Lex Koller).

Market Risk regarding Rental Income

Rental income is subject to fluctuations that result from changed market rents, the credit rating of the tenants, vacancies and other factors relevant with respect to rental income. Since the real estate portfolio of the Allreal Group is concentrated in the Zurich economic area, any changes in the real estate situation in Zurich have a special effect on the rental income of the Allreal Group. There is no guarantee that expiring leases can be renewed on the same conditions. No guarantee can be given that any property will be fully leased so that vacancies may occur. In case of vacancy, the Allreal Group, in addition to the rent loss, must also bear those costs that, if the property were rented, it would normally charge to the tenant in the form of ancillary costs. Further, the Allreal Group, on the basis of statutory or contractual provisions, may be forced to compensate the tenant for conversion costs upon termination of the lease, which may be considerable.

The credit rating of the tenants can have a material impact on the rental income and thus on the valuation of real estate. As of September 30, 2003, 28.6% of the total rental income from commercial properties is attributed to the five largest tenants Bank Vontobel AG, MAN Turbomaschinen AG, IBM (Schweiz) AG, Bank Julius Bär & Co. AG and DaimlerChrysler Schweiz AG. The loss or the insolvency of one or more of the major tenants can lead to a significant loss of income. The sublease of larger rental areas that have become vacant at short notice can prove to be difficult; in this context, possible tenant-specific interior furnishings make a sublease even more difficult or may lead to conversion costs to be borne by the Allreal Group. A large number of vacancies lasting over a longer period of time may have an adverse effect on the property valuation as well as on the business, financial and earnings situation of the Allreal Group.

Dependency of Rental Income and Real Estate Values on the Development of Interest Rates and Inflation

Changes in interest rates on the money and capital markets, in particular mortgage rates, and in inflation or inflation forecasts can have a material impact on the development of rental income and the value of the real estate. Whereas in the case of commercial properties, rent for the most part is linked to the Swiss consumer price index, it is dependent on the development of mortgage rates in the case of residential properties. Changes in interest rates also have an effect on the discount rate applied by the Allreal Group in the valuation of the real estate (DCF Method).

Financing Risks and Risks due to Increased Financing Costs

Investments in properties, making advance payments or carrying out renovations, or the pre-financing of projects make the real estate business very capital-intensive. Therefore, real estate companies rely on access to equity and debt capital to an especially high degree. Pursuant to the Investment Guidelines of the Allreal Group, equity may not fall below 35.0% of the total assets as per the semi-annual consolidated balance sheet prepared in accordance with International Financing Reporting Standards (IFRS, formerly IAS). There is no guarantee that access to debt and equity capital can be ensured when required. For example, access to equity capital can be restricted or impossible due to the state of the capital markets, current investor requirements, the operating results of the Allreal Group or the relative attractiveness of the Allreal Group to investors in comparison to its competitors. As regards debt capital, the Allreal Group finances itself primarily through bank loans. There is no guarantee that the maturing bank loans will be renewed or that new loans, if required, will be granted. It cannot be excluded that real estate investments must be sold due to lack of access to capital or an increase in the cost of capital.

The operating results of real estate companies in the investment area depend materially on the difference between the net return realized for the real estate investments and the corresponding financing costs. An increase in the financing costs can lead to a reduction of this margin and thus to a substantial adverse effect on the operating results. For example, the interest rate level in Switzerland is currently at a historical low. There exists the risk that the market data relevant for financing or refinancing could change to the detriment of the Allreal Group.

Limited Liquidity of the Real Estate Market

In particular as regards large properties, the Swiss real estate market is characterized by both a limited property supply and a limited property demand which can have an adverse effect on the price structure. The disposal or acquisition of property within a short period may sometimes be impossible or possible only with corresponding price concessions, depending on the market situation. Since investments in real estate by the Allreal Group generally are long-term investments, a forced sale of real estate at short notice can result in the expected sales prices not being realized and the property possibly having to be sold at a loss.

Special Risks Associated with the Projects & Development Division

Subcontractors

In the Projects & Development Division the Allreal Group undertakes to carry out all work relating to new or converted buildings according to contract. The Allreal Group works with subcontractors to fulfill its obligations. The performance of construction projects in terms of time, quality and price depends materially on the fulfillment of the duties by the subcontractors. The prices for the services bought from the subcontractor may be higher than the prices underlying the project calculation. These additional costs cannot be passed on to the developer at all or only in part. It is also possible that claims will be asserted against the Allreal Group by the developer for defects caused by the subcontractor and additional costs so incurred cannot be passed on to the subcontractor.

Building Permits and Objections

The execution of construction projects is dependent on the corresponding building permits being issued in time by the competent authorities. The Allreal Group can predict neither the duration of the procedure to obtain a permit and of a possible complaint procedure nor the possible conditions that may be linked to the permit. Therefore, it cannot be excluded that construction projects already planned cannot be executed at all or only under changed requirements which may have an adverse effect on the expected business, financial and earnings situation of the Allreal Group.

Project Financing

Until a construction project is completed, considerable investments over a period of several years can be necessary and years may pass until such projects can be sold or generate rental income after their transfer to the Real Estate Division. Even if the Company assumes that the ongoing projects can be completed within the planned time frame, delays cannot be excluded which may have a considerable adverse effect on the reputation and the business, financial and earnings situation of the Allreal Group. Even though in the case of own projects the Allreal Group, as a rule, only begins with construction once commitments for the sale or the lease of 30.0% for residential properties and 50.0% for commercial properties of the building to be constructed have been secured, there is no guarantee that the remaining space can be sold or rented after completion of the project or that sale or lease commitments can be enforced.

Real Estate for Development

When acquiring real estate for development, various parameters must be assessed, such as the adequacy of the price paid for the property to be developed, the suitability for development of the land, the amount of the construction costs actually incurred or the realization of the sale and the market feasibility of the expected sales price. Such assessments can turn out to be wrong, for example because the location factors change during or in the years after the realization of a project, whereby the business, financial and earnings situation of the Allreal Group can be adversely affected.

Construction Planning and Building Process

The realization of construction projects is connected to all risks inherent in construction planning and the building process. For example, due to an incorrect estimate regarding the duration and scope of a project or due to unpredictable geological circumstances, the costs of a project may be higher than originally determined which can have an adverse effect on the Allreal Group, in particular in case lump sum prices were agreed (lump sum price, all inclusive price, cost ceiling). Using the wrong construction method or technology can also lead to considerable time delays, increased material costs and accidents on the construction site. The insurance policies taken out by the Allreal Group and/or provisions made for construction risks, in particular in connection with guarantees given for compliance with deadlines, cost estimates and quality requirements, may turn out to be insufficient to cover the construction risks which could have a material adverse effect on the business, financial and earnings situation of the Allreal Group.

Environmental Risks and Contamination

Buildings as well as installations contained therein may violate the relevant statutory provisions (eg Clean Air Act) or contain building materials detrimental to one's health (eg asbestos). In order to restore conformity with the law, specific investments for the removal, upgrade or substitution of construction components or installations must be made.

Buildings may be located on contaminated sites. The contamination of the soil with pollutants can cause a substantial delay or increase in costs of the construction project (new construction, conversion, extensions etc).

Environmental factors such as noise pollution, pollution through operational activities, air pollution, radiation or flooding can have a direct influence on the value of property and its profit situation. As owner of the land, the Allreal Group can be held liable by third parties for pollution originating from the operation of the properties.

The overall risk of contamination cannot be determined in an exact manner also with a view to the possibility of the enactment of more stringent environmental legislation in the future. Any contamination, pollution or material decrease in value of the property not known or not recognizable at the time of the purchase or occurring at a later date can have a material adverse effect on the business, financial and earnings situation of the Allreal Group. Equally, the costs for the removal or clean up of the pollution or contamination may be higher than anticipated. Therefore, it cannot be excluded that any necessary clean up of contamination can have an adverse effect on the business, financial and earnings situation of the Allreal Group.

Dependency on Employees in Key Positions

The success of the Company depends materially on the performance of its executives. Since the competition on the market for qualified executives in the real estate industry is intensive, it cannot be guaranteed that the Company will be in a position going forward to attract, integrate and retain such qualified executives.

Dependency on Legislative Developments

Possible future amendments of laws, other regulations or administrative practice, in particular in the area of tax, tenancy or environmental protection law, can affect real estate prices, costs and income and thus influence the results of the Allreal Group.

The amendment of tax regulations at the cantonal or federal level can have adverse effects on the real estate investments made in the respective cantons but also generally influence the enterprises located in the respective cantons or the real estate market. For example, the abolishment of the deductibility of mortgage interest for home owners can reduce the demand for homes.

Amendments of applicable construction laws and regulations for new buildings, conversions and renovations can lead to additional costs (permit procedures, time delays) or influence the value of the property. The amendment of regional planning orders may lead to rezoning; this is connected to corresponding losses in value of the properties located in the affected zones.

Amendments, i.e. a tightening, of the provisions of the Federal Law on the Acquisition of Real Estate by Non-Residents of December 16, 1983 (Lex Koller or Bewilligungsgesetz – Authorization Act) or the corresponding administrative practice may make the acquisition of real estate in Switzerland (ie commercially used property) by foreigners even more difficult or possibly impossible. The introduction or reintroduction of such restrictions could have serious consequences for the demand side of the real estate market and thus cause a corresponding loss of value of existing real estate investments. Due to the applicable interpretation of the Authorization Act and a preliminary decision of the Zurich Executive Council (Bezirksrat) of July 13, 1999, the Company is not deemed a real estate company as defined in Art. 4 para. 1 lit. e of the Federal Law on the Acquisition of Real Estate by Non-Residents of December 16, 1983 so long as in terms of value the residential property directly or indirectly held by the Company does not exceed one third of its total assets. If, due to changed parameters, the ratio in terms of valuation between residential property, commercial property and the other assets of the Company changes in a decisive way, this can result in the portfolio structure of the Company no longer corresponding to the guidelines stipulated in the Authorization Act. Therefore, it cannot be excluded that properties would have to be sold or trading in Registered Shares could be restricted, in particular for non-residents, which would have an adverse effect on the business, financial and earnings situation of the Allreal Group and the share price development of the Registered Shares, respectively.

Tax Risks
The Allreal Group has made comprehensive tax arrangements and obtained tax rulings from the competent tax authorities with regard to its business activities. Should the tax authorities change and/or revoke their rulings either on the basis of changes in legislation, international treaties or other reasons, this can have a material adverse effect on the business, financial and earnings situation of the Allreal Group.

The properties are valued at market value in the consolidated financial statements and taxes (eg with respect to real estate capital gains tax) have been accrued and deferred. The deferred taxes were calculated at average tax rates applying certain assumptions (eg the average time of possession of the real property). In this context, deferred tax liabilities are accrued and deferred tax assets are capitalized to the extent it is considered likely that such deferred tax assets can actually be absorbed in connection with future taxable income. Should the assumptions made with respect to the calculation of deferred taxes turn out to be incorrect or should capitalized tax assets related to loss carry forwards no longer be valuable due to expected future profits not arising, this can have a material influence on the business, financial and earnings situation of the Allreal Group.

The great complexity of the value added tax system as well as changes in the practice of the competent tax authorities may lead to incorrect value added tax reports which in turn may result in unforeseen substantial additional tax liabilities.

Major Shareholders of the Company
As of September 30, 2003 the four largest shareholders of the Company (Helvetia Patria Versicherungen, Pensionskasse der Oerlikon Contraves AG, Basellandschaftliche Pensionskasse and Vontobel Holding AG) had together recorded in the share register or reported to the Company holdings of 3 059 401 Registered Shares representing 47.0% of the share capital of the Company. Together with other shareholders, they have undertaken in a consortium agreement to jointly hold 51.0% of the share capital of the Company as long as the statutory restrictions of the Federal Law on the Acquisition of Real Estate by Non-Residents of December 16, 1983 (Lex Koller) are in effect. Should the consortium agreement be rescinded and major shareholders of the Company sell substantial numbers of Registered Shares held by them or should rumors to this effect circulate, this could have an adverse effect on the share price of the Registered Shares.

Required Swiss Control of Company
In order for the Company to continue investing in residential property pursuant to applicable laws, it is essential that the Company is under Swiss control. Swiss control of the Company (51.0% of the share capital of the Com-

pany) is to be ensured by the consortium agreement entered into between certain shareholders of the Company. Should the Company at some point no longer be able to provide the proof required according to practice that it is under Swiss control, it would be considered a non-resident person as defined in the Federal Law on the Acquisition of Real Estate by Non-Residents of December 16, 1983 (Lex Koller). Therefore, it cannot be excluded that in this case properties would have to be sold or trading in Registered Shares could be restricted, in particular for non-residents, which could have a negative effect on the business, finance and earnings situation of Allreal Group and the share price development of the Registered Shares, respectively.

Pricing and Volatility

Although the Registered Shares of the Company are listed on the SWX, there is no certainty that there will be a sufficiently large and therefore liquid market for their trade at all times, particularly since at least 51.0% of the share capital of the Company are subject to a consortium agreement due to the Lex Koller. A number of factors influence the liquidity of the market for the Registered Shares, for example the way the investors evaluate the company or the share and real estate markets, possible changes in the economic environment and new trends in the real estate sector. A restricted market for the Registered Shares can have a negative impact on their marketability and price as well as cause a high volatility of the Registered Shares. Historically, the Registered Share of the Company is traded on the SWX at a discount from the net asset value ("NAV"). The share price of the Registered Share can deviate from the NAV in the future and it is possible that the difference between the share price and the NAV will increase. The influence of this Offering on the relation of the share price to the NAV as well as the future development of the share price and the NAV cannot be anticipated. It cannot be guaranteed that the Registered Shares will be traded on the SWX at or above the Subscription or Placement Price.

Risks regarding the Trading in Subscription Rights

The subscription rights are expected to be admitted to trade on the SWX from November 5, 2003 until November 11, 2003. The Allreal Group does not intend to apply for admission to trade of the subscription rights on other stock exchanges. There is no guarantee that an active market for the subscription rights will actually develop during this period. In addition, the volatility of the subscription rights may be higher than the volatility of the underlying Registered Shares.

No Capital Increase or Sharp Decline of the Price of the Registered Shares

If the intended capital increase is not executed as planned or the value of the Registered Shares declines considerably, the subscription rights may become worthless. The Company does not have the obligation to take over Registered Shares at any time and on no conditions. Should the capital increase not take place, the subscription rights will become invalid and lose their value. Accordingly, the investors who acquired subscription rights on the stock exchange will suffer a loss, since subscription right transactions will no longer be settled as soon as it is clear that the capital increase will not take place. A sharp decline of the price of the Registered Shares could also have a strong adverse effect on the value of the subscription rights.

Valuation of Subscription Rights

In order to determine the value of the subscription rights applying standard methods, assumptions regarding the number of Registered Shares to be newly issued must be made. When deciding whether to sell or buy, investors must be aware that no certainty regarding the number of Registered Shares to be newly issued exists after the expiration of the Subscription Period, since, for example, not all subscription rights may have been exercised.

The Company and its Subsidiaries

The current corporate structure of the Allreal Group is as follows:

Allreal Holding AG
Baar

100%	100%	100%	100%[1]	100%	100%
Allreal Finanz AG	**Allreal Generalunternehmung AG**	**Allreal Home AG**	**Allreal Office AG**	**Allreal Vulkan AG**	**Allreal West AG**
Baar	Zurich	Zurich	Zurich	Zurich	Zurich

[1] 17.8% thereof held indirectly via Allreal Generalunternehmung AG

The Company is a real estate company and, together with its subsidiaries, forms the Allreal Group. The Allreal Group is active exclusively in Switzerland focusing on the Greater Zurich Area in the two business divisions Real Estate and Projects & Development. In its Real Estate division, it actively manages its real estate portfolio by buying, holding, optimizing and selling properties. In the Projects & Development Division, the Company renders comprehensive general contracting services for projects involving new and converted buildings as well as renovations, in particular in connection with project development and real estate services of all types, thus satisfying its own needs for such general contracting services as well as those of third parties. Whereas Allreal Home AG, Allreal Office AG, Allreal Vulkan AG and Allreal West AG form the Real Estate Division, Allreal Generalunternehmung AG corresponds for the most part to the Projects & Development Division.

Corporate History

The roots of the Projects & Development Division of today's Allreal Group can be traced to the general contractor Oerlikon-Bührle Immobilien AG:

1970	Spin-off and establishment of Oerlikon-Bührle Immobilien AG as a subsidiary of Oerlikon-Bührle Holding AG; orientation towards outside clients.
1980–1990	Expansion of activities to become one of the leading general contractors in Switzerland with focus on the Greater Zurich Area and the Canton of Ticino.
1990	Acquisition of Albis Bau und Verwaltungs AG (Albis); integration of its own property management into Albis.
1996	Acquisition of the Uto Group and merger with Albis to form the Uto Albis Group; expansion of management activities to all of Switzerland.
1999	Establishment of Allreal Holding AG and the subsidiaries Allreal Finanz AG, Allreal Home AG and Allreal Office AG. Acquisition of Oerlikon-Bührle Immobilien AG by Allreal Holding AG and subsequent sale of the Uto Albis Group to Livit AG.
2000	Listing of Registered Shares on the SWX.
2002	Takeover and integration of Juventus AG, Grundstückgesellschaft Juventus and Immobiliengesellschaft ATZ by Allreal Office AG; establishment of the subsidiaries Allreal Vulkan AG and Allreal West AG.

The Company

Establishment, Duration and Registered Office

The Company is a corporation under Swiss law (Sec. 620 et seq. Swiss Code of Obligations). It was established under the company name Casa Holding AG (Casa Holding SA, Casa Holding Ltd) by Vontobel AG für Partizipationen, Zurich, as well as Dr. Thomas Lustenberger, Ebikon, and Dr. Alexander Vogel, Baar, on May 7, 1999 for an indefinite period of time and registered in the Commercial Register of the Canton of Zug under the registration number CH-170.3.022.869-8 on May 17, 1999. By resolution of the shareholders'meeting of July 14, 1999, the company name was changed to Allreal Holding AG (Allreal Holding SA, Allreal Holding Ltd). The registered office of the Company was moved from Zug to Baar by resolution of the shareholders' meeting of March 21, 2002.

Purpose of the Company

Art. 2 of the Articles of Association of the Company describes the purpose of the Company as follows:
The purpose of the Company is the (direct and indirect) acquisition, holding and sale of commercial property, residential property and land as well as the participation in enterprises active in the real estate sector.

The Company may participate in other enterprises, establish subsidiaries and branch offices in Switzerland and abroad and perform all legal transactions related to the purpose of the Company.

The details of the investment policy are laid down in the Investment Guidelines by the Board of Directors (see "Investment Guidelines").

Financial Year

The financial year of the Company corresponds to the calendar year.

Auditors and Group Auditors

The Company's auditors and group auditors for the 2000, 2001 and 2002 financial years were Ernst & Young AG, Bleicherweg 21, 8002 Zurich, which were appointed again for the 2003 financial year.

Announcements

Announcements to shareholders become effective upon publication in the Swiss Commercial Gazette (Schweizerisches Handelsamtsblatt). The Board of Directors may designate additional publications for the publishing of announcements to shareholders. Publications in connection with the maintenance of the listing on the SWX are made in accordance with the Listing Rules.

Allreal Finanz AG

Establishment, Duration, Registered Office and Share Capital

Allreal Finanz AG (Allreal Finance SA, Allreal Finance Ltd) is a corporation established for an indefinite period of time. It was registered in the Commercial Register of the Canton of Zug under the registration number CH-170.3.023.132-9 on August 25, 1999. The registered office of Allreal Finanz AG was moved from Zug to Baar by resolution of the shareholders' meeting of December 14, 2001. The share capital amounts to CHF 100 494 600.

Purpose of the Company

Art. 2 of the Articles of Association of Allreal Finanz AG describes the purpose of the company as follows:
The purpose of the company is the rendering of services, primarily in the area of finance, to group companies of the Allreal Group and, as an exception, to third parties, the provision of financing of any kind to group companies of the Allreal Group and, as an exception, to third parties, as well as all activities related thereto; the company may participate in other enterprises as well as establish subsidiaries.

Allreal Generalunternehmung AG

Establishment, Duration, Registered Office and Share Capital

Allreal Generalunternehmung AG is a corporation established for an indefinite period of time. It was registered in the Commercial Register of the Canton of Zurich with registration number CH-020.3.919.025-2 under the company name "Oerlikon-Bührle Immobilien AG" on January 15, 1970. The company name was changed to Allreal Generalunternehmung AG by resolution of the shareholders' meeting of December 6, 1999. The registered office of Allreal Generalunternehmung AG is located in Zurich. The share capital amounts to CHF 10.0 million.

Purpose of the Company

Art. 2 of the Articles of Association of Allreal Generalunternehmung AG describes the purpose of the company as follows:
The purpose of the company is the acquisition, disposal, management and procurement of land, the planning and construction of any type of building for its own purposes or those of third parties as well as the rendering of advisery services on construction matters; the company can acquire, manage and sell participations.

Allreal Home AG

Establishment, Duration, Registered Office and Share Capital

Allreal Home AG (Allreal Home SA, Allreal Home Ltd.) is a corporation established for an indefinite period of time. It was registered in the Commercial Register of the Canton of Zug under the registration number CH-170.3.023.133-7 on August 25, 1999. The registered office of Allreal Home AG was moved from Zug to Zurich by resolution of the shareholders' meeting of December 14, 2001. The share capital amounts to CHF 26 520 850.

Purpose of the Company

Art. 2 of the Articles of Association of Allreal Home AG describes the purpose of the company as follows:
The purpose of the company is the acquisition, holding and disposal of real estate, in particular residential properties; the company can participate in other enterprises and establish subsidiaries.

Allreal Office AG

Establishment, Duration, Registered Office and Share Capital

Allreal Office AG (Allreal Office SA, Allreal Office Ltd.) is a corporation established for an indefinite period of time. It was registered in the Commercial Register of the Canton of Zug under the registration number CH-170.3.023.138-4 on August 26, 1999. The registered office of Allreal Office AG was moved from Zug to Zurich by resolution of the shareholders' meeting of December 14, 2001. The share capital amounts to CHF 100.0 million.

Purpose of the Company

Art. 2 of the Articles of Association of Allreal Office AG describes the purpose of the company as follows:
The purpose of the company is the acquisition, holding and disposal of real estate, in particular commercial properties; the company can participate in other enterprises and establish subsidiaries.

Allreal Vulkan AG

Establishment, Duration, Registered Office and Share Capital

Allreal Vulkan AG (Allreal Vulkan SA, Allreal Vulkan Ltd) is a corporation established for an indefinite period of time. It was registered in the Commercial Register of the Canton of Zurich under the registration number CH-020.3.025.444-0 on January 24, 2002. The registered office of Allreal Vulkan AG is located in Zurich. The company was established with a view to the construction of the IBM (Schweiz) headquarters on Vulkanstrasse in Zurich. The share capital amounts to CHF 40.0 million.

Purpose of the Company

Art. 2 of the Articles of Association of Allreal Vulkan AG describes the purpose of the company as follows:
The purpose of the company is the acquisition, holding and disposal of real estate, in particular commercial properties; the company can participate in other enterprises and establish subsidiaries and branch offices.

Allreal West AG

Establishment, Duration, Registered Office and Share Capital

Allreal West AG (Allreal West SA, Allreal West Ltd) is a corporation established for an indefinite period of time. It was registered in the Commercial Register of the Canton of Zurich under the registration number CH-020.3.026.103-1 on August 28, 2002. The registered office of Allreal West AG is located in Zurich. The company was established with a view to the Escher Wyss property project in Zurich. The share capital amounts to CHF 15.0 million.

Purpose of the Company

Art. 2 of the Articles of Association of Allreal West AG describes the purpose of the company as follows:
The purpose of the company is the acquisition, holding and disposal of real estate, in particular commercial properties; the company can participate in other enterprises and establish subsidiaries and branch offices.

Dividend Policy

The Offered Shares are entitled to dividends as from January 1, 2003 for the 2003 financial year and for all subsequent financial years.

In the past, the Company paid a dividend for the first time in the 2001 financial year in the amount of CHF 3 per Registered Share and thereafter for the 2002 financial year in the amount of CHF 4.50 per Registered Share. Based on the share price of December 31, 2002, the dividend paid for the 2002 financial year resulted in a net yield of 5.7%.

The Company intends to continue in the long term the existing dividend policy, which is based on a net yield realizable for direct real estate investments. Such a dividend roughly corresponds to the profits excl. revaluation gains generated in the Real Estate Division or a distribution quota on the entire company profits excl. revaluation gains of approximately 60.0% to 75.0%. Nevertheless, no guarantee can be given that a dividend in this amount or any dividend at all will be distributed in the future.

Bank Vontobel AG is the main paying agent of the Company for dividend payments. For more information regarding dividend rights see “Capital Structure and Voting Rights – Dividend Rights” and regarding federal withholding tax on dividends see “Taxation – Taxation of the Company – Withholding Tax on Dividends and Similar Distributions”.

Use of Net Proceeds

The Allreal Group expects to receive net proceeds of approximately CHF 115.9 million from the sale of the Offered Shares after deduction of commissions, taxes and expenses. The Allreal Group intends to use the net proceeds for the acquisition of additional commercial and residential properties, entire real estate portfolios as well as for the financing of own projects in accordance with its Investment Guidelines. Until the complete investment of the proceeds, any excess liquidity is to be used to repay short-term borrowings.

Capitalization

The table below shows the capitalization of the Company as of June 30, 2003 on a consolidated basis and the capitalization (long-term debt capital plus equity capital) on a pro forma basis reflecting the present Offering and assuming the exercise of all subscription rights. Investors should read this table in conjunction with the information and the complete consolidated financial statements contained in the financial section at the end of this Offering Circular.

CHF in million	as of June 30, 2003 unadjusted	adjusted for the Offering
Cash	25.1	141.0
Long-term debt capital	805.2	805.2
Equity		
— Share capital	325.2	406.6
— Capital reserves	175.1	209.6
— Treasury shares	–9.6	–9.6
— Retained earnings	138.3	138.3
Total equity	629.0	744.9
Total Capitalization	1434.2	1550.1

Share Price History and Net Asset Value

The Registered Shares have been listed on the SWX since March 3, 2000. The table below shows the high, low, average and closing prices of the Registered Share for each of the financial years indicated as well as the NAV per Registered Share before and after deferred taxes as of the date indicated:

Share Price History

in CHF	2000	2001	2002	2003[1]
High	102.00	92.00	84.00	89.00
Low	82.50	79.00	74.00	77.00
Average	91.14	85.47	79.16	84.62
Closing[2]	87.00	82.00	78.75	86.75

Source: Bloomberg
[1] Information as of October 29, 2003.
[2] Information as of last trading day of respective calendar year (except for 2003).

NAV History

in CHF	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002	June 30, 2003
Equity (NAV) per Registered Share before deferred taxes	89.65	101.35	108.54	105.58
Equity (NAV) per Registered Share after deferred taxes	86.60	94.55	98.63	98.60

Source: as published by the Company

Determination of the Net Asset Value (NAV)

Definition

The net asset value or NAV per Registered Share is calculated on a regular basis and reflects the intrinsic value of an individual Registered Share of the Company. The NAV is calculated by the Company by dividing the consolidated equity as reported according to IFRS by the number of outstanding Registered Shares.

Property Valuation

All properties are valued annually by the independent valuation expert applying the DCF Method and in line with risk factors and market conditions. Starting June 30, 2003, the properties are being analyzed with a view to the interim financial statements (see “Business Activities – Valuation Expert” and “Business Activities – Valuation Method”).

Publication of Net Asset Value

The Company publishes the NAV every six months as part of its financial reporting.

Management Discussion and Analysis of Financial Condition and Results of Operations

General

The following management discussion and analysis of the financial situation and the results of operations of the Allreal Group should be read in conjunction with the consolidated interim financial statements as of June 30, 2003 as well as the consolidated financial statements as of December 31, 2002 and 2001 including the corresponding notes.

The financial statements of the Allreal Group are prepared in accordance with the International Financial Reporting Standards (IFRS, formerly IAS). These are in line with the accounting regulations of the Listing Rules and the Additional Rules for the Listing of Real Estate Companies of the SWX as well as stock corporation law. All standards of the International Accounting Board (IASB) as well as the interpretations of the Standing Interpretations Committee (SIC) effective as of the date of the respective consolidated financial statements have been taken into consideration.

Details regarding the consolidated group and the individual accounting principles are contained in the respective consolidated financial statements. The audited financial statements for the individual companies as of December 31 and the unaudited interim accounts as of June 30 constitute the basis for the consolidated financial statements.

Strategy, in Particular with Regard to Return on Equity and Net Yield

The strategy of the Allreal Group is to combine the cash flow from a stable investment business with the opportunities offered by general contracting services and thus to benefit from the synergies between the two business divisions. See "Business Activities – Corporate Strategy – Strategy".

On the basis of a low risk profile typical for real estate investments Allreal Group aims at realizing an above-average yield to the advantage of its shareholders. The return on equity recorded since the IPO at the beginning of 2000 confirms this strategy, as it is above the return of about 5.0% usually realizable in Switzerland for direct investments. A comparison of planned and realized net yield for real estate investments shows the same result:

Return on equity[1]	Sustained target	1st half 2003[2]	2002	2001	2000
excl. revaluation gains	6.0%–7.0%	10.3%	6.7%	6.9%	7.4%
incl. revaluation gains	7.0%–10.0%	10.2%	8.6%	9.2%	12.6%

Net yield real estate portfolio[3]	Sustained target	1st half 2003[2]	2002	2001[4]	2000
Real estate investments					
Commercial properties	5.5%	5.6%	5.7%	5.4%	5.7%
Residential properties	5.5%	5.5%	5.5%	5.5%	5.7%

[1] Net profit in per cent of equity at beginning of reporting period (in consideration of subsequent capital increases).
[2] On an annualized basis.
[3] Income from real estate in per cent of market value (annualized).
[4] Including restoration costs the net yield was 5.0% for commercial properties and 5.4% for residential properties.

Diversification and Active Portfolio Management

The Allreal Group, wanting to ensure a natural risk diversification, has always invested in both commercial and residential properties. The share of residential properties in the portfolio of the Allreal Group, based on market values, during the last few years ranged between 15.0% and 20.0% (16.1% as of June 30, 2003) in relation to the consolidated total assets of the Allreal Group. Changes in the market environment were used to adjust the share of residential properties in line with market conditions, thus continually optimizing the risk structure.

Also part of an actively pursued risk policy is the focus on high-quality properties in the Greater Zurich Area, a market of which the Allreal Group has long-standing knowledge. The Allreal Group meets the lease risk primarily through various types of utilization and the terms of long-term leases as well as through a consciously targeted diversification in tenant mix, linked to the high degree of flexibility regarding the possibilities of use within the respective property. The vacancy rate was correspondingly low. In addition, rental income from commercial properties was secured by a majority of long-term leases with restrictive exit provisions. The commercial properties have staggered terms over the next ten years; the majority of the residential properties is leased for an indefinite period of time with notice periods of six to twelve months in most cases. See "Business Activities – Real Estate Division – Portfolio Analysis" and "Regulatory Environment – Tenancy Law in Switzerland – Termination of Rental Agreements".

Project Management and Development Projects

Due to its experience as a general contractor, the Allreal Group is in a position to give close estimates of the costs and sales prices of development projects which in the end can be attributed to its long years of market experience in the Greater Zurich Area. Construction of own projects is started as a rule only if commitments for the sale or the lease of 30.0% for residential properties and 50.0% for commercial properties of the building to be constructed have been secured. In addition, high yield targets are set for all development projects (internal rate of return: 12.0%–15.0%). The ongoing costs of construction as well as the progress with respect to a sale are subject to monthly controls.

In order to further reduce risks with a view to its own investments, the Allreal Group has become active in projects that are constructed in close cooperation with the users and subsequently leased to them under long-term rental agreements. Examples are the headquarters of DaimlerChrysler Schweiz AG in Schlieren (completion in the spring of 2003; estimated investment volume CHF 45.0 million) and the new headquarters of IBM (Schweiz) AG in Zurich-Altstetten (completion planned for the spring of 2005; investment volume CHF 185.0 million).

Interest Management

For the purposes of an effective interest management, the Allreal Group constantly monitors the interest rate development and has set benchmarks for the interest maturity profile to ensure an even distribution of the new interest maturities. To optimize interest management, however, the Allreal Group has the possibility of deviating from these benchmarks to be able to profit from the respective prevailing market conditions. The interest maturity profile as compared to the benchmarks is the subject of monthly reports to the management. In expectation of increasing interest rates, the Allreal Group pursued a strategy of long-term fixed interest periods during the first six months of 2003:

Fixed interest periods	Benchmark	as of June 30, 2003
<1 year	30.0%	25.9%
1–3 years	25.0%	7.5%
3–5 years	25.0%	20.5%
>5 years	20.0%	46.1%

The average fixed interest period as of June 30, 2003 was 49 months with an average interest rate of 2.8%. The Allreal Group has the possibility of adapting the interest maturities to the changing market situation at any time through the sale and purchase of hedging instruments. Most prominent in this respect is the use of interest rate swaps that are used only with respect to existing financing structures. As of June 30, 2003, the market value of interest rate swaps showed a negative replacement value of CHF 21.6 million. Without the interest rate swaps, over 95.0% of the interest-bearing loans would have a fixed-interest period of less than one year.

In supplement, risks are regularly analyzed on the basis of an asset and liability management (ALM) model. The focus in this respect is on the analysis of interest rate risks as they ensue from the different fixed-interest periods of assets and/or liabilities within the consolidated balance sheet, as well as the duration of the equity capital derived therefrom in the sense of the sensitivity of the equity capital to changes in interest rates.

Refinancing and Liquidity

The financing strategy takes into account the refinancing and the liquidity by setting clear limits to how much debt is permissible (see also "Investment Guidelines – Investment and Financing Restrictions – Borrowing"):

— The equity ratio (ratio of equity to balance sheet total) may not drop to less than 35.0% over a longer period of time.
— The net gearing (ratio net financial debt to equity) may not exceed 150.0% over a longer period of time.
— The interest coverage factor (ratio EBITDA to net finance expense) may not fall below the factor 2.0 even if interest rates have clearly increased.

These ratios were always complied with in the past:

Record date	June 30, 2003	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2000
Equity ratio	39.3%	35.0%	44.2%	44.3%
Net Gearing	117.7%	144.1%	102.6%	73.5%
Interest coverage factor[1]	4.6	3.6	4.7	4.3

[1] Ratio EBITDA excl. revaluation gains to net finance expense.

Overview on Consolidated Financial Information
Allreal Group

in million CHF	2002	2001	2000	Change 2002/2001	Change 2001/2000	H1 2003	H1 2002	Change H1 03/H1 02
Income statement								
Income from real estate	73.2	52.0	46.5	40.8%	11.8%	46.1	31.8	45.0%
Income from projects & development	60.7	72.7	63.3	–16.5%	14.8%	35.7	29.6	20.6%
Revaluation gains	26.8	16.6	35.9	61.4%	–53.8%	0.2	17.4	–98.9%
Total income	160.7	141.3	145.7	13.7%	–3.0%	82.0	78.8	4.1%
Operating expense	–53.2	–55.4	–50.1	–4.0%	10.6%	–28.9	–26.9	7.4%
EBITDA	107.5	85.9	95.6	25.1%	–10.1%	53.1	51.9	2.3%
Depreciation and amortisation	–2.8	–3.2	–4.7	–12.5%	–31.9%	–1.1	–1.4	–21.4%
EBIT	104.7	82.7	90.9	26.6%	–9.0%	52.0	50.5	3.0
Finance income	1.3	1.5	2.2	–13.3%	–31.8%	0.7	0.3	133.3%
Finance expense	–23.7	–16.4	–16.0	44.5%	2.5%	–12.3	–10.6	16.0%
Tax	–31.2	–17.2	–19.6	81.4%	–12.2%	–9.1	–9.1	0.0%
Net profit	51.1	50.6	57.5	1.0%	–12.0%	31.3	31.1	0.6%
Total income excl. revaluation gains	133.9	124.7	109.8	7.4%	13.6%	81.8	61.4	33.2%
EBITDA excl. revaluation gains	80.7	69.3	59.7	16.5%	16.1%	52.9	34.5	53.3%
EBIT excl. revaluation gains	77.9	66.1	55.0	17.9%	20.2%	51.8	33.1	56.5%
Net profit excl. revaluation gains	39.9	38.2	33.9	4.5%	12.7%	31.6	18.6	69.9%

in million CHF	2002	2001	2000	Change 2002/2001	Change 2001/2000	H1 2003	H1 2002	Change H1 03/H1 02[1]
Balance sheet								
Real estate investments	1 505.9	1 025.5	770.6	46.8%	33.1%	1 347.2	1 308.2	–10.5%
Real estate for development	157.6	206.4	220.6	–23.6%	–6.4%	139.1	245.1	–11.7%
Fixed assets	1 672.5	1 259.9[2]	1 007.4[2]	32.7%	25.1%	1 503.0	1 565.6	–10.1%
Current assets	73.1	81.0[2]	237.9[2]	–9.8%	–66.0%	95.6	45.3	30.8%
Total equity	1 745.6	1 340.9	1 245.3	30.2%	7.7%	1 598.6	1 610.9	–8.4%
Shareholders' equity	611.3	593.3	552.2	3.0%	7.4%	629.0	600.6	2.9%
Long-term borrowings	853.8	489.4	235.8	74.5%	107.5%	730.6	680.8	–14.4%
Short-term borrowings	30.0	122.7	210.6	–75.6%	–41.7%	35.0	110.0	16.7%
Total liabilities	1 134.3	747.6	693.1	51.7%	7.9%	969.6	1 010.3	–14.5%
Total equity and liabilities	1 745.6	1 340.9	1 245.3	30.2%	7.7%	1 598.6	1 610.9	–8.4%

[1] In this chapter, the balance sheet figures as at June 30, 2003 are compared with the balance sheet figures as at December 31, 2002.
[2] For comparison purposes in this table, development real estate for the year 2000 is included in fixed assets; in the 2001 financial report, it is included in current assets.

Overview on Consolidated Financial Information
Allreal Group

in million CHF	2002	2001	2000	Change 2002/2001	Change 2001/2000	H1 2003	H1 2002	Change H1 03/H1 02
Cash flow statement								
Cash flow from operations	150.3	3.9	27.1[3]	3 753.8%	–85.6%	–20.5	139.5	–114.7%
Purchase of real estate investments	–508.8	–185.3	–194.7	174.6%	–4.8%	–53.8	–315.3	–82.9%
Sale of real estate investments	54.8	44.1	9.2	24.3%	379.3%	222.1	51.2	333.8%
Cash flow from investing activities	–388.5	–169.0	–276.3[3]	129.9%	–38.8%	176.1	–289.4	–160.9%
Cash flow from financing activities	237.9	127.9	263.8[3]	86.0%	–51.5%	–133.6	150.9	–188.5%
Change in cash	–0.3	–37.2	14.6	–99.2%	–354.8%	21.9	1.0	2 090.0%
Cash at 31.12./30.06.	3.2	3.5	40.7	–8.6%	–91.4%	25.1	4.5	457.8%

[3] For comparison purposes in this table, in the year 2000 changes in development real estate were reclassified from cash flow from business activity to cash flow from investment activity, and changes in prepayments were reclassified from cash flow from business activity to cash flow from financing activity.

Transition of the financial year 2000 figures:

Cash flow from	Operations	Investing activities	Financing activities
As stated in the financial report 2001	–3.8	–227.9	247.9
Increase of financial assets	–1.6	–	–
Increase of real estate for development	48.4	–48.4	–
Increase of prepayments received	–15.9	–	15.9
As stated above	27.1	–276.3	263.8

Segment information Real Estate[2]

in million CHF	2002	2001[3]	2000[3]	Change 2002/2001	Change 2001/2000	H1 2003	H1 2002	Change H1 03/H1 02
Income statement								
Income from operations	74.5	52.3	46.5	42.4%	12.5%	46.3	32.3	43.3%
Revaluation gains	26.8	6.6	35.9	306.1%	–81.6%	0.2	17.4	–98.9%
Total income	101.3	58.9	82.4	72.0%	–28.5%	46.5	49.7	–6.4%
Operating expense	–13.1	–13.8	–8.7	–5.1%	58.6%	–8.1	–6.8	19.1%
EBITDA	88.2	45.1	73.7	95.6%	–38.8%	38.4	42.9	–10.5%
Depreciation and amortisation	0.0	0.0	0.0	n/a	n/a	0.0	0.0	n/a
EBIT	88.2	45.1	73.7	95.6%	–38.8%	38.4	42.9	–10.5%
Net finance expense	–22.2	–13.9	–11.4	59.7%	21.9%	–12.1	–10.0	21.0%
Income tax	–16.7	–5.7	–18.5	193.0%	–69.2%	–5.9	–6.5	–9.2%
Net profit	49.3	25.5	43.8	93.3%	–41.8%	20.4	26.4	–22.7%
EBITDA excl. revaluation gains	61.4	38.5	37.8	59.5%	1.9%	38.2	25.5	49.8%
EBIT excl. revaluation gains	61.4	38.5	37.8	59.5%	1.9%	38.2	25.5	49.8%
Net profit excl. revaluation gains	38.1	20.6	n.a.	85.0%	n.a.	20.7	13.9	48.9%
Non-current assets	1 510.5	1 027.0	770.6	47.1%	33.3%	1 351.4	1 309.7	–10.5%[1]
Current assets	8.5	2.8	34.4	203.6%	–91.9%	29.3	4.1	244.7%[1]
Total assets	1 519.0	1 029.8	805.0	47.5%	27.9%	1 380.7	1 313.8	–9.1%[1]
Borrowings	853.8	472.4	359.6	80.7%	31.4%	730.6	670.8	–14.4%[1]
Equity	581.6	503.8	421.6	15.4%	19.5%	564.2	507.7	–3.0%[1]

[1] In this chapter, the balance sheet figures as at June 30, 2003 are compared with the balance sheet figures as at December 31, 2002.
[2] Based on reciprocal debtors and creditors and on revenue and expenses, the addition of the segments does not amount to the total of the consolidated accounts.
[3] Corresponds to the addition of the "Office" and "Home" segments in the 2001 financial report.

Segment information Projects & Development[3]

in million CHF	2002	2001[4]	2000[4]	Change 2002/2001	Change 2001/2000	H1 2003	H1 2002	Change H1 03/H1 02
Income statement								
Total income	62.8	84.1	64.9	–25.3%	29.6%	36.9	30.8	19.8%
Operating expense	–42.5	–41.7	–41.0	1.9%	1.7%	–21.1	–21.4	–1.4%
EBITDA	20.3	42.4	23.9	–52.1%	77.4%	15.8	9.4	68.1%
Depreciation and amortisation	–1.1	–1.0	–0.9	10.0%	11.1%	–0.3	–0.5	–40.0%
EBIT	19.2	41.4	23.0	–53.6%	80.0%	15.5	8.9	74.2%
Net finance expense	–0.3	–0.8	–1.8	–62.5%	–55.6%	0.4	–0.4	–200.0%
Income tax	–13.9	–11.4	–3.6	21.9%	216.7%	–3.0	–2.5	20.0%
Net profit	5.0	29.2	17.6	–82.9%	65.9%	12.9	6.0	115.0%
EBITDA excl. revaluation gains	20.3	32.4	23.9	–37.3%	35.6%	15.8	9.4	68.1%
EBIT excl. revaluation gains	19.2	31.4	23.0	–38.9%	36.5%	15.5	8.9	74.2%
Net profit excl. revaluation gains	5.0	21.7	17.6	–77.0%	23.3%	12.9	6.0	115.0%
Non-current assets	159.4	223.1[2]	224.3[2]	–28.6%	–0.5%	151.3	248.9	–5.1%[1]
Current assets	62.4	76.8[2]	197.0[2]	–18.8%	–61.0%	64.3	39.9	3.0%[1]
Total assets	221.8	299.9	421.3	–26.0%	–28.8%	215.6	288.8	–2.8%[1]
Borrowings	30.0	139.7	86.6	–78.5%	61.3%	35.0	120.0	16.7%[1]
Equity	22.6	72.7	106.7	–68.9%	–31.9%	63.4	82.3	180.5%[1]

[1] In this chapter, the balance sheet figures as at June 30, 2003 are compared with the balance sheet figures as at December 31, 2002.
[2] For comparison purposes in this table, development real estate for the year 2000 is included in fixed assets. In the 2001 financial report it is included in current assets.
[3] Based on reciprocal debtors and creditors and on revenue and expenses, the addition of the segments does not amount to the total of the consolidated accounts.
[4] Corresponds to the "Projects & Development" segment in the 2001 financial report.

Comparison of Consolidated Income Statements for the First Six Months of 2003 and the First Six Months of 2002

Total Income

Total income increased in comparison to the first half year 2002 by 4.1% (when excl. revaluation gains, the increase is 33.2%). Income from real estate increased by 45.0% to CHF 46.1 million due to the considerable expansion of the portfolio in the previous year, and income from projects & development increased by 20.6% to CHF 35.7 million due to the completion and sale of several buildings.

Revaluation of Real Estate Investments

Profits of CHF 12.7 million from first-time valuations in the first six months of 2003 were eroded to a large degree by a lower valuation of individual business properties in the amount of CHF 12.5 million. The revaluation of real estate investments thus amounted to a mere CHF 0.2 million in the first six months in comparison to CHF 17.4 million in the first six months 2002. This was the reason for the big difference between total income incl. revaluation and total income excl. revaluation in comparison to the first six months 2002.

EBITDA

With operating expenses only CHF 2.0 million higher than in the first six months of 2002, EBITDA increased by 2.3% to CHF 53.1 million (incl. revaluation) and by 53.3% to CHF 52.9 million (excl. revaluation). EBIT increased by 3.0% to CHF 52.0 million (incl. revaluation) and by 56.5% to CHF 51.8 million.

Net Profit

Net profit incl. revaluation effect increased 0.6% to CHF 31.3 million. This slight increase, despite an increase of net profit excl. revaluation effect by 69.9% to CHF 31.6 million, is due to the fact that the revaluation gains realized in the previous year could not be repeated. First-time valuation profits of CHF 12.7 million were eroded to a large degree by a lower valuation of individual business properties in the amount of CHF 12.5 million.

Comparison of Consolidated Balance Sheets as of June 30, 2003 and December 31, 2002

It was mainly the sale of properties in the amount of CHF 212.8 million, but also the lower valuations in the amount of CHF 12.5 million, that led to a value reduction of real estate investments in comparison to December 31, 2003 by a total of 10.5% to CHF 1,347.2 million. The value of the real estate for development decreased by CHF 18.5 million in particular due to the sale of a development property. The reduction of liabilities from financing was a result of the sale of properties.

Comparison of Consolidated Cash Flow Statements for the First Six Months of 2003 and the First Six Months of 2002

An outflow of funds from operations in the amount of CHF 20.5 million was reported for the first six months of 2003. In comparison, in the first six months of 2002, an inflow of funds of CHF 139.5 million was reported. The reason for the difference is on the one hand the effect of a concentrated campaign in the first six months of 2002 to reduce the net current assets in the Projects & Development Division through which it was possible to reduce the accounts receivable of the Projects & Development Division and increase the advance payments of the developers. On the other hand, a purchase price instalment in the amount of CHF 16.0 million from the 2002 financial year, due for payment in the first six months of 2003, had a negative influence on the cash flow from operations in the first six months of 2003.

The sale of real estate investments in the first half of 2003 resulted in an inflow of funds of CHF 222.1 million. At CHF 53.8 million, purchases of real estate investments were significantly lower than in the first six months of 2002. In this respect it must be taken into consideration that the same period in 2002 was characterized by a very high investment volume. The repayment of liabilities from financing was reflected in the outflow of funds from financing activities of CHF 133.6 million. The cash flow increased by CHF 21.9 million in comparison to the end of 2002.

Real Estate Division

Commercial properties acquired last year and a vacancy rate of 1.5% (calculated as loss of earnings due to vacancy and annualized for the reporting period) as of June 30, 2003, which is low compared to the market, led to an increase in rental income by 29.0% to CHF 41.9 million in comparison to the previous reporting period. The net profit excl. revaluation effect increased by 48.9% or CHF 6.8 million in comparison to the same period last year. The main impetus for the rise was the increase in rental income resulting from the portfolio expansion in the second six months of 2002. Net profit incl. revaluation effect decreased by 22.7% or CHF 6.0 million. The reason for this were the earnings from the revaluation of real estate investments that were lower by CHF 17.2 million than in the comparison period.

Projects & Development Division

Due to the successful completion and divestment of several projects the Projects & Development Division was able to increase its total income by roughly 19.8% or CHF 6.1 million to CHF 36.9 million. Since income was not reduced by corresponding expenditure in the reporting period, the segment net profit rose by CHF 6.9 million or 115.0% to CHF 12.9 million and contributed materially to the fact that a slightly better result was reported at the group level than for the comparison period. The increased segment net profit can also be attributed to the project specific cyclicity on the general contracting market as well as to the good results in the areas of project development and real estate services (in particular due to the sale of condominiums built by the Company).

Equity is not attributed to the individual divisions in fixed amounts. Equity is a balance resulting from the subtraction of the debt capital from the total assets.

Comparison of Consolidated Income Statements of the 2002 and 2001 Financial Years

Total Income

Total income increased by 13.7% (excl. revaluation gains by 7.4%) in comparison to the previous year. Parallel to the growth of the portfolio, income from real estate rose by 40.8% or CHF 21.2 million to CHF 73.2 million. In contrast, income from projects and development decreased by 16.5% to CHF 60.7 million in comparison to the previous year. However, on a comparable basis, ie excluding the value adjustments for projects of CHF 8.7 million included in 2001, the decrease only amounted to 5.0%.

Revaluation of Real Estate Investments

The revaluation of real estate investments was CHF 10.2 million higher than the previous year. The gain of CHF 26.8 million resulted from revaluation gains of CHF 28.6 million due to the first-time revaluation of properties completed in 2002, the waiver to include the transaction costs of the market revaluation in accordance with IAS 40, which led to a higher valuation of CHF 10.3 million, as well as a lower valuation of CHF 12.1 million due to the market valuation as of December 31, 2002, following the deduction of the transaction costs mentioned above.

EBITDA

With an increased total income and operating expenses reduced by 4.0%, EBITDA was increased by 25.1% to CHF 107.5 million (incl. revaluation gains) and by 16.5% to CHF 80.7 million (excl. revaluation gains).

Finance Expenditure

The financing of the acquisition of real estate investments resulted in higher debt. As a consequence, the net finance expense increased by CHF 7.5 million or 50.0% to CHF 22.4 million, even though very short-term refinancing allowed an increasing benefit from the continually falling interest rate level in 2002. The average interest rate as of December 31, 2002 was at 2.4% (December 31, 2001: 3.8%).

Tax Expenditure

There are two reasons for the tax burden increase of CHF 14.0 million or 81.4%. On the one hand, higher real estate capital gains taxes had to be paid on the various acquisitions of real estate for development. On the other hand, the average time of keeping a property in the portfolio, on which the calculation of deferred taxes on revaluation gains is based, was reduced from 20 to 10 years, since the Allreal Group wants to increasingly pursue a strategy of an ongoing value realization in the future. The consequence of this adjustment was a one-time increase of the deferred tax provisions set up in earlier years by CHF 8.0 million, which affected results in the reporting period.

Net Profit

For the reasons set out above, the net profit incl. revaluation effect of CHF 51.1 million reported for the 2002 financial year showed an increase of only CHF 0.5 million in comparison to 2001. The net profit excl. revaluation effect amounted to CHF 39.9 million.

Comparison of Consolidated Balance Sheets as of December 31, 2002 and December 31, 2001

Real Estate Investments and Real Estate for Development

The value of real estate investments increased by 46.8% to CHF 1 505.9 million in comparison to the previous year. Acquisitions in the amount of CHF 508.8 million stood in contrast to divestments of CHF 54.8 million. Due to the completion and divestment of various development projects, the value of real estate for development decreased by 23.6% or CHF 48.8 million to CHF 157.6 million even though the land reserves were increased.

Liabilities

As a consequence of investments in real estate, liabilities from financing rose by CHF 271.7 million or 44.4%. At the end of 2002, interest rate swaps in the amount of CHF 200.0 million with a potentially long-term fixed interest rate (7.5 years on average) were concluded to reduce the risk of changing interest rates.

Comparison of Consolidated Cash Flow Statements for the 2002 and 2001 Financial Years

The cash flow from operations for the 2002 financial year in the amount of CHF 150.3 million was based on an increased operating cash flow of CHF 48.7 million (+37.2%) and in particular on a reduction of the net current assets by CHF 101.6 million due to the stricter handling of calls for advance payments and the collection of accounts receivable in the general contracting business. The divestment of real estate and real estate for development as well as a reduction of financial investments brought about a further substantial inflow of cash (CHF 122.2 million in total). New investments in real estate in the amount of CHF 508.8 million were financed via the cash inflow mentioned above as well as through cash flow from financing activities (predominantly the raising of debt) in the amount of CHF 237.9 million.

Real Estate Division

Thanks to the acquisitions, predominantly business properties, made last year, rental income rose by 42.4% to CHF 74.5 million in comparison to the previous year. The net profit excl. revaluation effect rose by 85.0% or CHF 17.5 million compared to a year ago, mainly due to higher rental income less the increased tax burden for real estate gains taxes. The net profit incl. revaluation effect increased by 93.3% or CHF 23.8 million. The reason for this increase was the income from the revaluation of real estate investments reduced by the provisions for deferred taxes, which were increased due to the shortened holding period. For the financial year 2001 the net yield for commercial properties was 5.4% and for residential properties 5.5%. Including restoration costs the respective net yield was 5.0% and 5.4% respectively.

Projects & Development Division

Due to the drop in income in the Projects & Development Division, total income excl. revaluation fell by 15.3% or CHF 11.3 million to CHF 62.8 million. Since in the previous year revaluation gains of CHF 10.0 million were recorded in the Projects & Development Division, total income incl. revaluation dropped by 25.3%. The net profit for the Projects & Development Division amounted to CHF 5.0 million. The cyclical nature of the general contracting market is responsible in part for this drop in income.

Comparison of Consolidated Income Statements of the 2001 and 2000 Financial Years

Total Income

Total income excl. revaluation gains increased by 13.6% to CHF 124.7 million. Income from real estate investments rose by CHF 5.5 million and resulted predominantly from higher rental income for business properties. Income from the Projects & Development Division increased by CHF 9.4 million. One reason for this were the value adjustments for projects in the amount of CHF 8.7 million included again. In comparison to 2000, total income incl. revaluation gains dropped by 3.0% to CHF 141.3 million.

Revaluation of Real Estate Investments

With CHF 16.6 million, revaluation gains from real estate investments were clearly below the figure for 2000 (CHF 35.9 million). In this respect, it must be taken into consideration that revaluation in 2001 included a first-time market valuation of land reserves in the amount of CHF 10.0 million. In addition, the drop in mortgage rates in 2001 resulted in lower valuations of residential properties that were noticeable in part. In contrast, with respect to the revaluation of real estate investments, the Allreal Group was able to profit from the first-time comprehensive analysis of the portfolio acquired in connection with the IPO in 2000.

EBITDA

Real estate operating expenses increased by CHF 3.7 million to CHF 11.0 million in comparison to the previous year. Operating expenses rose by 10.6% to CHF 55.4 million overall. EBITDA (excl. revaluation gains) improved in comparison to 2000 by CHF 9.6 million or 16.1% to CHF 69.3 million. EBITDA incl. revaluation decreased by 10.1% to CHF 85.9 million in comparison to the previous year.

EBIT

Due to expenditure for amortization being lower than in the previous year because of the assertion of warranty claims, EBIT (excl. revaluation gains) increased by CHF 11.1 million or 20.2% to CHF 66.1 million. EBIT incl. revaluation gains was 9.0% or CHF 8.2 million below the figure for 2000.

Net Profit

Despite increased borrowing requirements for the financing of the ongoing growth, net finance expense increased only slightly from CHF 13.8 million to CHF 14.9 million. Net profit excl. revaluation effect was reported at CHF 38.2 million, exceeding the figure for 2000 by CHF 4.3 million or 12.7%. Overall, net profit incl. revaluation effect amounted to CHF 50.6 million. Due to the lower revaluation effect, the result was CHF 6.9 million lower for 2000.

Comparison of Consolidated Balance Sheets as of December 31, 20001 and December 31, 2000

The considerable expansion of the real estate portfolio is reflected in the increase in the item real estate investments by 33.1% or CHF 254.9 million to CHF 1,025.5 million. At the same time, liabilities from short-term and long-term borrowings increased by a net amount of CHF 165.7 million. The Allreal

Group concluded interest rate swaps in the 2001 financial year for a total amount of CHF 300.0 million to hedge future interest rate risks.

Comparison of Consolidated Cash Flow Statements of the 2001 and 2000 Financial Years

The main reason for the difference in the cash flow from operations of CHF 3.9 million in the 2001 financial year in comparison to CHF 27.1 million in the 2000 financial year is the change in net current assets.

Funds in the amount of CHF 185.3 million were used for real estate investments in the financial year 2001, which was at the level of the previous year (CHF 194.7 million). This contrasts with total divestments of CHF 44.1 million. In 2001, a further outflow of funds for investment activities in the amount of CHF 38.2 million took place for the acquisition of Juventus AG, Grundstücksgesellschaft Juventus and Immobiliengesellschaft ATZ.

The inflow of cash from financing activities in the financial year 2001 amounted to CHF 127.9 million in comparison to CHF 263.8 million (incl. cash inflow from the IPO) in the previous year.

Real Estate Division

Total income excl. revaluation gains exceeded the figures for 2000 by CHF 5.8 million or 12.5%. The rise in income was mainly due to an increase in rental income for business properties. Due to the significantly lower gains from the revaluation of real estate investments, total income for the Real Estate Division was below the figure for 2000 by CHF 23.5 million or 28.5%. The increase in operating expenses was based mainly on higher maintenance and repair costs.

Projects & Development Division

Despite a slightly lower number of employees, total income excl. revaluation gains for the Projects & Development Division rose by CHF 9.2 million or 14.2% to CHF 74.1 million. This figure includes profits from the sale of land and value adjustments for projects in the amount of CHF 13.6 million (2000: CHF 13.3 million in gains from the sale of properties). With operating expenses being only insignificantly higher, EBIT excl. revaluation gains increased by 36.5% to CHF 31.4 million. The net profit excl. revaluation effect rose by 23.3% or CHF 4.1 million to CHF 21.7 million. The net profit incl. revaluation effect increased by 65.9% or CHF 11.6 million in comparison to the previous year to CHF 29.2 million.

Material Events since June 30, 2003

No material changes have occurred in the asset, earnings and financial situation of the Allreal Group since June 30, 2003. For additions and divestments of real estate investments see "Business Activities – Real Estate Division – Portfolio Analysis – Additions and Divestments since January 1, 2003"; for additions and divestments of real estate for development, see "Business Activities – Projects & Development Division – Real Estate for Development". See also "Business Activities – Past and Planned Investments".

Recent Developments and Outlook

For the 2003 financial year, the Allreal Group expects to report improved operating results in comparison to the previous year. Owing to the unstable economic situation, a lower valuation of the property portfolio valued according to the DCF Method cannot be excluded. However, it must be taken into account that the revaluation of the real estate investments performed by Ernst & Young AG, Real Estate, as of September 30, 2003, in comparison to the last revaluation as of December 31, 2002, merely showed a value reduction of CHF 14.6 million or 1.2% compared to the value of the commercial and residential properties as of December 31, 2002 (without taking into consideration additions and divestments between January 1, 2003 and September 30, 2003). An amount of CHF 12.5 million of this value reduction was included already in the interim financial statements as of June 30, 2003. See also "Financial Reporting – Report of the Valuation Expert". In addition, work backlog in the Projects & Development Division remains at approximately 18 months as of June 30, 2003. Thanks to the reliable income generated by the real estate portfolio, the favourable long-term financing conditions and the expected earnings of the Projects & Development Division, dividend payments are planned for the 2003 financial year that allow a yield comparable to that obtained from direct real estate investments (see "Dividend Policy").

The following surveys conducted in relation to the real estate and construction market were prepared by the valuation expert, Ernst & Young AG, Real Estate as of September 30, 2003, and are based on analyses, each of which was made prior to any valuations. In this context, various sources were consulted on the economic situation both in Switzerland and abroad, economic forecasts as well as the current studies on the real estate market. Additionally, some of the experiences of the current market environment of Ernst & Young AG, Real Estate are included in the survey.

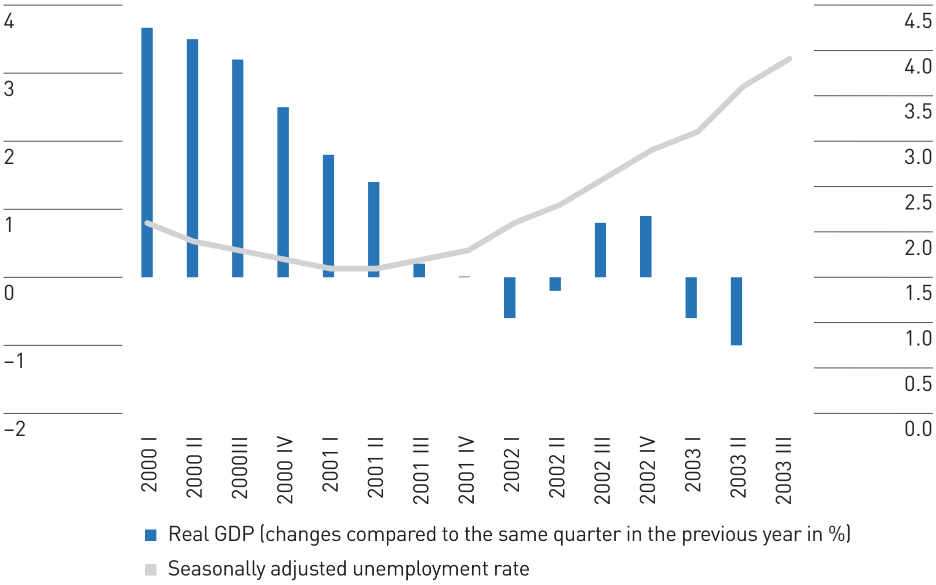
Macroeconomic Conditions

Current Economic Situation in Switzerland

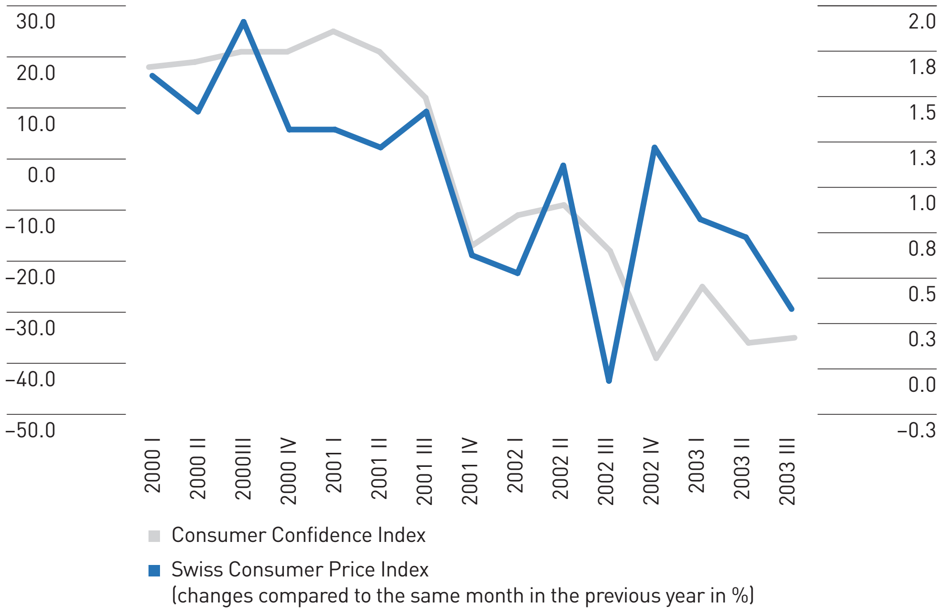
Global economic development is slow. While economies in the EU still tend to stagnate, positive trends are observed in the USA. Two important reasons for these positive trends in the USA are the expansive monetary policy and the decline in the US Dollar compared to other currencies. The fact that confidence has risen among entrepreneurs and consumers and that oil prices have been decreasing might give an impetus to global economic conditions. However, there are negative impulses due to structural changes that numerous manufacturers and service providers in the USA and in Europe have not completed as yet and which might adversely affect both the job market and investment demand (source: UBS Outlook, Konjunkturanalyse Schweiz 3. Quartal 2003).

Compared to the previous quarter, the Swiss gross domestic product (GNP) decreased in the second quarter of the current year by 1.2% and was thus 1.0% lower than in the same quarter of the preceding year. The unemployment rate is still on the rise. In the course of one year, the number of unemployed persons has gone up by 43%, totaling 61 441 at the end of July 2003. Long-term unemployment (>1 year) has almost doubled to 23 246 in comparison to the preceding year (source: Seco, Konjunkturtendenzen Herbst 2003). The gloomy situation on the job market has already adversely affected private consumption. Consumer confidence continues to be low; however, it seems to have become stable. Despite these negative signs, the level of private consumption remains high and, as was the case in the past quarters, proves to be one of the main pillars of Swiss economic growth. The development of consumer prices appears to be slowing down again. While, in April 2003, inflation ran at 1.0% compared to April 2002, the rate of price increases fell to 0.5% in July 2003 in comparison to July 2002 (source: Seco, Konjunkturtendenzen Herbst 2003).

Development of GDP and unemployment rate in Switzerland



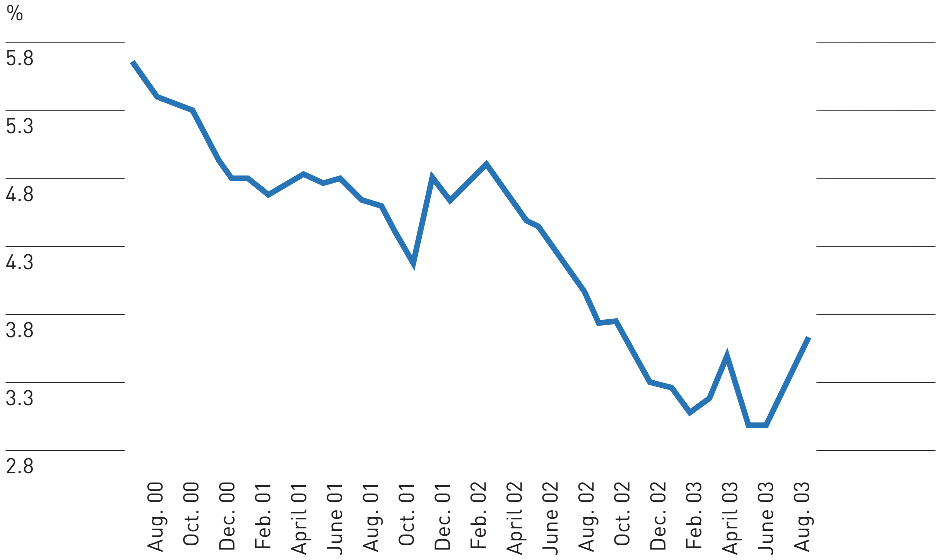
Development of consumer price index and consumer confidence in Switzerland



Sources: Seco/SNB, various sources

In March 2003, the Swiss Central Bank reacted to the strong Swiss Franc and cut interest rates to an all-time low, whereupon mortgage rates fell as well, reaching their all-time low in June 2003. Since then, short and long-term fixed mortgage rates rose by about 0.5% (source: Vermögenszentrum, Hypothekenindex per September 16, 2003).

Development of fixed five-year mortgage rates (since 2000)*



*Basis: Good standing borrower without any individual risk premiums

Source: VZ Zinsfax, as of September 16, 2003

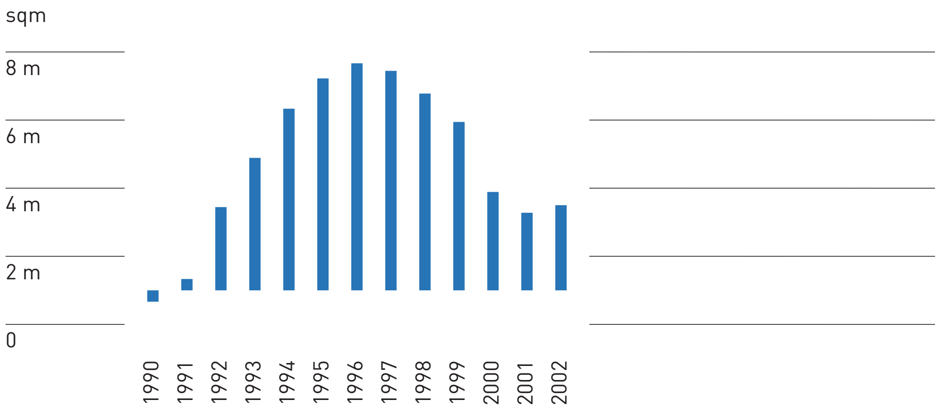
Swiss Real Estate Market

Commercial Property Tenant Market

As stated in estimates published by Credit Suisse Economic & Policy Consulting, the Swiss office space market comprised approximately 44 million sqm in the year 2001. Several large Swiss corporations have consolidated their real estate portfolios. In this context, properties not required for operating purposes were sold and properties required for business purposes were frequently sold and leased back.

Above all, the slower economic growth has adversely affected the tenant market for office space. So far, demand for office space has been significantly influenced by the development of the service sector; in this context, growth of employment and the gross national product constituted the most important factors. The adverse development of these factors in the past year has led to a halt in demand. Office building construction has also reacted strongly to the economic slowdown. The realization of many project developments has been suspended until there is a more stable economic climate. The excess capacities in peripheral locations could not be fully reduced even in the years 2000 and 2001 which were marked by strong growth, and they are once again facing stronger competition from central and well-developed locations. The following diagram shows estimates of Wüest & Partner as regards the excess office space capacities in Switzerland. Still, effective vacancy rates should be even higher, as unoccupied space on which income is still generated is not taken into account.

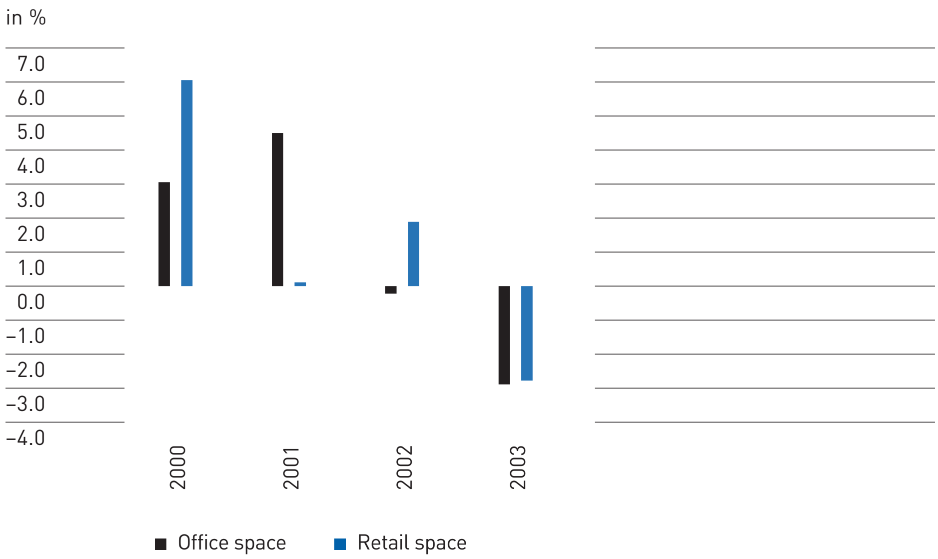
Estimated excess office space capacities



Source: Wüest & Partner, Immo-Monitoring Geschäftsflächenmarkt 2003

The tenant market for retail space has survived the economic downturn in a relatively good condition until a few months ago. Rent is still being paid at top levels for prestigious properties in the city centres. However, the demand for specialist retail space has diminished, leading to a slump in rents in the year 2003.

Growth rates for office and retail space rent



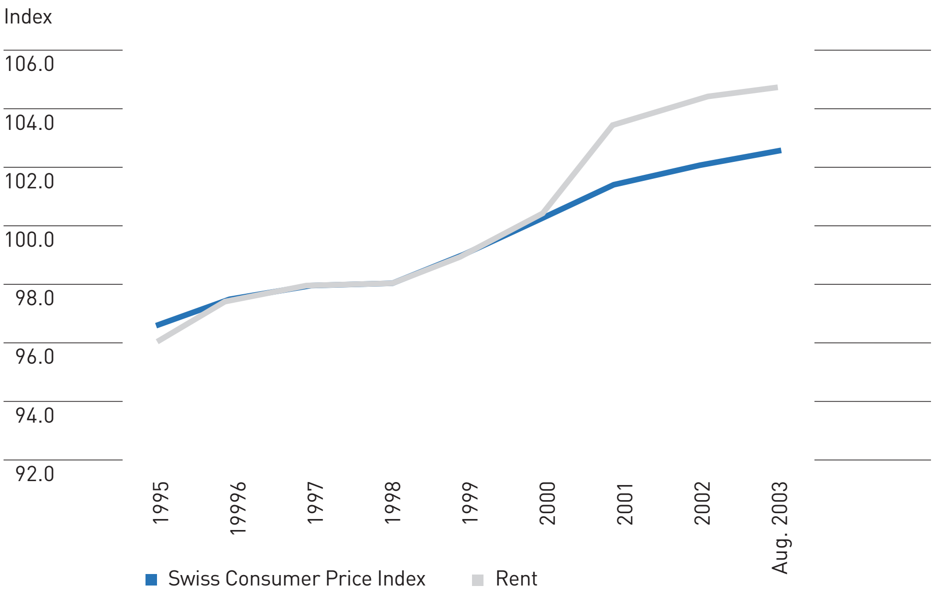
Source: SNB, Statistisches Monatsheft September 2003

Residential Property Tenant Market

In Switzerland, in the year 2000, ie the last year for which the relevant figures are available, apartments for rent and apartments owned by cooperatives prevailed over condominiums. Approx. 58.0% of the Swiss population lived in apartments for rent. The highest tenant share was still to be found in the Cantons of the City of Basle (87.0%), Geneva (83.0%) and Zurich (74.0%). Thus, it becomes clear that, particularly in urban areas, the number of tenants was higher than in comparison to condominium owners. While the tenant share showed a sinking tendency, the number of condominium owners (share of condominiums in the total number of existing first residences) grew by approx. 3.0% in total between 1990 and 2000 (source: Swiss Federal Office for Statistics, Volkszählung 2000).

So far, the demand for residential property has been mainly dependent on the rise in the population, on the per-capita income and on individual residential requirements. Although the demand for small apartments tends to decrease, the development of the aforementioned factors has led to a higher demand for residential space in recent years, which was also evidenced by the general decline in the number of vacant apartments (percentage of vacant apartments compared to the aggregate number of apartments). These changes could be observed most clearly in big city conurbations.

Development of consumer prices and rents



Source: SNB, Statistisches Monatsheft, September 2003

The higher rate of demand can also be seen in the development of the rent index, which is determined as a sub-index of the Swiss Consumer Price Index (SCPI). Since the year 2000, the rent-index has shown higher growth rates than the aggregate SCPI. Surveys conducted by Zürcher Kantonalbank showed that, in the past few months, rents charged for new apartments have reacted in a more volatile manner to market conditions than rents charged for old apartments.

Owing to the current economic situation, there have been higher vacancy rates with respect to expensive upmarket apartments in the past few months, which might lead to an adjustment of rent levels in this particular segment.

Commercial Property Transaction Market

The commercial property transaction market has changed in recent years. A major feature was the upsurge in the number of portfolio transactions for amounts unusual for Switzerland from the year 2000 until late 2002.

The investment behavior of institutional property investors has changed as well. Until recently, property investments were mainly made in accordance with a buy and hold strategy, but portfolios are now increasingly managed actively.

In the past, the economic conditions significantly influenced the commercial property transaction market. The presently increased vacancy risk existing with respect to commercial properties has affected the transaction market, which has slowed down considerably.

Since the revision of the Lex Koller governing the acquisition of Swiss properties by persons not resident in Switzerland, there is also an increasing demand by foreign investors on the Swiss commercial property transaction market. However, foreign demand focuses particularly on the cities of Zurich and Geneva. Despite the low rate of return of Swiss commercial properties – when compared to other European countries – and the Swiss real estate capital gains tax, there is an increase in demand by non-Swiss investors. A new trend emerges with regard to "problem properties" from the industrial sector. The correspondingly high rates of return increasingly attract foreign demand.

Residential Property Transaction Market

At present, demand for residential properties on the transaction market is very high owing to the stable rates of return. Three trends can be observed: first, as a consequence of weak stock markets and economic insecurity, institutional investors have restructured their portfolios in favour of properties that may be sold more easily. In the field of residential property, this led to a higher demand for smaller properties of up to approx. CHF 10.0 million which, if necessary, can also be sold to private investors. Secondly, due to the inactive residential property transaction market, various institutional investors have started to increasingly invest in residential development projects. The third trend can already be observed for several years and relates to the division of residential space into condominium principled ownership units. The results of the census in the year 2000 carried out by the Swiss

Federal Office for Statistics have shown that the number of condominiums in principled ownership has almost doubled from 122 000 to 238 000 between 1990 and 2000. In the past few years, a trend could be observed to the effect that, as a result of the division of residential space into condominiums in principled ownership and the sale of the individual condominiums, a higher rate of return could be achieved than with the long-term rental operation of the property. The general economic conditions contributed to this development: the low mortgage rates, the increasing per-capita income and the rising rents enhanced the appeal of the purchase of residential property.

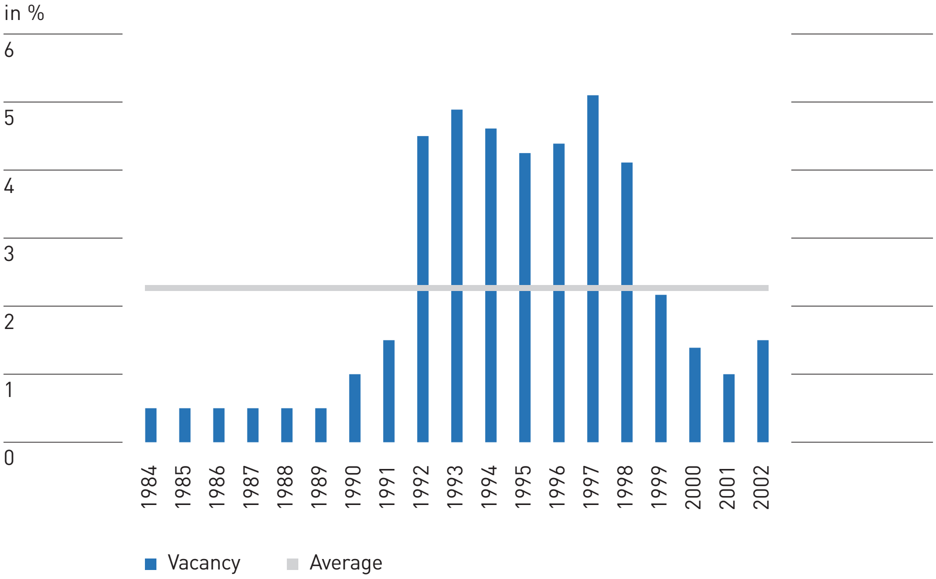
Zurich Property Market

Commercial Properties

There was a surprisingly sharp swing in the only recently booming Zurich commercial space market; however, no speculative development trend could be observed beforehand in relation to commercial development. In most cases, no new buildings were realized until a lease agreement had been concluded for a large part of the space. Nevertheless, many of these new buildings are vacant today because their tenants have never moved in due to, for example, a change in the size or scope of their operations. The imbalance prevailing on the Zurich commercial space market was not only caused by speculative real estate investors, but is particularly attributable to the fact that the tenants' estimates as to their business development, and thus their staff and space requirements, were too optimistic.

These structural changes in the Zurich economy may be inferred from the employment development in the service sector. In the city of Zurich, full-time equivalent employment had reached an all-time low in 1995 with approx. 220 000; however, by 2001, that number had risen to approx. 247 500 persons. In the same period of time, according to the data compiled by the Zurich Statistical Office, the commercial space vacancy rate had decreased from 502 643 sqm to 145 734 sqm. Employment rose most significantly in companies employing between 50 and 200 persons in the field of banking, corporate consulting, telecommunication as well as information technology. On the office space market, these companies had a demand for space ranging between approx. 1000 sqm and 4 000 sqm (20 sqm/workplace) and were interested in small office buildings or individual floors. Total vacant space in the city of Zurich as of June 1, 2003 was estimated by the Zurich Statistical Office at 345 411 sqm, of which 251 689 sqm were offices and doctors' practices, which corresponds to a vacancy rate of 3.1%. Thus, the total vacant commercial space has increased by 215 000 sqm since last year's compilation, rising by the factor 2.5. This is comparable to the vacancy rates of the years 1996 and 1997. Then, the economy had to grow at a rate of at least 1.5% to trigger the reduction of the vacancy rate. The following diagram shows an estimate of CB Richard Ellis on the development of vacancy rates in the city of Zurich.

Office space vacancy rates in the city of Zurich



Source: CB Richard Ellis, Zurich Office Market Q4 2002

The vacancy rate of 3.1% as of June 1, 2003 was below the peak rates of the period between 1995 and 1998 (ranging between 4.4% and 4.8%). Almost 25.0% of all vacant units measured in excess of 10 000 sqm in space. Of the office floor space completed between 2001 and 2002, 38.0% was vacant; of the floor space completed in the year 2003, even 75.0% remained vacant.

Vacant commercial floor space and vacancy rates according to type of use

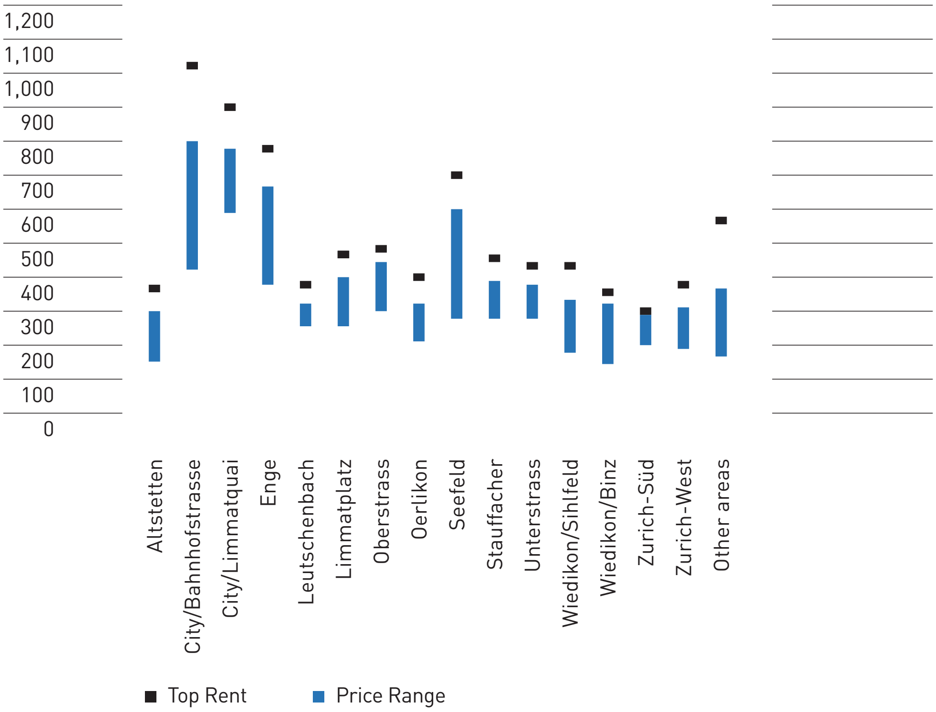
	Commercial floor space in sqm on June 1, 2003	Vacant commercial floor space in sqm on June 1, 2002	on June 1, 2003	change in %	Vacancy rate in % on June 1, 2002	on June 1, 2003	ø Size of vacant space in sqm on June 1, 2002	on June 1, 2003
Total space	11 255 580	130 248	345 411	165.2	1.2	3.1	557	929
Offices/doctors' practices	5 733 198	81 246	251 689	209.8	1.4	4.4	517	820
Retail	1 640 093	7 278	9 325	28.1	0.4	0.6	303	389
Industrial	1 522 607	3 906	25 493	552.7	0.3	1.7	300	981
Warehouse/storage	1 340 337	32 201	45 644	41.7	2.3	3.4	316	400
Other	1 019 346	5 617	13 260	136.1	0.6	1.3	374	491

Source: Statistic of the city of Zurich

For the Zurich region, vacant space was estimated by Colliers International to total 759 700 sqm in 2003, which corresponded to a vacancy rate of 7.4%.

To date, Zurich is the only office space market in Switzerland that can compete with the rent level of other large European cities. According to an analysis of Colliers International of the year 2002, top rents for office space in Zurich ranked third behind those of London and Munich, thus ranking above Madrid, Paris or Frankfurt. The current survey of rents conducted by Colliers International for the year 2003 shows that, in the city centre, maximum annual rents of approx. CHF 1000/sqm p.a. are still being paid for top locations.

Lease payments in Greater Zurich Market Areas in CHF per sqm p. a.



Source: Colliers International, Büromarktbericht 2003 Wirtschaftsraum Zürich

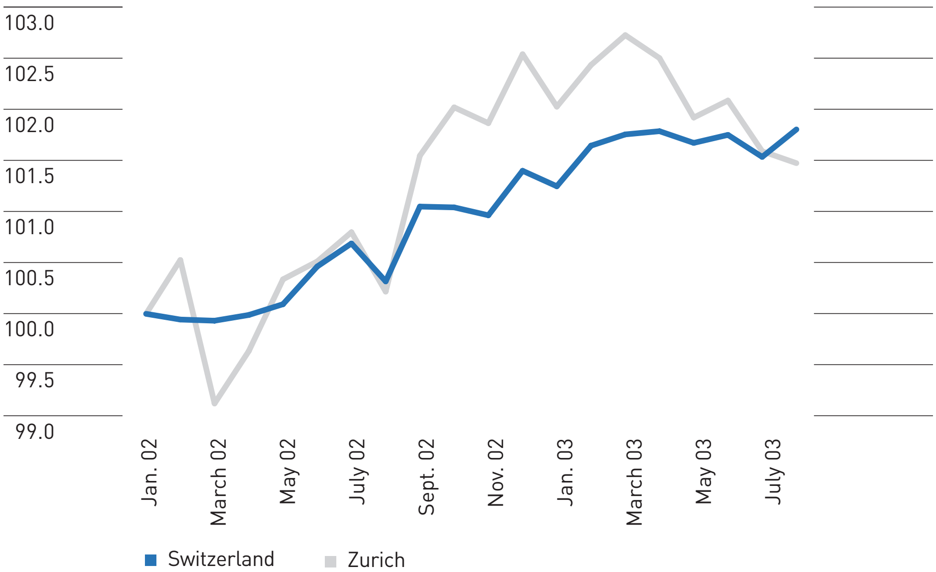
Residential Properties

According to a survey of the Swiss Federal Office for Statistics (BfS), approx. 18.0% of all apartments in Switzerland were situated in the Canton of Zurich as of June 1, 2003. Thus, this region constituted the largest apartment market in Switzerland. Between 1996 and 2001, residential properties were mainly built in municipalities located in the north of the city of Zurich. In the same region, there was also the greatest increase in the population of the Canton of Zurich between 1996 and 2001 (source: Statistisches Jahrbuch des Kantons Zürich 2003). In the year 2000 (census), 74.0% of the population in the Canton of Zurich lived in apartments for rent.

In early June 2003, the residential vacancy rate in the Canton of Zurich was 0.4%, which was merely one third of the average rate for the whole of Switzerland. In the city of Zurich, the residential vacancy rate only came to 0.1%, which was equivalent to 163 apartments and may be described as "housing shortage". These 163 vacant apartments were mainly small one- to three-bedroom apartments for rent (source: Swiss Federal Office for Statistics, Leerwohnungszählung 2003).

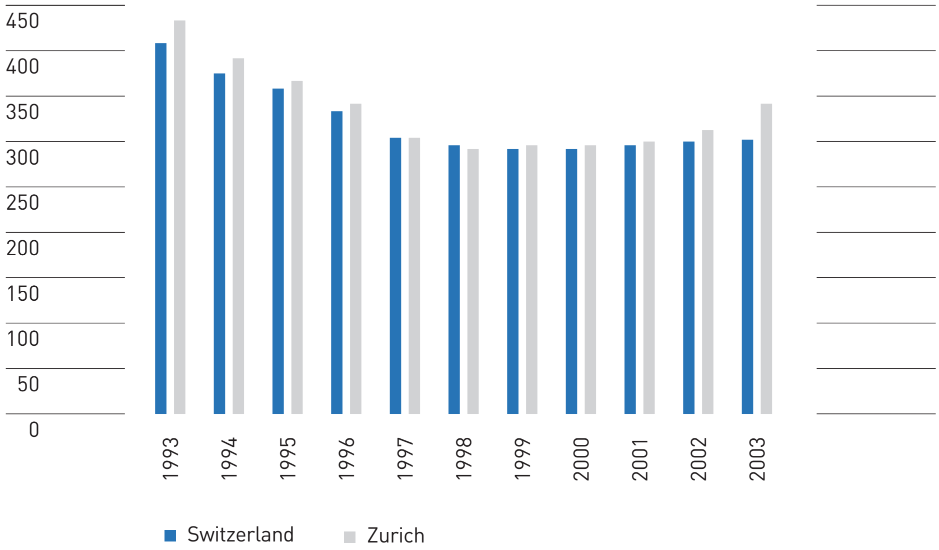
So far, the apartment rent level in the Zurich area has been higher than the average level prevailing in Switzerland, which is clearly shown by the average price index of the Swiss Central Bank (SNB). In accordance with the rent survey conducted by Wüest und Partner, the city of Zurich was among the three most expensive residential locations in Switzerland. The price index calculated by Zürcher Kantonalbank since early 2002 using the hedonic pricing model shows that rents in the city of Zurich have tended to decrease since March 2003.

Offer prices for apartments for rent (hedonic index)



Source: Zürcher Kantonalbank, www.homegate.ch

Offer prices for apartments for rent (average index)



Source: SNB, Statistisches Monatsheft September 2003

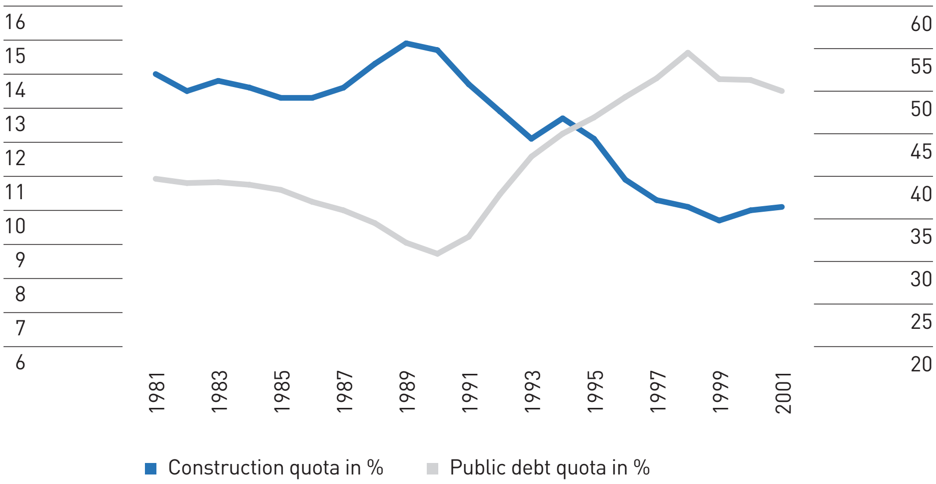
Construction Market

Volume

In 2002, construction investments in Switzerland totaled CHF 40.8 billion (source: preliminary figures taken from the annual data compilation of the Swiss Federal Office for Statistics BfS). This is equivalent to a slight gain of 0.6% compared to the previous year. In this context, nearly 25.0% (CHF 9.2 billion) were invested in civil engineering, and the remaining 75.0% (CHF 31.6 billion) in construction engineering, respectively. Although approx. 84.0% of construction engineering expenditures were incurred by private institutions or institutions organized under private law, the public sector supported construction engineering expenditures by contributing the remaining 16.0%. Due to the fact that investments made by the public sector rose by 9.4% compared to the previous year, the 1.7% decline in investments made by the other principals[1] could be compensated for the year 2002[2].

[1] According to the Swiss Federal Office for Statistics, the category "other principals" comprises all principals excluding public sector principals (on a federal, cantonal and municipal level), ie – inter alia – all private individuals and institutions organized and existing under private law. Construction investments include all expenditures incurred in the context of the realization of a building, ie all construction activities requiring approval that are to be performed on the economic territory of Switzerland between the filing of the building application with the competent authorities and completion of the work. These expenditures do not include the costs for purchasing the relevant piece of land, the development beyond the boundary of the property, the fitting of the property with movables as well as the costs for public maintenance work.

[2] As these are figures published by the Swiss Federal Office for Statistics for the year 2002 on a preliminary basis, reference is made for all other intents and purposes to the available definite figures published by the Swiss Federal Office for Statistics for previous years.

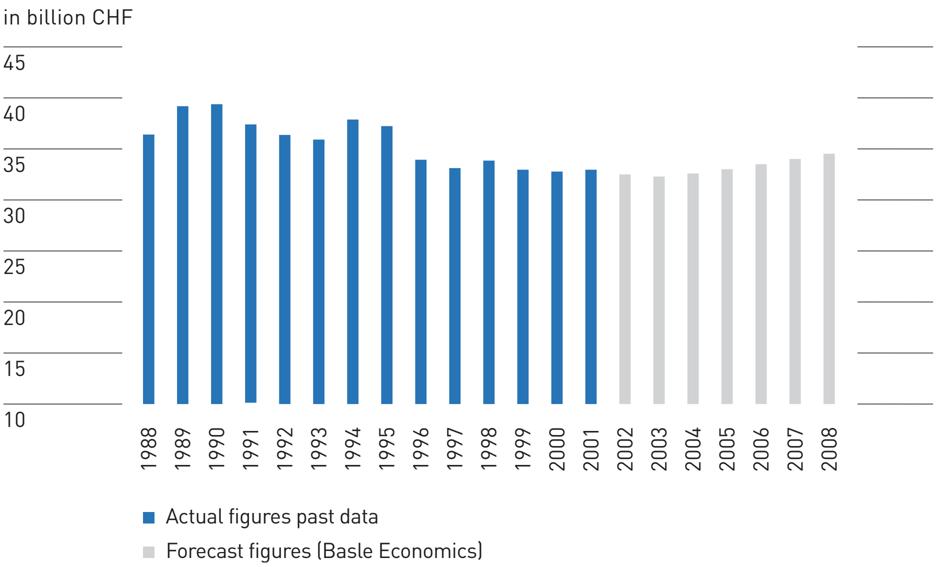


Source: Schweizerischer Baumeisterverband (Swiss Builders' Association)

Development

In terms of the gross domestic product (construction quota), the construction activity has continuously decreased in the past few years to an all-time low of 9.7% in 1999. At 10.0% for the year 2000, the Swiss construction quota was quite average compared to other European countries. At 51.3% for the same year, the Swiss public debt quota was well below the European average of 70.5%. The negative correlation between the construction and debt quota suggested that a reduction in public indebtedness may be accompanied by an increase in construction investments.

Construction expenditures
(incl. maintenance) in construction engineering between 1988 and 2008



Source: Konjunkturforschung Basel AG

In construction, a distinction is made between construction and civil engineering, and, in the context of construction engineering, a distinction is made between new and converted buildings. For the year 2003, the Swiss Federal Office for Statistics anticipates a downward trend in construction activities in all sectors, which, in the context of construction engineering, is predominantly due to the fact that the economy continues to be sluggish. Civil engineering, by contrast, is particularly affected by the strained financial position of the public sector. As from 2004, Basle Economics (Konjunkturforschung Basel) expects positive growth trends in construction investments averaging 1.0% p.a.

Geographic Market Segmentation

In 2001, approx. 28.0% of the Swiss construction engineering volume was completed in the Greater Zurich/Aargau Area.

Construction investments by major regions for the year 2001

in billion CHF	Construction investments divided in civil engineering	construction engineering	Construction investments divided in commercial	residential	other
Greater Area of					
Zurich/Aargau	1.73	8.83	2.26	4.95	3.35
Espace Mittelland	2.14	6.01	1.56	3.15	3.43
Bassin Lémanique	0.87	4.34	1.26	2.20	1.74
Eastern Switzerland	0.66	3.62	1.00	1.94	1.33
Southern Switzerland	1.42	3.34	0.60	2.12	2.03
Central Switzerland	0.83	3.26	0.77	1.94	1.39
Basle	0.58	2.23	0.80	0.98	1.03
Unallocated	0.74	0.01	0.00	0.00	0.74
Whole of Switzerland	8.95	31.63	8.25	17.29	15.04

Zurich/Aargau	Cantons of Zurich, Aargau
Espace Mittelland	Cantons of Bern, Solothurn, Neuchâtel, Fribourg, Jura
Bassin Lémanique	Cantons of Geneva, Waadt
Eastern Switzerland	Cantons of St. Gallen, Thurgau, Appenzell-Innerrhoden, Appenzell-Ausserrhoden, Glarus, Schaffhausen
Southern Switzerland	Cantons of Graubünden, Wallis, Ticino
Central Switzerland	Cantons of Luzern, Zug, Schwyz, Nidwalden, Obwalden, Uri
Basle	Cantons of Basle-Stadt, Basle-Land

Source: Bundesamt für Statistik (Swiss Federal Office for Statistics)

General Contractors' Market

In the year 2001, the members of the Association of Swiss General Contractors (Verband Schweizerischer Generalunternehmer – VSGU) increased the construction volume, compared to the previous year, by 5.1% to more than CHF 4.7 billion. This growth rate was considerably higher than that of construction investments, which suggests a shift in market shares in favour of providers of the full range of services. For the year 2004, the VSGU expects a favourable development in the general contractors' market (source: Annual Report of the VSGU).

Industrial and Commercial Construction Market

The industrial and commercial construction market was affected more than average by the bad economic conditions. While, in 2001, private principals as the main players in construction engineering increased their investments in industrial and commercial buildings by 9.7% compared to the previous year, the investments made by such private principals were down by 1.3% for the year 2002 (Annual Report of the VSGU). In 2001, the brisk new construction market was supported by the realization of the projects envisaged in the year 2000 in the light of the then favourable economic conditions. According to the Spring Forecast 2003 of the economic research institute of the Swiss Federal Institute of Technology Zurich (Eidgenössische Technische Hochschule Zürich), however, a persistent decrease in investments made in the industrial and commercial construction market must be expected for the year 2003. This is predominantly attributed to the unfavourable development of employment in the information technology, finance and insurance sectors. In addition, the amount of vacant space in office buildings has gone up in the whole of Switzerland, and an increasing number of approved construction projects was postponed. For the year 2004, the economic research institute expects construction investments in the industrial and commercial construction market to stagnate, at best, despite a slight economic upturn. Accordingly, Basle Economics found that effective construction expenditure tends to be linked to economic conditions rather than construction projects. For example, Basle Economics was consistent with the other forecasters in anticipating a decline in construction expenditure for the year 2003, particularly with respect to commercial and administrative buildings, which account for more than 50.0% of the expenditures for operational buildings[1]. According to Basle Economics, construction expenditures comprise construction investments as well as maintenance works (including private maintenance and/or renovation works). Making use of the presently favourable building costs might be an opportunity for the industrial and commercial construction market. Thus, new project developments – as opposed to the buildings completed in the years 2002 and 2003 – would be beneficial in that they are based on revised rate of return considerations at lower market prices.

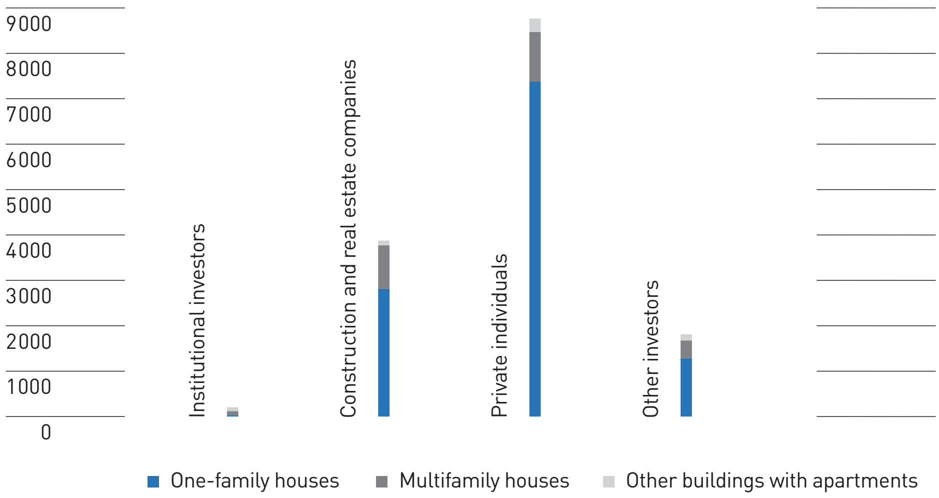
Residential Construction Market

Owing to the general economic insecurity, investments in the residential construction market remain modest despite low interest rates and declining construction prices. In 2001, for example, investments in residential construction were down by 0.9% compared to the previous years according to the Swiss Federal Office for Statistics; in Switzerland, such residential construction is mainly created by private principals (98.3%). While the number of multifamily houses remained unchanged compared to the previous year, the decline was mainly due to the fact that fewer one-family houses had been built (–10.4%). This is attributable, inter alia, to the above-average proportional share of one-family houses in the total number of new homes in the year 2000 (42.7%) and 2001 (39.9%); the average during the past 20 years (1982–2001) was only 30.4%.

[1] In its analysis of operational building expenditures, Basle Economics distinguishes between 6 types of operational buildings: commercial and administrative buildings, hotels and restaurants, plants and workshops, warehouses and halls, agricultural buildings as well as other operational buildings.

In late 2001, the net increase[1] in the number of homes was approx. 29 400 units (98.0% new buildings), which equals a decrease of 10.6% compared to the previous year. In 2001, the total number of homes in Switzerland was approx. 3.6 million (+0.8% compared to the previous year).

Number of new buildings, 2001



Source: Bundesamt für Statistik (Swiss Federal Office for Statistics)

This development in the field of the construction of apartments for rent is at variance with the tendency that rents are increasing in the whole of Switzerland with mortgage rates continuing to be low and apartment vacancy rates being below 0.5% in the whole of Switzerland.

[1] According to the Swiss Federal Office for Statistics, net increase is defined as the addition by way of new buildings and converted buildings as well as the reduction through demolition, fires etc.

Investment Guidelines

The investment strategy of the Allreal Group specifies the type of real estate in which investments are made, the investment principles to be observed in this context, the risk diversification and the financing of these investments. The investment strategy is laid down in the Investment Guidelines of the Allreal Group. The wording of the Investment Guidelines of the Allreal Group is hereinafter set out as revised on September 30, 2003.

The revised Investment Guidelines were published in accordance with applicable regulations on October 3, 2003 in the Swiss Commercial Gazette (Schweizerisches Handelsamtsblatt). They will take effect on November 5, 2003. In the course of the amendment process, the risk premium with respect to the discount rate applied for the purposes of the DCF Method was specified more precisely by determining a permissible range, and borrowing restrictions were made even more stringent. Otherwise, the modifications made were mostly of an editorial nature.

Investment Guidelines

Objective

The subsidiaries of Allreal Holding AG (the "Company") invest in real estate, which is actively managed and is to contribute to corporate profits through sustained, growth orientated earnings development and performance.

Fundamentals and Definitions

Types of Investment/Real Estate

Real estate investments: commercial properties, residential properties, properties under construction and land reserves purchased for investment purposes and usually held on a long-term basis to achieve a favourable rate of return. Commercial properties are pieces of land with office and/or commercial buildings usually owned by Allreal Office AG. Residential properties are pieces of land with residential buildings usually owned by Allreal Home AG.

Real estate for development: land reserves, buildings under construction as well as properties with buildings and/or completed properties held for resale to third parties or for the Company's own purposes (transfer to the commercial or residential property portfolio); these are usually owned by Allreal Generalunternehmung AG.

Property Classification

Usually, properties are classified upon acquisition with the exception, however, of real estate for development, which is normally held by Allreal Generalunternehmung AG and sold to third parties following completion of the project or transferred to the commercial or residential property portfolio. Multi-purpose properties are deemed residential properties if their total income is mostly rental income; otherwise, they are considered commercial properties. This is subject to restrictions under the Swiss Federal Law on the Acquisition of Real Estate by Non-Residents (Authorization Act). In terms of segment accounting, the type of property, rather than the identity of its owner, is relevant for distinction purposes.

Investment Principles Governing the Future Acquisition of Real Estate

The Company invests exclusively in properties located in selected economic centres in Switzerland. In this context, the investment focus is on individual properties that are expected to produce a sustained rate of return, with growth prospects to be emphasized in the field of commercial properties and real estate for development and quality aspects in the field of residential property, respectively. In addition, the Company aims at largely diversifying its real estate portfolio by investing in a wide range of commercial and residential property and real estate for development of all ages, sizes, types of use and structures, and by geographically focusing on Switzerland; in this context, indirect investments in real estate are not excluded either. The Company invests with preference in new commercial and residential properties. At present, the investment limits applicable to residential property are provided for in the Authorization Act.

As a rule, commercial and residential properties are only acquired by the Company if the value of the property computed in accordance with the DCF Method is CHF 3 million or more. Usually, the Company acquires real estate for development only if the value of the property estimated on the basis of the DCF Method will total CHF 3 million or more subsequent to the completion of buildings and/or renovations.

The discount rate used in connection with the DCF Method is based on the interest paid on risk-free 10-year Swiss Government Bonds and a real property related risk premium ranging between 200 and 400 basis points.

Investment Principles Governing Cash Investments

As a result of the business activities of the Allreal Group, the Company is likely to have considerable amounts of cash at its disposal from time to time, which may be invested in:

— deposits denominated in CHF, Euros or other currencies of those EU member states participating in the third stage of the monetary union, which deposits may be made with banks or their subsidiaries, and rated Aa or higher by Moody's Investors Service, Inc. and/or AA or higher by Standard & Poor's Ratings Group;
— listed securities and uncertificated rights of mostly European issuers (eg equities, investment fund shares, partnership shares, participation certificates, profit-sharing certificates, bonds and notes including convertible bonds and warrants as well as bonds having derivative components);
— positions in derivatives corresponding to the aforementioned securities and their indices.

Investment and Financing Restrictions

Real Estate

The Company does not invest in tourism-related real estate, such as hotels, holiday resorts or apartment hotels.

Authorization Act

When investing in real estate, the Company makes sure that it does not qualify as a real estate company within the meaning of Art. 4 para. 1 lit. e Swiss Authorization Act. Therefore, at present, the value of the residential property directly or indirectly held by the Company must never exceed one third of its consolidated total assets.

Borrowing

The Company may borrow funds on a short and long term basis at the relevant lending rates in the aggregate amount of up to 65.0% of its assets; in this context

— equity must at least be 35.0% of the total assets pursuant to the semi-annual consolidated balance sheet prepared on the basis of the International Financial Reporting Standards (IFRS, previously IAS);
— net gearing (ratio of net financial debt to equity) must not exceed 150.0% over a longer period of time; and
— interest coverage (ratio of EBITDA to net finance expense) must not be lower than the factor 2.0 even in case of significantly higher interest rates.

Borrowed funds may only be used for business purposes and must not be loaned to any third parties.

Hedging of Interest Risks

The Company is entitled, but not obligated, to fully or partially hedge its interest risks by conservatively using derivatives, including options, forward contracts, futures, swaps or combinations thereof.

Adjustment of the Real Estate Portfolio

In the event that the limits fixed in these restrictions are no longer complied with as a result of market changes or for any other reasons, the relevant investments must be adjusted to be in line with the above limits as quickly as possible, taking into account the best interests of the shareholders.

Amendment of the Investment Guidelines

These Investment Guidelines may at any time be amended by the Board of Directors within the scope of the objectives as set out in the Articles of Association of the Company. Any such amendments must be published by the Company no later than one month prior to their becoming effective.

Corporate Strategy

Aim

As a listed investment company, the Allreal Group intends to offer to private as well as institutional investors a first-rate investment in Swiss real estate with an attractive risk-return profile. The focus of all entrepreneurial activities of the Group Management is on promoting profitability and achieving a sustained increase in the enterprise value.

Strategy

The strategy pursued by the Allreal Group is based on the one hand on the successful and independent development of its two corporate pillars

- active real estate portfolio management (Real Estate Division)
- general contracting services, innovative project development and real estate services (Projects & Development Division)

and on the other hand on the realization of synergies resulting from the combination of these two divisions.

Real Estate Division

In the Real Estate Division, the Allreal Group actively manages the real estate portfolio to ensure that a sustained added value is being provided. Individual properties or entire real estate portfolios are bought, valued and held or, depending on the investment objective, renovated and sold (see "Business Activities – Services"; for information regarding the quality and the geographic location of the real properties comprising the portfolio, see also "Investment Guidelines").

While the property management services are not considered to be strategic, it is the aim of the Allreal Group to optimize the management efficiency by way of benchmark comparisons of the various managements. In addition, the Allreal Group intends to promote profitability of the entire portfolio by utilizing economies of scale in management.

The majority of the real estate investments of the Allreal Group are be situated in the economic centres of Switzerland, in particular in the Greater Zurich Area. Over the medium term, the Allreal Group aims at an annual portfolio growth by way of additions in excess of 10.0% and an annual net return of 5.5% on the portfolio. The real estate portfolio of the Allreal Group ranks among the three largest portfolios of listed Swiss real estate companies, focusing on top-rate properties at attractive locations.

Projects & Development Division

In the Projects & Development Division, the Allreal Group renders services in the area of project development and project management for new, converted as well as renovated buildings from a single source, such services ranging from market analyses, planning and project structuring to marketing. In this connection, projects that are balanced in economic and ecological terms are developed and realized on the basis of an integral point of view and in consideration of economic, urban development, architectural, topographical and structural requirements and parameters (see "Business Activities – Services"). The Allreal Group renders these services not only for third parties but also on an intra-group basis for the Real Estate Division, providing at least one third of building services for third parties.

In the Projects & Development Division, the Allreal Group is, in principle, engaged in the whole of Switzerland, implementing interesting large-scale projects regardless of their respective locations, with the focus being on the Greater Zurich Area. Through the Basle and Bern branches, the business activities are expanded in the financially interesting geographic target markets Basle and Bern, thus covering the entire German-Swiss market. The Projects & Development Division ranks among the three largest general contractors in Switzerland and become market leader in the Greater Zurich Area.

Utilization of Synergy Effects

The internal know-how of the Projects & Development Division, which is customarily not available to other real estate companies, is used systematically for utilizing synergies with the Real Estate Division. As a result of the many years of experience in project development, the real estate portfolio management is supported when making investment and material investment management decisions. In addition, real estate for development may, subsequent to successful project development and realization, be transferred to the real estate investment portfolio; thus, all past, present and future profits generated in connection therewith remain with the Allreal Group. The Projects & Development Division, in turn, benefits from the financial stability and strength of the real estate portfolio, which, for example, may result in favourable financing costs when purchasing real estate for development or taking up construction loans.

Personnel

The following table shows the number of people employed by the Allreal Group as of the relevant balance sheet date.

Number of Employees	June 30, 2003	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2000
Employees	222	229	229	252
number of part-time employees thereof	18	17	17	12

There is an option scheme for the members of the Board of Directors as well as for senior executives of the Allreal Group. As of September 30, 2003, 15 699 call options to purchase the same number of Registered Shares at a price of CHF 69 each were outstanding. The options were subject to a blocking period of up to three years and may be exercised until September 28, 2004. The option scheme is implemented using treasury shares.

Real Estate Division

Services

The Allreal Group is engaged in active real estate portfolio management and renders the following services with respect to its own real estate portfolio:

- continuously analyzing the real estate market for the purpose of making selected investments or divestments, as the case may be;
- purchasing single properties or entire real estate portfolios in the office and residential area and, if necessary, subsequently optimizing structures;
- negotiating lease agreements with tenants of commercial properties;
- making value-preserving and value-enhancing investments as well as optimizing financing structures;

— selling real estate (partly subsequent to value-enhancing renovations) to realize profits or optimize the portfolio (depending on the size, geographic location, type and quality).

The property management services (in particular the collection of rent as well as the management of the leases during the lease term) have been outsourced to various companies. Monthly reporting of the property management services enables the Allreal Group to continuously optimize the value of the real estate portfolio as well as to monitor the property management services.

Valuation Expert

The real properties of the Allreal Group are valued by the independent valuation expert. This task was performed by Arthur Andersen Real Estate Consulting until December 31, 2001. For the first time on December 31, 2002 after the Arthur Andersen Real Estate Consulting team moved to Ernst & Young AG these valuations were carried out by Ernst & Young AG, Real Estate. As of each June 30, and for the first time as of June 30, 2003, certain parameters are reviewed on which the most recent comprehensive revaluation was based. This may lead to an adjustment of the value of certain properties (as of June 30, 2003, 8 commercial properties accounting for approx. one fifth of the current value of the real estate portfolio were revalued). For the purposes of the audit of the consolidated financial statements as of December 31, 2003, the estimated values that are revalued as of the same balance sheet date for all real properties will be valued by the group auditors, as had been done in previous years, as provided for in ISA 620 (International Standard on Auditing 620 "Using the Work of an Expert"). Ernst & Young AG, Real Estate has been retained by the Allreal Group on a transaction basis.

Valuation Method

Valuation Standards

The real estate valuations of Ernst & Young AG, Real Estate are based on internationally customary valuation standards, ie those of the International Valuation Standards Committee (IVSC), the European Group of Valuers' Association (TEGOVA) as well as the Royal Institute of Chartered Surveyors (RICS). These standards are identical to those of the fair value model of the International Financial Reporting Standards (IFRS, formerly IAS) in accordance with IAS 40, Sec. 27 through 49. Fair value is defined as the best estimate of the amount for which at property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Investments in unrealized potentials and related excess proceeds will not be taken into consideration when determining the fair value in accordance with Sec. 45 IAS 40. Transaction costs and deferred taxes, if any, are not included either.

Methods

The valuation of the real estate is based on the application of the discounted cash flow method. When applying the DCF Method, the market value of a property is determined on the basis of the total expected net earnings (before interest, tax, depreciation and amortization) and discounted to today's date. Such earnings are discounted for each property depending on the respective risks and opportunities in line with market conditions and risk adjustments (for details, see "Financial Reporting – Consolidated Financial Statements of the Allreal Group as of December 31, 2002 – Report of the Independent Real Estate Appraiser – Description and Explanations relating to the DCF Valuation").

Portfolio Analysis

Overview

The analyses set out below give an overview of a selection of ratios of the real estate portfolio of the Allreal Group (real estate investments without properties under construction and without land reserves) as of September 30, 2003. These figures are based on a revaluation performed as of September 30, 2003 by Ernst & Young AG, Real Estate for the purposes of this Offering. A detailed list containing all real properties and the relevant data relating to each such property as of December 31, 2002 is attached hereto. See "Financial Reporting – Consolidated Financial Statements of the Allreal Group as of December 31, 2002 – Information on the Real Estate Portfolio".

The real estate investments are divided into the two segments commercial and residential properties. In accordance with the Investment Guidelines of the Allreal Group, buildings are classified as residential properties if their total income is mostly rental income, otherwise, a building is classified as a commercial property.

Development of the Real Estate Portfolio

As of September 30, 2003 the real estate portfolio of the Allreal Group was valued at CHF 1357.6 million. This value includes the revaluation of the commercial and residential properties pursuant to the discounted cash flow method ("DCF Method") performed by the independent valuation expert, Ernst & Young AG, Real Estate in the amount of CHF 1242.7 million as well as properties under construction at cost and land reserves at market values in the amount of CHF 114.9 million.In the past few years, the real estate portfolio of the Allreal Group has developed as follows:

Date	Market value of the properties						Number of properties		
	Commercial		Residential		Total		Commercial	Residential	Total
	in million CHF	%	in million CHF	%	in million CHF	%			
Dec. 31, 2001	684.3	75.0	227.9	25.0	912.2	100.0	30	16	46
Dec. 31, 2002	1 085.3	78.8	292.7	21.2	1 377.6[2]	100.0	42[1]	23	65
June 30, 2003	983.6	79.3	257.1	20.7	1 240.7	100.0	40[1]	21	61
Sep. 30, 2003	981.1	78.9	261.6	21.1	1 242.7	100.0	41[1]	21	62

[1] In the consolidated financial statements as of December 31, 2002 and June 30, 2003 three properties were cumulated to one property. Accordingly, the number of commercial properties was 40 and 38, respectively.
[2] In the consolidated financial statements as of December 31, 2002 this number was rounded up to 1378.0.

So far, the year 2002 has seen the largest acquisition-related growth when the Allreal Group purchased 22 new real properties worth CHF 522.6 million. Also in 2002, real properties worth CHF 55.6 million were sold. The balance of additions and divestment in market value for the period from January 1, 2003 to September 30, 2003 amounted to minus CHF 120.3 million.

The increase in the intrinsic value of the real estate portfolio since 2000 cannot be calculated due to the various additions and divestments. However, by way of a comparable basis for the calculation of the increase in the intrinsic value, 33 real properties having a market value of CHF 625.3 million may be used, which have been included in the portfolio of the Allreal Group since January 1, 2001 (first financial statements after the IPO). By reference to these 33 real properties, the increase in the intrinsic value for the period between December 31, 2000 and September 30, 2003 was 1.6%, which was equivalent to an absolute amount of CHF 9.9 million. This resulted in an average growth per annum of CHF 3.6 million or 0.6%.

Additions and Divestments since January 1, 2003

Since the beginning of 2003, five real properties were sold from the real estate portfolio of the Allreal Group, and two real properties were purchased. In addition, the site of the property "Brandschenkestr. 38/40, Zurich" previously held as a ground lease *(Baurecht)* was purchased,

Commercial Properties

Divestment	Additions
Andreasstr. 13–17, Zurich	Bernstr. 55, Schlieren
Eggbühlstr. 15, Zurich	Buckhauserstr. 32, Zurich
Oetenbachgasse 26, Zurich	Brandschenkestr. 38/40, Zurich (site)
Bleicherweg 66/Freigutstr. 6, Zurich[1]	

Residential Properties

Divestments	Addition
Hammerstr. 160/164/Bläsiring 150–160/ Efringerstr. 25, Basle	none
Rietgraben 40–48, Opfikon	

These additions and divestments, taking into account the revaluations as of September 30, 2003, lead to a decrease in the value of the commercial and residential properties as of September 30, 2003 compared to December 31, 2002 of 134.9 million.

[1] Sold on October 31, 2003 and therefore still included in the portfolio analysis.

For property-related information on the sold real properties, see the real estate list as of December 31, 2002, which is attached hereto. See "Financial Reporting – Consolidated Financial Statements of the Allreal Group as of December 31, 2002 – Information on the Real Estate Portfolio". The property-related information on the purchased real properties are summarized in the following table:

Address	Bernstr. 55, 8952 Schlieren	Buckhauserstr. 32, 8048 Zurich
Owner	sole owner Allreal Office AG	sole owner Allreal Office AG
Built in	2002/2003	1968
Renovated in	–	2003: roof covering and insulation
Size of land in sqm	7 089 sqm	1 905 sqm
Usable floor space in sqm	10 193 sqm	2 699 sqm
Office space in %	88.25% (8 995 sqm)	42.83% (1 156 sqm)
Retail space in %	0%	0%
Apartment space in %	0%	0%
Other types of use in %	11.75% (1 198 sqm)	57.17% (1 543 sqm)

Analysis of Use

The gross rent from the rental table as of September 30, 2003 on an annualized basis is shown in the following table, according to segment and various types of use.

Rental income as of Sept. 30, 2003 p.a.

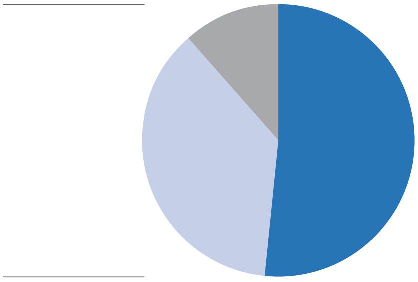
in CHF 1000	Commercial properties	in %	Residential properties	in %	Total	in %
Office	40 794	60.1	388	2.1	41 182	47.8
Industrial/Workshops	4 843	7.1	0	0.0	4 843	5.6
Retail/Restaurants	5 495	8.1	149	0.8	5 643	6.6
Warehouse	4 774	7.0	227	1.2	5 001	5.8
Residential	5 256	7.7	15 873	87.1	21 129	24.5
Parking	4 099	6.0	1 301	7.7	5 400	6.3
Miscellaneous	2 597	3.8	284	1.6	2 882	3.3
Total	**67 856**	**100.0**	**18 222**	**100.0**	**86 079**	**100.0**

This table shows in particular that, in the context of the commercial properties, 60.1% of the rental income was derived from office space and a further 8.1% from retail and restaurant space, respectively. In the residential property segment, 87.1% of the rental income was derived from residential space and a further 7.1% from parking spaces, respectively.

Geographic Diversification

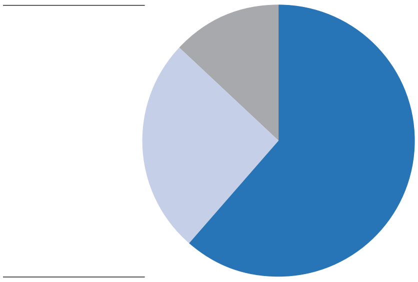
Regional Location according to Value. As of September 30, 2003, the real properties of the Allreal Group in terms of market value were located to 88.5% (54 real properties) in the Zurich Area (51.6% city of Zurich, 36.9% elsewhere in the Canton of Zurich).

Value Commercial and Residential Properties
Regions



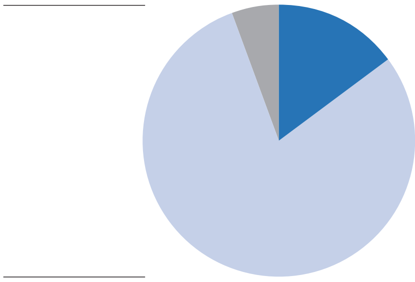
City of Zurich	51.6%
remaining Canton of Zurich	36.9%
other regions	11.5%

Value of Commercial Properties
Regions



City of Zurich	61.4%
remaining Canton of Zurich	25.6%
other regions	13.0%

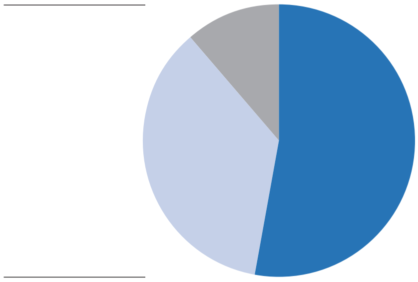
Value of Residential Properties
Regions



City of Zurich	14.7%
remaining Canton of Zurich	79.2%
other regions	6.1%

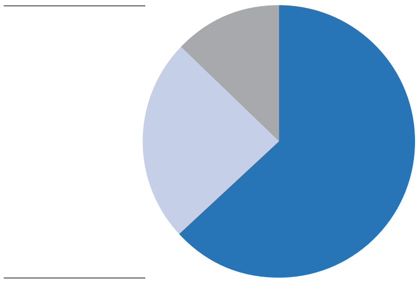
Regional Location according to budgeted Gross Rent. As of September 30, 2003, the real properties of the Allreal Group in terms of the annualized rental income were located to 88.7% (54 real properties) in the Zurich Area (52.9% city of Zurich, 35.8% elsewhere in the Canton of Zurich).

Gross Rent (Commercial and Residential Properties)
Regions



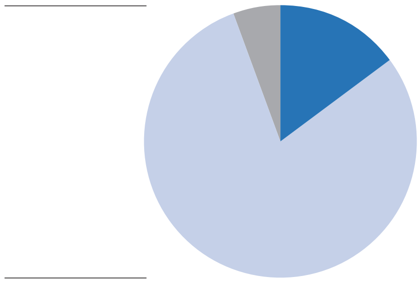
City of Zurich	52.9%
remaining Canton of Zurich	35.8%
other regions	11.3%

Gross Rent (Commercial Properties)
Regions



City of Zurich	63.1%
remaining Canton of Zurich	24.1%
other regions	12.8%

Gross Rent (Residential Properties)
Regions



City of Zurich	14.8%
remaining Canton of Zurich	79.6%
other regions	5.6%

Usable Floor Space and Vacancy Rates

As of September 30, 2003, the entire usable floor space of the portfolio of the Allreal Group totaled 333 464 sqm.

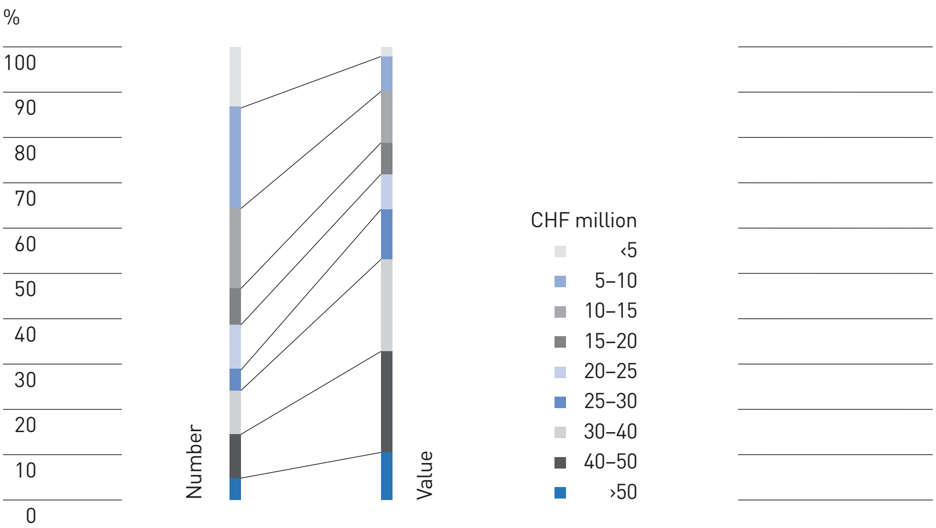
Usable space table

sqm	Commercial properties Total space	Vacant	in %	Residantial properties Total space	Vacant	in %	Total Total space	Vacant	in %
Office	140 840	2 738	1.9	1 314	0	0.0	142 154	2 738	1.9
Industrial/Workshop	31 390	0	0.0	97	0	0.0	31 487	0	0.0
Retail/Restaurants	15 033	358	2.4	1 510	0	0.0	16 543	358	2.2
Warehouse	35 027	2 245	6.4	1 083	14	1.3	36 110	2 259	6.3
Residential	20 383	0	0.0	77 602	390	0.5	97 985	390	0.4
Miscellaneous	7 077	673	9.5	2 108	207	9.8	9 185	880	9.6
Total	**249 750**	**6 014**	**2.4**	**83 714**	**611**	**0.7**	**333 464**	**6 625**	**2.0**

For the commercial property segment, the vacancy costs cumulated between January 1, 2003 and September 30, 2003 totaled 1.5% – calculated in % of the cumulated budgeted gross rent for the same period, and 1.1% for the residential property segment, respectively, in total 1.4%. By reference to the total space of the real estate portfolio, the vacancy rate was 2.0% as of September 30, 2003. The vacancy rate in sqm is higher than the vacancy rate in CHF, as especially low-cost space, eg warehouses, were not rented.

Property Sizes

As of September 30, 2003, the 15 largest properties accounted for approx. 55.0% of the total portfolio value. These include 13 commercial properties and 2 residential properties with a market value in excess of CHF 30.0 million each. The smaller properties (CHF <10.0 million) were mostly residential properties.



Major Tenants

As of September 30, 2003, the five major tenants of the Allreal Group accounted for 22.6% of the total rental income. The five major tenants are:

Tenants of commercial properties	annualized rental income in million CHF	% share in rental income from commercial space	% share in the total rental income
Bank Vontobel AG	5.3	7.8%	6.1%
MAN Turpomaschinen AG	4.9	7.2%	5.7%
IBM (Schweiz) AG	3.5	5.1%	4.0%
Bank Julius Bär & Co. AG	3.2	4.7%	3.7%
DaimlerChrysler Schweiz AG	2.7	3.9%	3.1%

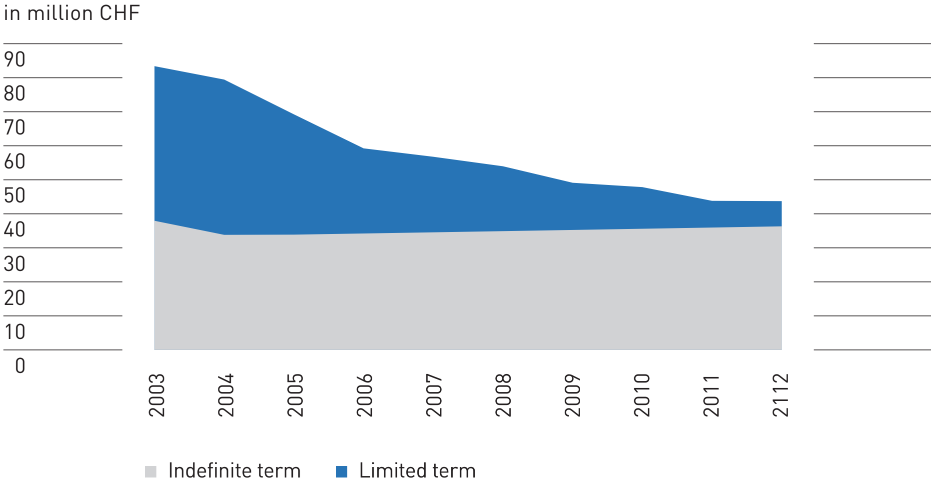
Lease Term Structure

The Allreal Group usually concluded lease agreements for apartments for an unlimited duration. In the context of commercial space, the Allreal Group usually concluded lease agreements for a fixed period of time, mostly for at least five years. As regards the termination of the lease agreements, see "Regulatory Environment – Tenancy Laws in Switzerland – Termination of Lease Agreements".

As of September 30, 2003, the remaining average duration of the fixed-term lease agreements for commercial properties weighted on the basis of rental income totaled 5.4 years.

These lease terms were taken into account by reference to adequate absorption scenarios and market rents in the context of the determination of the market value of the real properties.

Lease Term Profile as of September 30, 2003



The Allreal Group has concluded usufructuary lease agreements for 13 real properties, including 7 commercial properties. Until June 30, 2006, the Allreal Group receives a fixed amount of rent (11.6% of the expected gross rental income for the year 2003 of the Allreal Group). After that date, the Allreal Group will continue the then existing leases. The above chart of the 13 real properties is based on the individual leases.

Investment Budget

For the purposes of preservation of the value of the real properties, the Group Management prepares budgets for each property. These budgets are based on the average life of individual elements of the real properties, such as the kitchens or the windows. Upon expiry of the average life of an element, the restoration costs are deducted in the relevant year also with respect to the DCF value of the property. These budgets will be reviewed as to plausibility on an annual basis by the valuation expert in connection with the valuation. For the years 2004 and 2005 an annual amount ranging between CHF 2.9 million and CHF 3.5 million was budgeted for ordinary maintenance and an amount ranging between CHF 8.0 million and CHF 10.0 million was budgeted for value preserving and value increasing investments.

Projects & Development Division

Services

In the Projects & Development Division, the Allreal Group provides various services, which may be classified as project management, project development and real estate services.

Project Management

Allreal Generalunternehmung AG is engaged in the coordination of all activities required for erecting a building (project management); thus, the developer has fewer tasks to fulfill. Allreal Generalunternehmung AG engages in project management for new buildings, conversions and renovations in construction engineering until the building is opened and handed over to the principal on a turn-key basis. These projects are implemented on behalf of third parties for the account of the Projects & Development Division (resale to third parties) or for the account of the Real Estate Division (transfer to the real estate investment portfolio). Usually, construction of the Company's own projects is not commenced until commitments have been obtained for the sale or lease of 30.0% for residential properties and 50.0% for commercial properties of the buildings to be erected. General contracting services (including project development and real estate services) provided to the Real Estate Division are on an arm's length basis.

Allreal Generalunternehmung AG renders construction management services; it does not provide direct construction services, but contracts them from third parties. As a rule, for the purposes of the general contracting activities, guarantees are given vis-à-vis the developer as to compliance with the agreed dates, costs and quality standards. The price for the services rendered by Allreal Generalunternehmung AG is determined differently, eg on a lump-sum basis (fixed price until performance of the agreement, eg until the building is handed over to the developer on a turn-key basis), on an all-inclusive basis (fixed price upon conclusion of the agreement with an indexation until termination of the agreement), on an open-invoice basis (effective construction costs plus general contractor's fees) or on a cost ceiling basis (costs are capped with a pro rata allocation of any costs above or below such ceiling).

The general contracting services rendered by the Allreal Group may be summarized as follows:
— New buildings: realization of all new building projects in terms of construction engineering until the building is opened and handed over to the developer on a turn-key basis. Implementation activities focus on the realization of complex commercial buildings and infrastructural facilities, the construction of condominiums, estates with one-family houses and houses with multiple occupation;
— Renovation/Conversions: essentially the same services are offered as in the context of new buildings. Implementation activities range from the plain restoration of heating facilities and the restoration of large estates with 500 apartments to the renovation of protected historical buildings.

Project Development

In its capacity as project developer, Allreal Generalunternehmung AG provides single source services in all areas of real estate for third parties and its own portfolio, including, but not limited to, the following services:
— determining requirements and defining targets;
— planning as well as legal and construction-related reviews;
— determining the costs and utilization of a project, including detailed investment and profitability calculations;
— carrying out profitability analyses of existing buildings and preparing corresponding improvement proposals;
— carrying out architectural and general service contests;
— advising and supporting clients until legal and economic project development;
— assisting in re-zoning proceedings.

Real Estate Services

Allreal Generalunternehmung AG provides real estate services for third-party projects as well as its own projects in connection with real estate transactions of all kinds, including, but not limited to, the following areas:
— finding and procuring real estate;
— selling and procuring of projects to be realized as well as residential and commercial properties, one-family houses and condominiums;
— preparing location and market analyses as well as real estate and undeveloped land estimates;
— first lease of commercial properties;
— drafting of agreements;
— advising on any transfers of ownership.

Real Estate for Development

The book value of the portfolio of real estate for development mostly held by the Projects & Development Division amounted to CHF 139.1 million as of June 30, 2003. The share of this real estate for development in the total portfolio was 9.4% as of June 30, 2003. As of September 30, 2003, the estimated investment volume of the real estate for development of the Allreal Group for projects that were at least in the planning stage totaled approximately CHF

1 067.0 million. Approximately CHF 554.0 million (or 51.9%) thereof were attributable to newly built homes, of which about CHF 118.0 million were under construction or approved and about CHF 436.0 million were planned; a total of CHF 513.0 million (or 48.1%) related to office and commercial buildings, of which about CHF 217.0 million were under construction or approved and about CHF 296.0 million were planned. Furthermore, the Allreal Group has other significant project opportunities which, however, have not reached the planning stage as yet. Following completion, the office and commercial buildings will either be transferred to the real estate investment portfolio or sold to third parties.

Between December 31, 2002 and September 30, 2003, the portfolio of real estate for development was enlarged by the site in Fällanden:

Place	Site	Type	Purchase	Land area in sqm	Register of potentially contaminated sites	Book value in CHF million	Estimated investment volume	Status of project or sales	Expected completion
Fällanden	Unterdorf	Condominium principled ownership, one-family houses, multifamily houses, apartments for rent	2003	48 400	no	10.0	125.0	–	open

The property Arnikahof in Zurich was sold. The site at Säntisstrasse in Oberrieden has been sold but not yet accounted for. For information on this property, see "Financial Reporting – Consolidated Financial Statements of the Allreal Group as of December 31, 2002 – Information on the Real Estate Portfolio". Furthermore, the book values of individual real estate for development have changed since December 31, 2002 for various reasons, such as construction progress or the sale of condominiums.

General Contractor Projects

The following table shows the current projects and the projects of the Allreal Group that are anticipated within the next 12 months as of September 30, 2003:

Volume of the Projects	<CHF 5 million	CHF 5–20 million	>CHF 20 million	Total
New Buildings – own projects				
In million CHF	–	79.0	383.0	462.0
Number	–	7	7	14
New Buildings – third-party projects				
In million CHF	13.0	118.0	347.0	478.0
Number	5	10	10	25
Total New Buildings				
In million CHF	13.0	197.0	730.0	940.0
Number	5	17	17	39
Renovation/Conversion				
In million CHF	24.0	75.0	–	99.0
Number	12	8	–	20
Total New Buildings, Renovation/Conversion				
In million CHF	37.0	272.0	730.0	1 039.0
Number	17	25	17	59
Invoiced Completed Buildings				
In million CHF	15.0	68.0	604.0	687.0
Number	9	6	15	30
Total incl. Invoiced Buildings				
In million CHF	52.0	340.0	1 334.0	1 726.0
Number	26	31	32	89

The above table contains – inter alia – the following significant current construction projects with a volume exceeding CHF 40.0 million:

— new building: IBM (Schweiz) headquarters in Zurich-Altstetten;
— new building: housing estate Wisental in Bülach (ZH);
— new building: housing estate Dennlerstrasse in Zurich;
— building complex in the centre of Seebach in Zurich-Seebach;
— houses in multiple occupation in Belaria in Oberengstringen (ZH);
— residential estate (Wohnpark Primavera) in Niederwangen (BE).

As of September 30, 2003, of the construction volume of CHF 329.2 million handled between January 1, 2003 and September 30, 2003, a total of 58.0% was attributable to residential property and 42.0% to commercial property, respectively. Of this construction volume, CHF 227.8 million (or 69.2%) were attributable to third-party projects and CHF 101.4 million (or 30.8%) were attributable to the Company's own projects, of which CHF 56.1 million were intended for sale to third parties and CHF 45.3 million for transfer to the real estate investment portfolio, respectively.

Quality Management

Allreal Generalunternehmung AG was the first major general contracting business in Switzerland to be certified in accordance with the ISO 9001 Standard in 1994. The ISO 9001 Standard is currently being converted to the ISO

2000 Standard, and it is expected that re-certification can be effected in the near future.

In addition, Allreal Generalunternehmung AG carries out project-orientated quality controls with respect to time frames, costs and quality when planning, monitoring and supervising its general contracting projects. Quality control methods are continuously reviewed and regularly adjusted to market requirements.

Market Position and Competition

Competitors of the Real Estate Division of the Allreal Group include in particular real estate companies and investment funds. Of the real estate companies listed on the SWX, the Allreal Group has the third-biggest portfolio after PSP Swiss Property AG, Zug, and Swiss Prime Site AG, Olten, as of June 30, 2003 (source: Bank Vontobel Equity Research Switzerland – October 2003/ Immobilien Fokus Schweiz).

The Company differs from the Swiss real estate companies listed on the SWX mainly in that it has a Projects & Development Division. According to the assessment of the Group Management, Allreal Generalunternehmung AG is the third biggest general contracting business in Switzerland in terms of turnover after Zschokke (incl. Göhner Merkur) and Karl Steiner AG with an assumed leading position in the Greater Zurich Area. (Source: HandelsZeitung Top 2003)

Contaminated Sites and Pollution

As of September 30, 2003, 21 pieces of land were recorded in the register of potentially contaminated sites. When acquiring a property, the Allreal Group carries out examinations as to pollution risks. In case any such contamination or pollution is recognizable, either the anticipated costs are included in the purchase price, or an indemnification agreement is entered into with the seller or the facility operator, or the property is not purchased after all. Prior to the planning and design of construction projects, geological expert opinions are obtained on the extent of pollution, or it is stipulated in the general contracting agreements that the costs of cleaning up contaminated sites are borne only to the extent that the anticipated costs may be determined on the basis of a geological expert opinion. There are expert opinions as regards the majority of the pieces of land recorded in the register of potentially contaminated sites, and the respective cleanup costs to be anticipated were included in the purchase price. At present, apart from the current cleanup, the Company is not aware of any obligation to actively clean up any contaminated sites. See "Regulatory Environment – Environment – Contaminated Sites".

Interest Rate Management

The Allreal Group attaches paramount importance to a risk-orientated interest rate management, as the profitability of the Real Estate Division depends on the difference between the net yield and interest costs to a considerable extent. The average fixed-interest period stipulated for all interest-bearing loans of the Allreal Group was 49 months as of June 30, 2003, with interest averaging 2.8%. For the purposes of interest rate management, it is the aim of the Allreal Group to maintain its freedom of action so as to be able to adapt the interest maturity profile to changing market conditions at any time by using hedging instruments, particularly interest rate swaps. On June 30, 2003, the Allreal Group had outstanding interest rate swaps totaling CHF 550.0 million. Without these interest rate swaps, the fixed-interest period of more than 95.0% of interest-bearing loans would have been less than 12 months as of June 30, 2003.

For the purposes of effective interest rate management, interest rate developments are continuously monitored, and it is endeavored to evenly distribute the new interest maturities. For the purposes of a quarterly risk analysis on the basis of an asset and liability management model (ALM), the Allreal Group attaches particular importance to the analysis of interest rate risks as they ensue from the different fixed-interest periods of assets and/or liabilities reported in the consolidated balance sheet, as well as the duration of the equity capital in the sense of the sensitivity of the equity capital to changes in interest rates.

Past and Planned Investments

Since the commencement of its business activities in the year 1999, the Allreal Group makes material investments exclusively in real estate as well as general contracting projects (see "Financial Reporting – Consolidated Financial Statements of the Allreal Group as of December 31, 2002 - Information on the Real Estate Portfolio" as well as "Business Activities – Real Estate Division – Portfolio Analysis", "Business Activities – Projects & Development Division – Real Estate for Development" and "Business Activities – Projects & Development Division – General Contractor Projects").

The Allreal Group intends to purchase the following properties that are subject to a ground lease *(Baurecht)* and in respect of which the Allreal Group is the owner of the building right conveyed by the ground lease *(Baurechtsnehmer)* at a total purchase price of approx. CHF 65.0 million; however, the earliest possible purchase date is April 1, 2007 or, as regards the property Zollstrasse, Zurich, December 31, 2005:

Badenerstrasse 141 R, Zurich
Bächlerstrasse 54–58, Zurich
Bodenstrasse 13,15,16,17,19,21, Zurich
Brandriet-/Flora-/Rütlistrasse, Effretikon
Seeguetstrasse 8, Au-Wädenswil
Seeguetstrasse 2, 4, 9, 11, 13, 15, Au-Wädenswil
Hardturmstrasse 100–106, Zurich
Langstrasse 94, Zurich
Langgrütstrasse 172, Zurich
Neugasse 50 + 52, Zurich
Sihlhallenstr. 28 + 30, Zurich
Weststrasse 117 + 119, Zurich
Zollstrasse, Zurich

For the years 2004 and 2005, between CHF 8.0 and CHF 10.0 million p.a. were budgeted on a consolidated basis for value preserving and value increasing investments.

Patents and Licenses

There are no material patents or licences; and the existence of the Allreal Group does not depend on any industrial, trade or financing agreements or any new manufacturing processes.

Insurances

The Company believes that the Allreal Group has taken out the insurance policies required by law for performing its business activities as well as the insurance policies considered necessary by the Group Management, in particular developers' and builders' liability insurance policies with respect to the Projects & Development Division.

Business Interruptions

There have been no business interruptions with the Allreal Group since the Company went public.

Litigation and Legal Disputes

There are no court or arbitration proceedings pending or threatened against either the Company or Allreal Finanz AG, Allreal Home AG, Allreal Office AG, Allreal Vulkan AG or Allreal West AG as of September 30, 2003 that might materially affect the results or the financial position of the Company.

While there are various pending or threatened legal proceedings in the Projects & Development Division, the Group Management does not believe that they can materially affect the financial position of the Allreal Group. It must be noted that, in the context of the general contracting activity in general, Allreal Generalunternehmung AG is also subject to a higher risk of litigation. As regards potential costs incurred in connection with any pending or threatened legal disputes of Allreal Generalunternehmung AG, provisions are continuously set up (general warranty provisions and specific provisions for known individual cases) and write-downs are made that are reflected from time to time in the annual financial statements. In the interim accounts as of June 30, 2003, there were provisions (guarantee risks, lease-related risks etc) totaling CHF 9.9 million. These provisions primarily relate to existing and contracted projects in the Projects & Development Division (see "Financial Reporting – Consolidated Financial Statements of the Allreal Group as of June 30, 2003"). According to its knowledge as of today, the Group Management of the Allreal Group believes that these provisions are sufficient to cover the costs incurred as a result of the pending and threatened legal disputes.

Overview and Members

In accordance with the Articles of Association, the Board of Directors of the Company consists of one or more members. Each Director is elected for a period of three years at a time and may be re-elected. The age limit is 70 years. Pursuant to Swiss company law, the majority of the members of the Board of Directors of a Swiss stock corporation must be Swiss citizens and resident in Switzerland; however, under the bilateral treaties between Switzerland and the EU, the citizenship requirement does not apply to EU/EFTA citizens resident in Switzerland or in a member state of the EU/EFTA.

The Board of Directors appoints one of its members as Chairman and a secretary, who does not have to be a member of the Board. To be quorate, at least 50.0% of the members of the Board of Directors must be present, with the exception of resolutions adopted in connection with capital increases, in respect of which the quorum requirement does not apply. Resolutions are adopted by the majority of the votes cast. In case of a tie, the Chairman has the casting vote. Resolutions may also be passed and executed without holding a meeting by way of a circular resolution by mail, telex, telefax, telegram or comparable communication systems unless oral consultation is requested by a Board member.

In compliance with Swiss company law and the Articles of Association, the Board of Directors has delegated responsibility for day-to-day business to the Group Management under the bylaws. However, the Board of Directors remains ultimately responsible for the general management policies of the Company. To this end, the Board has to determine the Company's strategy and implement suitable accounting, organization and financing procedures for the Company; furthermore, the Board has to approve major investments, acquisitions and divestments. The Board of Directors appoints the members of the Group Management, who regularly report to the Board of Directors about their activities, as well as the authorized signatories. The Board of Directors has to implement the resolutions of the shareholders' meeting.

While Swiss company law does not contain any provisions governing conflicts of interest, it requires that the members of the Board of Directors and the Group Management safeguard the best interests of the Company and subjects them to a duty of care and loyalty. This rule is generally understood as disqualifying members of the Board of Directors and the Group Management from participating in any decisions that directly affect them. The members of the Board of Directors and the Group Management are liable to the Company, the shareholders and the creditors for any losses incurred as a result of any willful or negligent breach of their duties. Furthermore, Swiss company law provides that unjustified payments made to any shareholders, members of the Board of Directors or persons related to any of the above must be repaid if the recipient of such payment acted in bad faith.

The following table contains information on the members of the Board of Directors and the Group Management of the Company, who are all Swiss citizens and resident in Switzerland:

Board of Directors

Dr. Thomas Lustenberger	Erich Walser	Dr. Rudolf W. Hug
1951, Chairman Member since 1999	1947, Vice Chairman Member since 1999	1944, member Member since 2003
Attorney-at-law and partner with a law firm in Zurich, member of the Board of Directors of Calida Holding AG (Chairman), Micronas Semiconductor Holding AG (Vice Chairman), SEZ Holding AG and Vitrashop Holding AG	Delegated member of the Board of Directors and chairman of the group management of Helvetia Patria Gruppe, member of the Board of Directors of Neue Rückversicherungsgesellschaft, Hermann Koller AG (chairman), Loppacher AG and Metrohm AG	Management consultant and independent Board member, former chief executive of SKA, former member of the group management of Credit Suisse and Credit Suisse First Boston, member of the Board of Directors of Deutsche Bank (Schweiz) AG, Micronas Semiconductor Holding AG, Orell Füssli Holding AG and the Swiss Post

Group Management

Bruno Bettoni	Dr. Peter Ilg	Hans Engel	Eugen Bentele
1949, Chief Executive Officer since 1999	1965, Chief Financial Officer and Member of the Group Management since 2003	1955, Member of the Group Management since 1999	1953, member of the Group Management since 2002
1995–1999 managing director of Oerlikon-Bührle Immobilien AG 1983–1995 member of the group management of Oerlikon-Bührle Immobilien AG 1973 joined Oerlikon-Bührle Immobilien AG as project manager Vice-President of the Swiss Association of General Contractors	Dr. oec. publ., certified auditor, CPA (AICPA), 2002–2003 Zurich Financial Services, Head of Group Controlling 1994–2002 PriceWaterhouseCoopers, Senior Manager Auditing and Consulting	Holder of the Swiss federal diploma of a real estate trustee 1987–1999 member of the group management of Oerlikon-Bührle Immobilien AG 1981 joined Oerlikon-Bührle Immobilien AG as an expert for contracts as well as the purchase, sale and development of real estate	1992–1999 member of the group management of Oerlikon-Bührle Immobilien AG 1981 joined Oerlikon-Bührle Immobilien AG as Head of Sales

Authorized Signatories

Any two members of the Board of Directors, the Group Management and Mr. Helmut Merkle, Vice Director, have joint signing authority for the Company.

Transactions with and Loans to Members of the Board of Directors or the Group Management

The members of the Board of Directors and the Group Management have not been involved in any transactions outside of the ordinary course of business of the Company, the form or substance of which was unusual or significant for the Company during the current and the past financial year.

To finance the taxes resulting from the option allocation, the Allreal Group has granted loans to individual members of the Group Management. As of September 30, 2003, the loan amount outstanding totaled CHF 0.2 million. Interest is payable on the loans at a rate of 3.0% p.a. and must be repaid upon the sale of the Registered Shares, but no later than September 30, 2004.

Compensation

The remuneration payable to the four members of the Board of Directors for the 2002 financial year amounted to CHF 0.3 million, and the highest total compensation for a member of the Board of Directors was CHF 0.1 million. In consideration of their activities in the 2002 financial year, the members of the Group Management received compensation in the amount of CHF 1.7 million. In the 2002 financial year, no options were allocated to the members of the Board of Directors and the Group Management.

Shareholdings and Option Rights

As of September 30, 2003, the members of the Board of Directors held 1 838 Registered Shares and 8 325 options to purchase Registered Shares; the members of the Group Management held 7520 Registered Shares, but no options to purchase Registered Shares (for details regarding the option scheme of the Allreal Group, see "Business Activities – Personnel").

Transactions with Related Parties/Potential Conflicts of Interest

Various shareholders including, but not limited to, the Core Shareholders Helvetia Patria Versicherungen (Patria Schweizerische Lebensversicherungs-Gesellschaft and Helvetia Beteiligungen AG) as well as Vontobel Beteiligungen AG or Bank Vontobel AG, have leased properties owned by the Allreal Group. As of September 30, 2003, the parties to the consortium agreement leased 3.7% of the entire rental space of the Allreal Group, which is equivalent to 6.4% of the entire rental income of the Allreal Group (annualized for 2003). Moreover, the Core Shareholder Helvetia Patria Versicherungen manages certain properties for and on behalf of the Allreal Group and is represented in the Board of Directors of the Company with one member. For the purposes of this Offering, Bank Vontobel AG is acting as one of the Managers and was lead manager in the Company's IPO in the year 2000; in addition, Bank Vontobel AG is acting as asset manager for certain assets of the Allreal pension fund. Privatbank IHAG Zürich AG, Zurich, a subsidiary of the Core Shareholder IHAG Holding AG, Zurich, has granted various loans and guarantees to the Allreal Group and is acting as market maker for and on behalf of the Company besides OZ Bankers AG, Pfäffikon. The Company has instructed Privatbank IHAG Zürich AG to discontinue its market making activities subject to further instructions.

The Allreal pension fund has extended to Allreal Generalunternehmung AG an interest-bearing loan in the amount of CHF 10.0 million, which is secured by a mortgage and may be called in for repayment at any time.

Ernst & Young AG is acting as auditors and group auditors (see "Allreal Group – The Company – Auditors and Group Auditors") and as valuation expert of the Company (see "Business Activities – Valuation Expert"). According to Ernst & Young AG, the teams assigned to audit the Company and to value its properties are separated in organizational, personal and functional terms and work on an operationally independent basis (Chinese walls). Auditors' fees invoiced in 2002 totaled CHF 0.2 million. The fee invoiced in 2002 for the annual real estate valuation was CHF 0.1 million. For supplementary consulting services rendered in connection with additions etc, a further CHF 0.2 million was charged.

The Allreal Group seeks legal advice from various law firms including, but not limited to, Meyer Lustenberger, in which Dr. Thomas Lustenberger, Chairman of the Board of Directors of the Company, is one of 11 partners. In the 2002 financial year, Meyer Lustenberger invoiced to the Allreal Group legal fees totaling CHF 0.1 million. As a rule, the Group Management makes the decision as to which external attorneys are to be retained without consulting the Board of Directors. Services rendered by Meyer Lustenberger in the context of this capital market transaction are not provided by Dr. Thomas Lustenberger himself.

The Group Management and the Board of Directors of the Company believe that all transactions with related parties were concluded at arm's length and would thus stand an independent third-party comparison. The Group Management and the Board of Directors are continuously monitoring potential conflicts of interest.

Capital Structure and Voting Rights

Share Capital and Share Capital Changes

Share Capital prior to the Offering

Prior to the Offering, the share capital of the Company amounts to CHF 325,241,100 and is divided into 6,504,822 fully paid-up Registered Shares.

Share Capital Changes

As of the end of 1999, the share capital of the Company amounted to CHF 143,968,700 and was divided into 2,879,374 Registered Shares.

By virtue of resolutions adopted by the shareholders' meeting and the Board of Directors on February 11, 2000, the share capital of the Company was increased to CHF 200,241,100 divided into 4,004,822 Registered Shares by way of an ordinary capital increase by issuing 1,125,448 Registered Shares. For the purposes of this capital increase, the Company declared its intention to give a maximum of CHF 84,408,600 to its wholly-owned subsidiaries Allreal Finanz AG, Allreal Office AG and Allreal Home AG by way of capital increases, which subsidiaries will use the funds so given to them to directly or indirectly purchase real estate or to invest in real estate companies in Switzerland (Art. 40 of the Articles of Association). The newly issued Registered Shares are subject to the transfer restrictions as provided for in Art. 6 of the Articles of Association.

Based on resolutions adopted by the shareholders' meeting on February 23, 2000 and the Board of Directors on March 2, 2000, respectively, the share capital of the Company was increased to CHF 325,241,100 divided into 6,504,822 Registered Shares by way of an ordinary capital increase by issuing 1,125,448 Registered Shares. The then existing shareholders waived their subscription rights. The Registered Shares were underwritten and placed in a public offering by a banking syndicate led by Bank Vontobel AG. The newly issued Registered Shares are subject to the transfer restrictions as provided for in Art. 6 of the Articles of Association.

Authorized Share Capital

By resolution of the shareholders' meeting of March 21, 2002 the Board of Directors was authorized to increase the share capital of the Company by a maximum of CHF 160,000,000 by issuing a maximum of 3,200,000 Registered Shares prior to March 21, 2004. This authorized share capital replaced the authorized capital in the amount of CHF 100,000,000 created by the shareholders' meeting on February 23, 2000, but which expired unused. Increases by way of underwriting as well as partial increases are permissible. The respective issue price, the date for entitlement to dividends and the type of contribution are determined by the Board of Directors. The Board of Directors is authorized to exclude the subscription rights of the shareholders and to allot such subscription rights to third parties in the event that the new Registered Shares are to be used for the purpose of (1) acquiring participations or real estate by way of a share swap, (2) financing or refinancing the acquisition of enterprises, divisions thereof, participations or new investment projects of the Company, or (3) issuing Registered Shares in the context of an international placement. Registered Shares subject to unexercised subscription rights are to be used in the best interest of the Company. The newly issued Registered Shares are subject to the transfer restrictions as provided for in Art. 6 of the Articles of Association.

Conditional Share Capital

By virtue of a resolution adopted by the shareholders' meeting on February 23, 2000, a conditional share capital of a maximum amount of CHF 10 000 000 was created by issuing a maximum of 200 000 Registered Shares; in this connection, the share capital is increased by exercising option rights granted to the employees and the members of the Board of Directors of the Company or of group companies in accordance with a stock option plan to be prepared by the Board of Directors. The newly issued Registered Shares are subject to the transfer restrictions as provided for in Art. 6 of the Articles of Association.

Share Capital Increase in Connection with the Offering

On November 14, 2003, based on the existing authorized share capital, the Board of Directors is expected to resolve to increase the share capital of the Company by a maximum amount of CHF 81 310 250 to a maximum amount of CHF 406 551 350 by issuing a maximum of 1 626 205 Registered Shares. The Offered Shares are offered to the existing shareholders in compliance with their subscription rights. Any Offered Shares that are not acquired by existing shareholders by way of exercising subscription rights are expected to be offered for sale by the Managers on a commission basis in the context of a public placement in Switzerland and a private placement with institutional investors in certain jurisdictions outside Switzerland (with the exception of the USA in particular). For the purposes of this capital increase, the Company will declare its intention to give a maximum amount of CHF 115.9 million to its subsidiaries by means of capital increases or loans, which subsidiaries will use the funds so given to them to directly or indirectly purchase real estate or to invest in real estate companies in Switzerland. The Offered Shares are subject to the transfer restrictions as provided for in Art. 6 of the Articles of Association. It is expected that the capital increase will be entered in the Commercial Register of the Canton of Zug on November 14, 2003. The authorized share capital will be reduced accordingly. Following the execution of the capital increase and to the extent that all subscription rights have been exercised, the share capital of the Company will amount to CHF 406 551 350 divided into 8 131 027 Registered Shares.

Certification of the Registered Shares

The Registered Shares of the Company are not certificated, but represented electronically in the book-entry system of SIS (Namenaktien mit aufgehobenem Titeldruck). While shareholders are not entitled to demand that registered share certificates are printed and delivered, they may at any time demand that the Company issues a confirmation of the Registered Shares held by them.

Transfer of Registered Shares

Registered Shares are transferred by way of an application for share registration with SIS and simultaneous entry in the books of a bank or custodian. Transfers of Registered Shares are subject to assignment thereof in writing by the selling shareholder and notification of the Company of such assignment. The Board of Directors may refuse buyers of Registered Shares as voting shareholders to the extent that the number of Registered Shares held by such buyers exceeds 5.0% of the total number of Registered Shares entered in the Commercial Register. Legal entities and partnerships with legal capacity which are combined in terms of capital or voting rights, by uniform direction or in a similar manner, as well as individuals or legal entities or partnerships which with a view to circumventing the registration restrictions act in a coordinated way, are considered one buyer with respect to this provision (Art. 6 of the Articles of Association). Pursuant to Swiss company law, the Company may also refuse to enter a shareholder in the share register if such shareholder fails to submit a declaration to the effect that he/she holds the Registered Shares in his/her own name and for his/her own account (Art. 685d para. 2 Swiss Code of Obligations). If the buyer's name is not entered in the share register, he/she cannot exercise his/her voting right in a shareholders' meeting; however, he/she is entitled to dividend payments and liquidation proceeds. Uncertificated Registered Shares may only be pledged under a written pledge agreement to the bank that administers the book entries of such Registered Shares for the account of the pledging shareholder.

The Company is responsible for keeping the share register and checking the evidence as to whether persons are eligible to acquire Registered Shares as owners or enjoy the beneficial use of Registered Shares. In relation to the Company, shareholders or beneficiaries are only recognized if they are entered in the share register. The Company recognizes only one entitled person per Registered Share. The share register is kept by SAG SIS Aktienregister AG, Olten, Switzerland.

Shareholders' Meeting

An ordinary shareholders' meeting must be held each year within six months after the end of the financial year of the Company (currently December 31). Shareholders' meetings can be convened by the Board of Directors or, if necessary, by the auditors. One or more shareholders who jointly represent at least 10.0% of the share capital have the right to demand the calling of a shareholders' meeting. One or more shareholders who jointly represent Registered Shares with a nominal value of at least CHF 1.0 million have the right to request that a specific issue be included in the agenda.

The shareholders' meeting must be called at least twenty days prior to the respective date of the meeting by publishing a notice in the Swiss Commercial Gazette (Schweizerisches Handelsamtsblatt). The shareholders listed in the share register can also be invited by letter. The notice must include the agenda items as well as the proposals of the Board of Directors and the shareholders who requested the shareholders' meeting or the inclusion of specific issues in the agenda.

Each Registered Share carries one vote in the shareholders' meeting. However, voting rights may only be exercised by shareholders listed in the share register. Neither the Articles of Association nor Swiss law require a certain percentage of shareholders to be present for the shareholders' meeting to be quorate. Each shareholder can be represented at the shareholders' meeting by a person duly authorized in writing, a company representative (Organvertreter), a specially designated independent shareholder representative (unabhängiger Stimmrechtsvertreter) or an authorized representative of the depositary bank (Depotvertreter). The representative has to follow the instructions of the shareholder on the exercise of the voting rights. Company representatives who are not given instructions vote in accordance with the proposals of the Board of Directors. Depositary bank representatives who wish to exercise the voting rights attached to the Registered Shares deposited with them are obligated to request specific instructions from the depositor prior to each shareholders' meeting. If the specific instructions of the depositor cannot be obtained in time, the depositary bank representative has to follow the general instructions of the depositor or, in the absence of such instructions, vote in accordance with the proposals of the Board of Directors. Instructions given by a shareholder to a representative are generally issued in writing.

Voting takes place on a show of hands unless the Chairman rules otherwise, or the shareholders jointly representing at least 5.0% of the represented Registered Shares demand a secret ballot.

In principle, the shareholders' meeting passes its resolutions and holds its elections by a simple majority of the votes validly cast; abstentions are not counted as votes validly cast. These resolutions include in particular any amendments to the Articles of Association, the election of the members of the Board of Directors and the auditors, the approval of the annual financial statements and the consolidated financial statements, the declaration of the annual dividend, the discharge of the members of the Board of Directors and the Group Management in respect of all matters disclosed to the shareholders' meeting as well as the appointment of a special auditor (Sonderprüfer). Pursuant to the Articles of Association and Swiss company law, certain important decisions require a qualified majority of both two-thirds of the represented votes and the absolute majority of the nominal value of the represented Registered Shares ("Qualified Majority"). A Qualified Majority is required for the following matters: (i) any modifications to the purpose of the Company; (ii) the creation of shares with privileged voting rights; (iii) any restrictions of the transfer of Registered Shares or any removal of such restrictions; (iv) the creation of authorized or conditional share capital; (v) any increase in the share capital of the Company by was of capitalization of reserves (Kapitalerhöhung aus Eigenkapital), against contributions in kind (Sacheinlage), for the acquisition of assets (Sachübernahme) or involving the granting of special privileges or benefits; (vi) the restriction or exclusion of shareholders' subscription rights; (vii) the relocation of the registered office of the Company, or (viii) the dissolution of the Company other than by liquidation (eg by way of a merger). The introduction or abolition of any provision in the Articles of Association providing for a majority greater than that required by law must be resolved in accordance with such greater majority.

Dividend Rights

In accordance with the Articles of Association and Swiss company law, at least 5.0% of the Company's net profit for the year must be allocated to the general reserves until such reserves amount to 20.0% of the paid-up share capital of the Company. Any balance sheet profit remaining after this retention may be distributed as dividends. The shareholders' meeting decides on the distribution of a dividend upon the proposal of the Board of Directors. The auditors must confirm that the dividend proposed by the Board of Directors is in conformity with applicable law and the Articles of Association.

Dividends are generally due and payable no earlier than the third day after the shareholders' meeting approving the dividend payment. The statute of limitations with respect to claims for dividend payments is five years. For information about withholding tax deductions, see "Taxation – Taxation of the Company – Withholding Tax on Dividends and Similar Distributions".

Liquidation Rights

The duration of the Company is unlimited under its Articles of Association. However, the shareholders' meeting can resolve the dissolution of the Company at any time by a Qualified Majority. Under Swiss company law, any liquidation proceeds have to be distributed to the shareholders in proportion to the paid-up nominal value of their Registered Shares after all creditor claims have been satisfied. For information about withholding tax deductions, see "Taxation – Taxation of the Company – Withholding Tax on Dividends and Similar Distributions".

Subscription Rights

Under Swiss company law, the subscription rights of the existing shareholders must, in principle, be safeguarded when issuing new shares. Existing shareholders are entitled to subscription rights to subscribe to any newly issued Registered Shares in proportion to the nominal value of the Registered Shares held by them. The subscription rights of the existing shareholders may, however, be restricted or excluded for certain important reasons by virtue of a shareholders' resolution adopted by a Qualified Majority. The present Offering is made in compliance with the subscription rights of the existing shareholders. See "Summary – The Offering".

Repurchase of Registered Shares

Swiss company law limits the number of treasury shares that a stock corporation may hold or repurchase. The Company and its Swiss subsidiaries may only purchase Registered Shares if its freely disposable equity is at least equal to the amount of funds necessary to acquire the Registered Shares and if the aggregate nominal value of such Registered Shares does not exceed 10.0% of the nominal share capital of the Company. While Registered Shares repurchased by the Company do not carry any voting rights at shareholders' meetings, they entitle their holder to all financial benefits resulting from them. In addition, the Company is obligated to set up a special reserve in an amount equivalent to the purchase price of the repurchased Registered Shares. As of October 31, 2003, the Company held 26105 own Registered Shares.

As of September 30, 2003, the Company has outstanding put options which, at the request of the counterparty, may be exercised on a staggered basis until July 31, 2007; under such put options, the Company might be obligated to purchase a maximum of 90,000 Registered Shares at a price of 90.0% of the price quoted at the close of the SWX on the exercise date, but at no less than CHF 75.

Disclosure of Material Shareholdings

Anyone who directly, indirectly or in concert with any third parties acquires or sells for his/her own account Registered Shares and thereby attains and/or exceeds the threshold percentages of 5, 10, 20, 33 1/3 or 66 2/3% of the voting rights, whether exercisable or not, is obligated to notify the Company and the SWX according to the Swiss Federal Stock Exchange and Securities Trading Act of March 24, 1995. Furthermore, pursuant to Swiss company law, companies admitted to stock exchange trading in Switzerland are obligated to identify in the notes to the annual financial statements all of its shareholders holding more than 5.0% of the voting rights of the Company.

As of September 30, 2003, the following shareholders listed in the share register of or reported to the Company held more than 5.0% of the voting rights of the Company:

Shareholder	Registered Office	Address	Number of Registered Shares	As of September 30, 2003 voting rights
Helvetia Patria Versicherungen (Patria Schweizerische Lebensversicherungs-Gesellschaft und Helvetia Beteiligungen AG)	Basle/ St. Gallen	St. Alban-Anlage 26, 4002 Basle und Dufourstrasse 40, 9001 St. Gallen	1 055 334	16.2%
Pensionskasse der Oerlikon-Contraves AG	Zürich	Birchstrasse 155, 8050 Zurich	765 000	11.8%
Basellandschaftliche Pensionskasse	Liestal	Arisdörferstrasse 2, 4410 Liestal	641 067	9.9%
Vontobel Holding AG (indirectly through Vontobel Beteiligungen AG and Personalfürsorgestiftung of Bank Vontobel AG)	Zürich	Bahnhofstrasse 3, Postfach, 8022 Zurich	598 000	9.2%

It cannot be ruled out that other shareholders, either directly, indirectly or in concert with any third parties, control more than 5.0% of the voting rights of the Company without having informed the Company thereof.

The aforementioned four shareholders jointly entered into a consortium agreement with IHAG Holding AG, Bleicherweg 18, 8002 Zurich, Hans Imholz, Aussichtsstrasse 12, 8704 Herrliberg, Innomag AG, Via Lieptgas, 7018 Flims Waldhaus, SUVA Schweiz. Unfallversicherungsanstalt, Fluhmattstrasse 16, 8027 Zurich, and PKE-Vorsorgestiftung Energie, Freigutstrasse 16, 8027 Zurich. As of September 30, 2003, the Core Shareholders held 3 777 318 Registered Shares, which is equivalent to a voting right percentage of 58.1% in the share capital of the Company, with a total of 3 317 500 Registered Shares, or 51.0%, of the share capital being subjected to the consortium agreement as blocked shares. Blocked shares are subject to certain preemptive rights granted in favour of the Core Shareholders and may only be sold to a third party if such party does not qualify as "non-resident" as defined in the Swiss Federal Law on the Acquisition of Real Estate by Non-Residents of December 16, 1983 (Lex Koller) and if such party joins the consortium agreement in proportion to the number of blocked shares purchased by it. In total, at least 51.0% of the share capital of the Company must be subjected to the consortium agreement as blocked shares. As it is the sole purpose of the consortium agreement to ensure that the Company is under Swiss control, the Core Shareholders are not obligated to exercise their voting rights in a prescribed manner except as with regard to the implementation of the consortium agreement.

Opting Out: No Obligation to Submit an Offer

Pursuant to Art. 7 of the Articles of Association, the Company has opted out of the statutory obligation to submit an offer in accordance with Art. 32 of the Swiss Federal Stock Exchange and Securities Trading Act of March 24, 1995. This is due to provisions contained in the Swiss Federal Law on the Acquisition of Real Estate by Non-Residents of December 16, 1983. Under the aforementioned law, it had to be ensured that 51.0% of the Registered Shares are held by persons who do not qualify as non-residents.

Tenancy Law in Switzerland

Overview

Swiss Tenancy Law for residential and commercial property is governed by Art. 253 ff. of the Swiss Code of Obligations ("CO") and the Ordinance on Tenancy for Residential and Commercial Property. With regard to restrictions on rents, rent increases and terminations of rental agreements, Swiss law affords substantial protection to tenants.

Rental agreements are generally recorded in writing although there is no legal requirement to do so. It is customary practice to rely on standard rental agreements, such as those distributed by professional bodies such as the Swiss Association of Tenants or the Swiss Association of Houseowners. The parties to a rental agreement may agree to have it recorded in the land register. When a rental agreement has been registered, any subsequent owner of the property is required to give effect to that agreement notwithstanding the fact that it restricts the owner's own use of the property.

Tenants are considered to be in possession of the residential and commercial property and therefore have a right to claim the rules protecting the possessor laid down in the Swiss Civil Code ("CC"). Thus, they can fend off bothersome/interfering immissions (noise, odors) in an adequate manner and banish unauthorized persons from their premises.

Rent for residential and commercial property is usually against payment and may either be concluded for an indefinite or a fixed term between the landlord and the tenant.

Rent/Operating Expenses

The tenant owes the landlord a rent for the use of the rented property. With regard to the fixing and the adjustment of the rent there are special legal restrictions imposed by Swiss Law.

Swiss Tenancy Law introduced the principle of "unfair rent", which limits the landlord's freedom in determining the initial rent and subsequently in increasing the rent to reflect any change in circumstances. Rents are viewed as abusive and unfair, if a landlord makes an excessive profit on the rental of the leased property or if the validly calculated rent results from an obviously increased rent or if the rent exceeds those rents which are common in that particular region or residential quarters.

Rents are not considered as "unfair" if an increase of the costs or added services by the landlord is justified or if the rent is within the scope of those rents that are common in that particular region or residential quarter. An example for an increase of costs is the rise of mortgage rates, charges, building rates, insurance premium and maintenance costs. Added services contain investments for value adding improvements, enlargement of the leased object and additional services. Furthermore, adjustments of the rent due to a balance of the price rise on risk capital are not abusive. However, the rent may only be increased up to 40% (maximum) of the increase in the Swiss Consumer Price Index (CPI) issued monthly by the Federal Office of Statistics. Regarding newer buildings the rents may be within the scope of the cost-covering gross rate of return. If the net yield does not exceed the average interest rates for first mortgages of the large Swiss banks by more than half a per cent, the profit resulting form it is considered to be fair and is therefore not abusive.

Certain operating expenses relating to the use of the leased property have to be paid separately by the tenant, to the extent he or she has specifically agreed to with the landlord. They include, but are not restricted to, heating, hot water and other operating costs (ie garbage removal, charges for waste water facilities, operation and servicing of lifts, etc) as well as public charges. However, certain overhead expenses, such as repair and modernization of the heating system and the hot water reprocessing plant as well as their interest rate and deduction may never be passed on to the tenant. If requested by the tenant, the landlord is required to provide the tenant with an opportunity to inspect the original documentary evidence of the operating expenses actually incurred since the required operating expenses may not exceed the actually incurred expenses.

Adjustments of Rent

A landlord has the right to increase rents due to an increase of costs or added services at any time on the next possible termination period.

An indexation of the rent which is common practice with rental agreements of commercial property is valid if the rental agreement has been concluded for a fixed term (at least five years) and if the adjustments are in line with movements in the Swiss Consumer Price Index.

In order to protect the landlord's investment from any adverse effect by inflation and if the rental agreement has been concluded for a fixed term, the rent may be increased during the term only when the parties have so agreed and by one of two methods, depending on the period of the term. For terms of five years or more, the rent may be adjusted in line with movements in the Swiss CPI and for terms of three years, the rent may be adjusted incrementally, as and if previously determined in the rental agreement.

A landlord must inform the tenant about any rent increase at least 10 days before the applicable notice period using a special form (approved by the canton). Any rent increase has to be justified. The formal requirements, which also apply to the indexed und periodic increases, are very strict and a failure to comply with these requirements leads to voidness of the rent increase.

A tenant has a right to challenge the initial rent, an increased rent or the notice of termination.

Termination of Rental Agreements

Rental agreements with a fixed term end with the expiration of such term without the need for a notice of termination.

Rental agreements without a fixed term may be terminated by giving notice within the applicable notice period. The law prescribes different minimum notice periods for different types of rented properties: (i) six months for commercial properties; (ii) three months for residential properties and (iii) two weeks for furnished rooms, separately leased garage spaces or similar properties. These notice periods may be extended but not shortened. If the parties do not comply with the notice periods or notice dates, the notice is effective on the next possible date.

The existence of a profound breach of duty by a party may lead to a summary dismissal of the rental agreement regardless whether it was concluded for a fixed or unfixed term.

If there is a violation of the principle of utmost good faith, a tenant may challenge a notice of termination served by the landlord up to 30 days after its receipt. The Swiss CO contains a non-exclusive list of challenge grounds, ie if the termination is based on titles which the tenant has against the landlord resulting from the rental agreement or if the landlord changes the rental agreement to the detriment of the tenant or if the landlord enforces a rent adjustment by notice of termination.

If the tenant and his or her family suffers material hardship as a result of the termination, which is not justified by the interests of the landlord, the tenant has the right to request an extension of the rental agreement within 30 days following receipt of the notice of termination. In case of commercial property the competent authority may grant extension of the rental agreement for up to six years. Fixed-term rental agreements extensions are possible in general but are in fact very rare.

Property Law

General

Ownership is the most comprehensive legal title with respect to real property. It gives the owner the right to use real property, the right to dispose of it and the right to fend any wrongful action. As a right of domain it is absolute and applies to everybody (erga omnes). Ownership of land stretches upwards and downwards from the airspace to the ground, as long as there is an interest in the use of the property. Under the reserve of legal limits, it covers all buildings and plants as well as springs. The borders are indicated by the cadastral register and the boundaries of the real estate itself.

Ownership of real property is usually established through the execution of a public deed and subsequent registration in the appropriate public land register. The deed must be notarized and must contain all of the essential elements of the transaction, including without limitation, the identity of the contracting parties, a description of the property being transferred, the purchase price and all other material terms.

Real property can be held in the form of individual ownership, joint ownership or co-ownership. Joint ownership is based on any underlying community relationship either by operation of law or by contract, such as marriage or inheritance, whereas co-ownership is based on an express or implied agreement of the co-owners without an underlying community relationship. Each co-owner owns a share of the real property that can be sold or pledged and can be seized by his or her creditors. Under joint ownership, however, each of the owners has the right of ownership in the whole real property and the ownership rights, such as the right to sell and pledge, cannot be exercised over the common property except with the consent of all the joint owners.

Restrictions on Real Property

The right of property cannot be exercised without limitation. There are legal barriers in private and public law. Under private law the limitation on ownership deals with neighborhood affairs. For example, the property owner must refrain from actions which have a massive impact on the property of the neighbor. Every property owner has to refrain from causing harmful, unjustified actions through smoke, soot, noise or vibration. Aside from the private law barriers, there are numerous public law restrictions. Furthermore, restraints on disposal of the real estate can be agreed upon at the detriment of the owner of real estate or even stipulated by law.

Limited Rights in Rem

In contrast to ownership, the limited rights in rem grant the entitled party only a limited power. As regards real property, Swiss law mainly provides for three different types of limited rights in rem: (i) property liens; (ii) servitudes and (iii) ground leases. Due to the lack of practical relevance of ground leases, we will refrain from describing it.

Property Liens

Property Liens are limited rights in rem. Its purpose is to ensure a certain claim with the value of a real property and it bestows the right to the creditor to obtain the proceeds from the sale of the real property if the claim is not amortized/redeemed at the agreed time. Property liens may arise either by law or by contract. The contractual property lien is established by registration in the appropriate land register based upon a notarized agreement between the creditor and the estate owner. However, the estate owner can register a property lien on his or her request without concluding a mortgage agreement.

Property liens which come into existence by law do not require a mortgage agreement.

Under Swiss law, there are three main types of property liens: (i) the mortgage assignment, which serves as collateral for a loan, (ii) the land charge certificate, which sets forth the value of a real property, and (iii) the mortgage note, which serves both purposes. The land charge certificate and the mortgage note, but not the mortgage assignment, are defined as securities within the meaning of the CO. The existence of property liens will be registered in the Land Register.

Easements and Servitudes

A servitude is a burden imposed on real property for the benefit of another real property, requiring the owner of a servient real property to accept certain acts of interference by the owner of the dominant real property. A difference is made between personal easement and servitude. In the case of a personal easement the right on the entire real property belongs to a natural person or legal entity, while the servitude promotes a special parcel of land. A servitude is either established by law or by written contract. For example, the Swiss Civil Code, imposes the duty on every property owner to allow the conveyance of fresh and waste water, gas and electricity. If the servitude is in form of a written agreement, it must be registered in the file of the relevant property in the land register. The loss or termination of a servitude results from cancellation of the respective entry in the land register, as well as from the complete loss of the burdened or entitled property.

Lex Koller

The acquisition of real estate by foreigners is subject to an authorization issued by the body designated by the respective canton; an authorization is not necessary if the real estate is used for commercial purposes. All details on the acquisition of real estate by foreigners are regulated in the Federal Statute on Acquisition of Real Property by Non-Residents (Lex Koller), which came into force on December 16, 1983. Each Canton has jurisdiction of real properties located therein. The body designated by the respective Canton decides on the issue of authorization duty of a legal transaction and grants the authorization. An authorization will only be issued according to the reasons defined in the Lex Koller.

If it is uncertain whether an authorization is necessary, a request must be submitted to the competent authority designated by the Canton asking it to establish that authorization is not required. In the case of an obligatory authorization, the required registration in the land register and the acquisition of the real estate must not be executed without a valid authorization.

Although the law is generally interpreted as to allow for foreign acquisitions of commercial property if only a small proportion of such property is used for residential purposes. There is no definitive interpretation as to exactly what percentage of property used for residential purposes may be included in an acquisition of real property by a non-resident foreigner without violating Swiss law.

Lex Koller provides for sanctions under Swiss law. Any authorization granted on the basis of false or incomplete claims or when the purchase fails to comply with necessary conditions shall be revoked; all transactions relating to the acquired property are null and void. Unlawful acquisitions made in violation of the provisions of the applicable statute are void and may lead to confiscation of the property.

Zoning

Swiss law provides for detailed regulations on the procedures and circumstances under which land can be developed. The Federal Zoning Statute defines the competences on federal, cantonal and municipal level to ensure a resourceful use of the land and a well-structured settlement policy. Among the key principles included in this statute are the conservative utilization of the land and the limitation of an expansion of housing development areas.

In the context of cantonal planning, the zoning activities are generally coordinated and harmonized. The utilization planning is based on the cantonal zoning law and lays down the utilization of the land for everybody. A binding separation between a building zone and a non-building zone is made and the possibilities of use are laid down in the utilization or zoning plans. A further distinction is made between building, agricultural and protection zones. Construction activities are generally only allowed in construction zones and are subject to authorization by the body designated by the respective Canton. With the exception of some area-bound buildings, it is a necessary requirement in order to obtain a construction permit that buildings and facilities are in accordance with the purpose of the utilization plan and that the land is already developed as well as suitable and necessary for building activities.

Building Law

In the context of public building law, the Swiss authorities at federal, cantonal and municipal level are provided with regulatory competences. As it is the case of detailed zoning regulations, the actual building regulations are enacted by the Cantons and applied by local building authorities. This has resulted in 26 different cantonal zoning statutes. The building law rules at federal level, which are supplemented by the cantonal statutes, only focus on selected aspects and may be found in different laws such as the Federal Zoning Statute and the Federal Statute on Environment Protection as well as in the accompanying Ordinances. The municipal building law is also of importance. It is enacted by the municipality based on its right of municipal autonomy.

The freedom to build, which is derived from the right of freedom of having property and other constitutional rights, is restricted by rules of public building law. The public building law contains on the one hand, material construction rules, especially those about basic requirements of buildings and facilities, as well as admissible utilizations of land, and on the other hand formal rules which regulate the constructional procedures.

Environment

The jurisdiction to enact environmental laws and regulations is split between the cantons and the federal authorities. The execution of the laws is mainly observed by the cantons. The key statute within the body of environmental laws is the Federal Statute on Environmental Protection, which was enacted in 1983. This statute contains the following key concepts of Swiss environmental law: (i) the principal of prevention; (ii) the principal of sustainability; (iii) the polluter-pays principle; (iv) the principle of cooperation and (v) the principle of coordination.

According to the principle of prevention, early preventative measures must be taken at the source of the pollution to limit effects, which can become harmful or troublesome. Closely linked to the principle of prevention is the principle of sustainability, which demands while using resources nature's power of regeneration should be taken into consideration. According to the polluter-pays principle, the polluter must pay the costs of measures taken pursuant to the law on the protection of the environment. According to the principle of cooperation, authorities and private parties must work together towards the goal of protecting the environment. Ultimately, the principle of coordination plays an important role in procedural law.

Contaminated Sites

If the soil of a real estate is contaminated, the Federal Statute on Environmental Protection declares that place a contaminated site. All sites contaminated by waste have to be cleaned up if they cause harmful or disagreeable effects or if there is a concrete risk, that such effects will occur. The polluter of the contaminated sites must pay the costs of the clean up. If several polluters or real property owners are involved, the restoration costs are allocated according to the individual responsibilities. The owner of a contaminated site is only liable for costs incurred if it cannot be proved that: (i) even if exercising due diligence he or she could not have been aware of the contamination, (ii) he or she did not benefit from the contamination and (iii) he or she does not benefit from restoration/the clean up.

The Federal Statute on Environmental Protection requires the cantons to compile a register of potentially contaminated sites, which is open to the public for inspections. Thus, it should be ensured that in future cases of use of those contaminated sites the access to the relevant information is provided.

Placement Agreement

The Company entered into a placement agreement (the "Placement Agreement") with the Managers on October 31, 2003 for the handling of the Rights Offering and the placement of the Shares to be Placed on a commission basis. The Managers have undertaken to settle the Rights Offering. With respect to the Placement, the Managers are expected to offer for sale on November 14, 2003 the Shares to be Placed on a commission basis using the book-building method by way of a public placement in Switzerland and a private placement with institutional investors in certain foreign countries (with the exception of the USA in particular). Further, the Lead Manager has undertaken to perform the following acts in the name of the Managers pursuant to the provisions of the Placement Agreement probably on November 14, 2003: subscribe to at the Subscription Price and pay for (i) the Offered Shares subscribed to under the Rights Offering on behalf of the holders of subscription rights and (ii) the Shares to be Placed sold in the placement process and to transfer to the Company by the Delivery Date any possible difference between the Placement Price and the Subscription Price.

The Placement Agreement provides that the Company indemnifies the Managers against certain obligations to the extent these did not act grossly negligent or willfully. The Lead Manager can terminate the Placement Agreement in the name of the Managers under certain circumstances.

Block Trade

With a view to the requirements of the consortium agreement (see "Capital Structure and Voting Rights – Disclosure of Material Shareholdings") the Board of Directors intends to organize a so-called block trade for the subscription rights of the Core Shareholders. It is planned that all subscription rights of the Core Shareholders that these do not intend to exercise will, in accordance with the preemptive rights provisions of the consortium agreement, be offered for purchase firstly to the Core Shareholders willing to buy and then to the New Investor. The New Investor is expected to be willing to accede to the consortium agreement and subject a material part of its Registered Shares to be purchased to the consortium agreement as blocked shares. In addition, the Board of Directors intends to sell the subscription rights attached to its treasury shares (see "Capital Structure and Voting Rights – Repurchase of Registered Shares") also by way of the block trade procedure mentioned above. The block trade is anticipated to be executed on the morning of November 5, 2003 and reported as off-floor trading according to the rules of the SWX.

Lock-up

The Company has undertaken in the Placement Agreement not to issue, sell or offer either directly or indirectly Registered Shares, subscription rights or rights that may be converted into Registered Shares or perform any other legal transactions with a comparable economic effect or announce a respective intent without the consent of the Lead Manager for a period of six months following the Delivery Date. During this period, the Company may not, without the corresponding consent of the Lead Manager, submit to the shareholders' meeting a proposal for an ordinary capital increase or the creation of authorized or conditional share capital. Permitted are, however, the granting of options and the delivery of treasury shares or issue new shares from the conditional share capital to the members of the Board of Directors or employees in accordance with stock option plans or participation schemes and capital increases (i) as required under mandatory Swiss law or (ii) by way of contributions in kind, acquisitions of assets or intended acquisitions of assets to the extent the new shares are subscribed to by the parties from which the Company is assuming assets and those shares are locked for a period of 6 months following the Delivery Date.

Stabilization

In connection with the Offering the Lead Manager or one of its affiliates or a person authorized by the Lead Manager can perform transactions in accordance with applicable statutory provisions that stabilize or maintain the market price of the Registered Shares at levels which might not otherwise prevail in the open market. Such transactions include sales which lead to a short position of the Managers and purchases of Registered Shares after completion of the Offering to cover short positions. Such transactions may be effected on the SWX, in off-exchange trading or in another way. Stabilization measures can be discontinued at any time and without prior notice and will be discontinued in any case 30 days after the Delivery Date.

Sales Restrictions

Sales Restrictions in General

Each Manager has agreed to comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Registered Shares and/or subscription rights or has in its possession or distributes this Offering Circular or any such other material, in all cases at its own expense. Each Manager also has agreed to ensure that no obligations are imposed on the Company in any such jurisdiction as a result of any of the foregoing actions. The Company will have no responsibility for, and each Manager has agreed to obtain any consent, approval, or permission required by it for the acquisition, offer, sale or delivery by it of the Registered Shares and/or subscription rights under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. No Manager is authorized to make any representation or use any information in connection with the issue and sale of Registered Shares and/or subscription rights other than as contained in this Offering Circular or any amendment or supplement to it.

Whenever the context so requires, the Company has agreed to adhere to, and be bound by, any of the sales restrictions mentioned in this section "Sales Restrictions" with regard to an offer or sale of Registered Shares and/or subscription rights made by it.

United States of America

Neither the Registered Shares nor subscription rights will be registered under the Securities Act and they may not be offered or sold in the United States or to, or for the account or benefit of, a U.S. person (as defined in Regulation S) except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements thereof. Accordingly, the Manager have represented and agreed that they will not offer or sell Offered Shares and/or subscription rights at any time other than outside the United States in accordance with Rule 903 of Regulation S.

The Offering is not being made in the United States and offering materials with respect to the offering may not be distributed in or sent to the United States. The rights described herein may be exercised only outside the United States.

United Kingdom

Neither the Offered Shares nor subscription rights may be offered or sold to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. The offering documents may be distributed in the United Kingdom only to and are directed at (a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(1) of the Order.

The Netherlands

In the Netherlands, the Offered Shares and the subscription rights may be offered, sold, delivered or transferred solely to individuals or legal entities which trade or invest in securities in the conduct of a profession (including banks, investment banks, securities firms, insurance companies, pension funds or other institutional investors as well as treasury departments and finance companies of large enterprises).

Taxation

The following statements contain an overview regarding the taxation of the Company in general as well as Swiss tax implications resulting from this Offering. The following statements are based upon current law and administrative practice. Modifications of the applicable legal regulations may necessitate a reevaluation of the tax consequences. The summary below is not a substitute for legal and tax advice sought by interested parties. Prospective investors should seek the advice of their tax advisers to clarify any tax implications resulting from an investment in the Registered Shares and/or subscription rights.

Taxation of the Company

Taxation of Capital Increases

The issuance of the Offered Shares is subject to a stamp tax on the issuance of securities of 1.0%. The Company will bear any stamp tax arising in connection with this Offering.

Current Taxation

For Swiss federal tax purposes, the Company is subject to regular taxation with the benefit of the so-called "participation reduction" (Beteiligungsermässigung) which is granted for all dividend income from qualified participations (ie participations of at least 20.0% or with a market value of at least CHF 2.0 million) and for capital gains on the sale of participations of at least 20.0% which have been held for more than one year and were bought after December 31, 1996. The Tax Administration of the Canton of Zug granted the Company the status of a holding company. Thus, the Company is exempt from regular cantonal and communal income taxes and is subject merely to reduced annual capital taxes. The subsidiaries are subject to direct federal taxes and cantonal/communal income taxes and capital taxes. Property located in cantons other than the canton in which the registered office is located constitutes a special tax domicile. Any profits attributable for Swiss tax purposes to the foreign permanent establishments of Allreal Finanz AG are exempt from income taxation in Switzerland.

Withholding Tax on Dividends and Similar Distributions

Dividends and other distributions that the Company makes to its shareholders from the reserves (including any liquidation proceeds exceeding the nominal value of the Registered Shares and stock dividends) are subject to Swiss federal withholding tax at the rate of 35.0%. The Company is required to transfer these withholding taxes to the Federal Tax Administration (Eidgenössische Steuerverwaltung). Shareholders residing in Switzerland are reimbursed in full for withholding tax payments as part of the regular tax return procedure. Withholding tax is refunded either in whole or in part to non-resident shareholders according to the applicable double taxation treaty in force between Switzerland and the state of residence of the respective shareholders if and to the extent such shareholders are entitled to a refund under such double taxation treaty.

As of September 30, 2003, double taxation treaties are in force between Switzerland and the countries set out below:

Albania	Greece	Macedonia	Singapore
Australia	Hungary	Malaysia	Slovak Republic
Austria	Iceland	Mexico	Slovenia
Belgium	India	Moldavia	South Africa
Belorussia	Indonesia	Mongolia	South Korea
Bulgaria	Ireland	Morocco	Spain
Canada	Italy	Netherlands	Sri Lanka
Croatia	Ivory Coast	New Zealand	Sweden
Czech Republic	Jamaica	Norway	Thailand
Denmark	Japan	Pakistan	Trinidad and Tobago
Ecuador	Kazakhstan	People's Republic of China	Tunisia
Egypt	Kirghizia	Philippines	Ukraine
Finland	Kuwait	Poland	United States
France	Latvia	Portugal	Uzbekistan
Germany	Lithuania	Romania	Venezuela
Great Britain	Luxembourg	Russian Federation	Vietnam

In addition, negotiations on double taxation treaties were completed with the following countries: Argentina, Armenia, Estonia, Georgia, Iran and Israel.

Real Estate Capital Gains Tax and Transfer Tax

Capital gains from the sale of property are subject to income tax at the level of the direct federal tax and at the cantonal level, depending on the respective cantonal tax system, to capital gains tax or income tax. In addition, a transfer tax of approximately 1.0% to 3.0% (depending on the canton or municipality) must be paid on the market value of the property.

Deferred Taxes

According to International Financial Reporting Standards (IFRS), property must be recorded in the balance sheet at its market value; therefore, as a consequence of revaluations, the deferred taxes (income and real estate capital gains tax) are included in the consolidated financial statements of the Company for example.

Certain cantons, eg Zurich, Berne, Basle-City, Schwyz and Ticino, levy a separate real property gains tax on property. In the Canton of Zurich, the tax rate generally is 40.0% at maximum. However, if the property is held only for a short period of time, ie less than one year, the tax rate is 60.0%. In case of a longer holding period, a maximum reduction of 50.0% is granted. For this reason, the deferred real property gains taxes should decrease as the holding period of the property increases. If property is sold, the real property gains tax or income tax is actually levied.

Taxation of Shareholders subject to Taxation in Switzerland

Income Tax on Dividends

Any dividends distributed by the Company to shareholders resident in Switzerland are subject to income tax. Any dividends distributed by the Company to shareholders subject to limited taxation in Switzerland can also be subject to income tax. Withholding taxes are fully refunded or credited to any shareholder resident in Switzerland as part of the regular tax return procedure. Withholding taxes can be fully refunded or credited to any shareholder subject to limited taxation in Switzerland as part of the regular tax return procedure. Corporations and cooperative societies can apply for the participation reduction on certain conditions.

Capital Gains Tax on Disposal of Registered Shares

A Swiss resident holding Registered Shares as part of his private assets will generally not be subject to any taxes on gains realized through a disposal of these Registered Shares. However, tax consequences may result for commercial securities dealers (gewerbsmässige Wertschriftenhändler) or in special cases where Registered Shares are transferred from private to business assets (Transponierungs- und Teilliquidationsfälle). Any capital gains realized by the sale of registered shares held as business assets are subject to Swiss federal income taxes as well as cantonal and communal income taxes. Corporations and cooperative societies can apply for the participation reduction on certain conditions.

Wealth Tax/Capital Tax

Shareholders resident in Switzerland generally are subject to a wealth/capital tax with respect to their Registered Shares at their Swiss place of residence/domicile.

Securities Transfer Tax and Swiss Stock Exchange Charge on Transfer of Securities

Whereas the issuance of the Offered Shares is not subject to Swiss securities transfer tax (Umsatzabgabe), the sale of Registered Shares, whether by a Swiss resident holder or a non-resident holder, is subject to the securities transfer tax of 0.15% of the sales proceeds if a party to the sale or an intermediary is a securities dealer as defined in the Swiss Federal Stamp Act of June 27, 1973. Since January 1, 2001, the following categories of foreign institutional investors being subject to regulation similar to that imposed by the Swiss federal supervisory authorities are exempt from the securities transfer tax: states and central banks, investment funds, social security institutions, pension funds and life insurance companies. In addition, Swiss investment funds as defined in the Swiss Federal Act on Investment Funds of March 18, 1994 are also exempt from the securities transfer tax. Furthermore, the sale of Registered Shares through a stock exchange is subject to the Swiss Stock Exchange charge (including a supplementary Federal Banking Commission surcharge) of up to 0.02% of the sales proceeds.

Real Estate Capital Gains Tax and Transfer Tax

In most cantons, the sale of Registered Shares does not constitute a so-called economic transfer of ownership (wirtschaftliche Handänderung) subject to real estate capital gains tax or transfer tax unless a majority of the Registered Shares is being sold or a coordinated sale by several minority shareholders together constituting a majority takes place. The sale of Registered Shares thus generally does not trigger real estate capital gains tax or transfer tax.

However, the Cantons of Wallis and Waadt consider the sale of individual Registered Shares as a change of ownership of the property to the extent the company holds property in the respective Canton. The Allreal Group currently neither holds any property in the Cantons of Wallis and Waadt nor does it intend to acquire property in these Cantons in the future. The value of the property located in the respective Canton in relation to the total value of the real estate of the company serves, among others, as a basis for the calculation of taxes on the increase in value. Consequently, the risk of having possible sales proceeds taxed as a change of ownership at the level of the shareholders exists with respect to real estate located in the Cantons of Wallis and Waadt.

Taxation of Shareholders not subject to Taxation in Switzerland

Shareholders resident abroad may receive a full or partial refund of withholding taxes on the basis of double taxation treaties existing between Switzerland and their countries of residence if and to the extent such shareholders are entitled to a refund under such double taxation treaty.

It cannot be excluded that the buyers of Offered Shares who reside in countries outside of Switzerland, in addition to the Subscription or Placement Price, must pay stamp taxes and other charges pursuant to the statutory provisions of and prevailing practice in their respective country.

Taxation with respect to Subscription Rights

The Offering and the allotment of rights to subscribe to the Offered Shares are subject neither to withholding tax nor to income tax. The sale of subscription rights triggers neither withholding tax nor securities transfer tax; however, it may be subject to income tax. The tax consequences for sellers of subscription rights subject to taxation in Switzerland correspond to the tax implications for the sale of Registered Shares (see “Taxation – Taxation of Shareholders subject to Taxation in Switzerland – Capital Gains Tax on Disposal of Registered Shares”). Gains from the sale of subscription rights by sellers not subject to Swiss taxation are not subject to capital gains tax.

Index to Financial Reporting

Experts' Valuation Report

Allreal Holding AG
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6304 Baar

UBS AG
Acting through its UBS Investment Bank division
Bahnhofstrasse 45
8001 Zurich

Vontobel Bank AG
Banhhofstrasse 3
8022 Zurich

Instructions

A valuation of the Allreal Group's investment property was carried out by Ernst & Young AG, Real Estate as of September 30, 2003, upon the instructions of Allreal Holding AG for publication in the offer and listing prospectus of October 31, 2003, in connection with a capital increase. The valuation covers 21 residential properties and 41 commercial buildings.

Valuation principles

Ernst & Young AG, Real Estate, confirm that the valuation was carried out in accordance with the guidelines and implementation regulations published by the Royal Institute of Chartered Surveyors (RICS). The valuation base reflects the assessment of market values at 30 September 2003. In accordance with IVSC (International Valuation Standards Committee) and TEGOVA (The European Group of Valuers' Association) the market value is taken as that assessed amount for which a real estate asset on the day of assessment could change hands between a seller wishing to sell and a buyer wishing to buy following an appropriate marketing period and as an ordinary business transaction; each party acts with proficiency, prudence and without constraint. The valuation base is consistent with the fair value model as shown in IAS 40, paragraphs 27–49. Land reserves and development projects are reported at investment cost in accordance with IAS 16.

Valuation method

Ernst & Young AG, Real Estate, has valued the Allreal Group's income-producing real estate by the discounted cash flow method (DCF). The calculation of earning capacity of a building was based on future income and expenses. The resulting payments correspond to the current and forecast net cash flows after deduction of all expenses not charged to tenants (before taxes and cost of debt). The annual payments are discounted to the valuation date. The interest rate applied reflects a return on equity of long-term, risk-free investments such as 10-year Swiss federal bonds and a specific risk premium. This premium takes into consideration market and credit risks and the related higher illiquidity of real estate compared to the Swiss federal bonds. The discount rates were varied in accordance with the macro and micro economic environment and different real estate segments.

The market value of the portfolio as shown below consists of the sum of the market values of the individual properties. The market value when selling all of the properties in the portfolio as a whole may differ from this value. The market value of buildings completely or partly unoccupied was calculated under the assumption that re-letting takes a certain amount of time. Loss of rents, rent free periods and other incentives for new tenants that correspond to the market norms use were taken into consideration for the valuation.

Value-added tax, real estate capital gains tax, public fees and brokers' commissions were not included. Also excluded when calculating the value were the owner's tax liabilities, one-time or recurring public or private fees, duties or local taxes and cost of financing. Furthermore, it was assumed that the properties were free of liabilities such as servitudes, preemptive rights, liens, or other limitations to ownership.

Valuation result

Taking into consideration the factors mentioned above, Ernst & Young, Real Estate, at 30 September 2003 valued the market value of the real estate owned by the Allreal Group as follows:

Residential properties segment	CHF 261.6 million
Commercial properties segment	CHF 981.1 million
Total	CHF 1242.7 million

The performance of the total portfolio resulted on the one hand from additions and divestments in the period from January 1, 2003 through September 30, 2003 and on the other hand from a change in the intrinsic value of the properties that were part of the portfolio of the Allreal Group both as of December 31, 2002 and as of September 30, 2003.

Including additions and divestments, the total portfolio value has decreased by CHF 134.9 million since the last full valuation as of December 31, 2002. This corresponds to a percentage change in value of –9.8%. The change can largely be explained with additions and divestments, the balance of which at market value amounted to CHF –120.3 million in the period under review.

Accordingly, the change in the intrinsic value of the total portfolio amounted to CHF –14.6 million. The value was reduced by CHF 12.5 million already as of June 30, 2003. Thus, the percentage change in the intrinsic portfolio value as of September 30, 2003 has been –0.2% since June 30, 2003.

The change in the intrinsic value of the commercial properties segment since December 31, 2002 can be divided into two time periods: the first six months of 2003 and the period from July 1, 2003 until September 30, 2003. As of June 30, 2003, the value of the commercial properties segment was adjusted by the amount of CHF –12.5 million stated above. The valuation as of September 30, 2003 resulted in a further decrease in value by CHF 9.0 million. Thus, the value of the commercial properties has dropped by a total of CHF 21.5 million since the last full valuation as of December 31, 2002, which corresponds to a change of –2.3%. The main reason for these value reductions was the changed market environment for commercial properties in the

Zurich area which was taken into account in the valuations at both record dates (June 30, 2003 and September 30, 2003) with changes in market rents and vacancies.

The change in the intrinsic value of the residential property segment was positive during the period from December 31, 2002 until September 30, 2003 and amounted to CHF 6.9 million (2.7%). This development was primarily due to the value increasing investments made by the Allreal Group that could be capitalized this year.

Purpose of the valuation
Finally and corresponding to our usual business policy we would like to point out that the present valuation was carried out only for the reasons mentioned above and excludes all liabilities toward third parties.

Zurich, October 31, 2003

Ernst & Young AG
Real Estate

Jan P. Eckert
dipl. Wirtschaftsprüfer,
Immobilienökonom ebs
(Mandatsleiter)

Stefan Pfister
Lic.oec.HSG, Corporate Real Estate Manager ebs

To the Board of Directors of

Allreal Holding AG, Baar

Zurich, August 20, 2003

Review report

According to the terms of our engagement, we have reviewed the half-year financial statements (consolidated income statement, consolidated balance sheet, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and notes of the consolidated financial statements, pages F6 to F17) of Allreal Holding AG for the period from January 1, 2003 to June 30, 2003.

These half-year financial statements are the responsibility of the board of directors. Our responsibility is to issue a report on these half-year financial statements based on our review.

Our review was conducted in accordance with standards promulgated by the Swiss profession, which require that a review be planned and performed to obtain moderate assurance about whether the half-year financial statements are free from material misstatement. A review provides less assurance than an audit. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data on which the half-year financial statements are based. We have not performed an audit, and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-year financial statements do not give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS).

Ernst & Young Ltd

Christoph Dolensky
Swiss Certified Accountant

Thomas Huwyler
Swiss Certified Accountant

Consolidated income statement

CHF million	Note	1st half-year 2003	1st half-year 2002
Income from investment property	2	46.1	31.8
Income from projects & development	3	35.7	29.6
Revaluation of investment property	4	0.2	17.4
Total income		**82.0**	**78.8**
Property expense	5	–6.3	–4.3
Personnel expense		–16.9	–16.3
Other operating expense		–5.7	–6.3
EBITDA		**53.1**	**51.9**
Depreciation		–0.3	–0.5
Amortisation		–0.8	–0.9
Operating profit (EBIT)		**52.0**	**50.5**
Finance income		0.7	0.3
Finance expense		–12.3	–10.6
Profit before income tax		**40.4**	**40.2**
Current tax		–8.6	–4.2
Deferred tax on revaluation gains		–0.5	–4.9
Net profit		**31.3**	**31.1**
Total income excl. revaluation gains		81.8	61.4
EBITDA excl. revaluation gains		52.9	34.5
EBIT excl. revaluation gains		51.8	33.1
Net profit excl. revaluation effect		**31.6**	**18.6**
Net profit per share in CHF			
— incl. revaluation gains	6	4.96	5.01
— excl. revaluation gains	6	5.01	3.00
Diluted earnings per share in CHF			
— incl. revaluation gains	6	4.93	4.96
— excl. revaluation gains	6	4.98	2.98

Consolidated balance sheet

CHF million	Note	30.06.2003	31.12.2002	30.06.2002
Investment property	7	1 347.2	1 505.9	1 308.2
Development property	8	139.1	157.6	245.1
Intangible assets	9	0.3	2.6	3.4
Property, plant and equipment		1.3	1.7	2.0
Deferred tax assets		4.4	4.7	3.3
Financial assets		10.7	0.0	3.6
Fixed assets		**1 503.0**	**1 672.5**	**1 565.6**
Trade receivables		59.1	55.7	29.2
Other receivables		11.4	14.2	11.6
Cash and cash equivalents		25.1	3.2	4.5
Current assets		**95.6**	**73.1**	**45.3**
Total assets		**1 598.6**	**1 745.6**	**1 610.9**
Share capital		325.2	325.2	325.2
Capital reserves		175.1	175.8	175.9
Treasury shares		–9.6	–24.6	–25.9
Retained earnings		138.3	134.9	125.4
Total equity		**629.0**	**611.3**	**600.6**
Long-term borrowings	10	730.6	853.8	680.8
Prepayments on development property		3.3	4.2	11.5
Deferred tax liabilities		48.9	66.1	50.9
Other long-term provisions		9.9	7.6	6.9
Other long-term liabilities		12.5	12.3	2.0
Long-term liabilities		**805.2**	**944.0**	**752.1**
Trade payables		78.0	108.0	25.4
Provision for current taxes		28.4	14.8	11.2
Other current liabilities		9.7	28.1	110.4
Accruals and deferred income		13.3	9.4	13.2
Short-term borrowings	10	35.0	30.0	110.0
Short-term liabilities		**164.4**	**190.3**	**258.2**
Total liabilities		**969.6**	**1 134.3**	**1 010.3**
Total equity and liabilities		**1 598.6**	**1 745.6**	**1 610.9**
Equity (NAV) per share in CHF				
— before deferred tax	11	105.58	108.54	104.90
— after deferred tax	11	98.60	98.63	96.81
— excl. revaluation effect	11	92.33	89.38	85.97

Consolidated statement of changes in shareholders' equity

CHF million	Share capital	Capital reserves	Treasury shares	Financial instruments	Revaluation reserve	Other retained earnings	Total
As at 01.01.2002	**325.2**	**176.1**	**–20.3**	**–2.4**	**36.0**	**78.7**	**593.3**
Dividend payment						–18.6	–18.6
Valuation of financial instruments				0.4			0.4
Sale/Acquisition of treasury shares		–0.2	–5.4				–5.6
Net profit					12.3	18.8	31.1
Reclassification			–0.2		10.0	–9.8	0.0
As at 30 June 2002	**325.2**	**175.9**	**–25.9**	**–2.0**	**58.3**	**69.1**	**600.6**
Expenditure from capital increase 2000		–0.3					–0.3
Valuation of financial instruments				–10.3			–10.3
Sale/purchase treasury shares		0.2	1.1				1.3
Company results					–1.1	21.1	20.0
Reclassification			0.2		0.1	–0.3	0.0
As at 31 December 2002	**325.2**	**175.8**	**–24.6**	**–12.3**	**57.3**	**89.9**	**611.3**
Dividend payment						–28.8	–28.8
Valuation financial instruments				0.9			0.9
Sale/purchase treasury shares		–0.7	15.0				14.3
Company results					–0.3	31.6	31.3
Reclassification					–17.0	17.0	0.0
As at 30 June 2003	**325.2**	**175.1**	**–9.6**	**–11.4**	**40.0**	**109.7**	**629.0**

Consolidated cash flow statement

CHF million	Note	1st half-year 2003	1st half-year 2002
Net profit		31.3	31.1
Revaluation gains		–0.2	–17.4
Depreciation		0.3	0.5
Amortisation		0.8	0.9
Change in long-term provisions		–14.9	6.1
Change in provision for current taxes		13.6	1.8
Change in deferred tax assets		0.3	0.0
Other items	12	–6.6	0.0
Cash flow		**24.6**	**23.0**
Change in securities		0.0	2.2
Change in trade receivables		–3.4	36.3
Change in other receivables		2.8	–1.8
Change in trade payables		–30.0	–11.6
Change in other current liabilities		–14.5	91.4
Change in net current assets		**–45.1**	**116.5**
Cash flow from operations		**–20.5**	**139.5**
Purchase of investment property		–53.8	–315.3
Sale of investment property		222.1	51.2
Change in development property		18.5	–38.7
Purchase (net) of property, plant and equipment		0.0	–1.7
Change in financial assets		–10.7	15.1
Cash flow from investing activities		**176.1**	**–289.4**
Change in prepayments on development property		–0.9	–3.6
Change in short-term borrowings		5.0	–12.7
Change in long-term borrowings		–123.2	191.4
Sale (Purchase) of treasury shares		14.3	–5.6
Dividend payment		–28.8	–18.6
Cash flow from financing activities		**–133.6**	**150.9**
Change in cash and cash equivalents		**21.9**	**1.0**
Cash and cash equivalents at 01.01		3.2	3.5
Cash and cash equivalents at 30.06.		25.1	4.5
Change in cash and cash equivalents		**21.9**	**1.0**
Other information			
Interest received		0.5	0.1
Interest paid		7.7	13.4
Income taxes paid		12.2	4.7

Segment information
2003 financial year

CHF million	Real Estate	Projects & Development	Other and eliminations	Total
Income statement 1st half-year 2003				
Income from operations	46.3	36.9	–1.4	81.8
Revaluation gains	0.2	0.0	0.0	0.2
Total income	**46.5**	**36.9**	**–1.4**	**82.0**
Operating expense	–8.1	–21.1	0.3	–28.9
EBITDA	**38.4**	**15.8**	**–1.1**	**53.1**
Depreciation and amortisation	0.0	–0.3	–0.8	–1.1
EBIT	**38.4**	**15.5**	**–1.9**	**52.0**
Net finance expense	–12.1	0.4	0.1	–11.6
Income tax	–5.9	–3.0	–0.2	–9.1
Net profit	**20.4**	**12.9**	**–2.0**	**31.3**
EBITDA excl. revaluation gains	38.2	15.8	–1.1	52.9
EBIT excl. revaluation gains	38.2	15.5	–1.9	51.8
Net profit excl. revaluation effect	**20.7**	**12.9**	**–2.0**	**31.6**
Operating margin[1]	82.5	42.0	n.m.	63.3
Operating net cash flow[2]	36.8	15.8	–1.1	51.5
Balance sheet 30.06.2003				
Fixed assets	1 351.4	151.3	0.3	1 503.0
Current assets	29.3	64.3	2.0	95.6
Total assets	**1 380.7**	**215.6**	**2.3**	**1 598.6**
Long-term provisions	42.0	16.8	0.0	58.8
Other liabilities (excl. financing)	43.9	100.4	0.9	145.2
Net operating assets	**1 294.8**	**98.4**	**1.4**	**1 394.6**
Borrowings	730.6	35.0	0.0	765.6
Equity	**564.2**	**63.4**	**1.4**	**629.0**
Cash flow statement 1st half-year 2003	15.8	8.4	0.4	24.6
Cash flow	16.5	–41.3	4.3	–20.5
Cash flow from operations	168.3	7.8	0.0	176.1
Cash flow from investing activities				
Investments in existing properties	**1.4**	**0.0**	**0.0**	**1.4**

[1] EBIT less revaluation gains in per cent of income from operations
[2] EBITDA less revaluation gains, reversal of project write-downs, capital expenditures and purchase/sale of property, plant and equipment

Allreal operates in Switzerland only. A break-down per geographical segment is therefore not required.

Segment information
2002 financial year

CHF million	Real Estate	Projects & Development	Other and eliminations	Total
Income statement 1st half-year 2002				
Income from operations	32.3	30.8	–1.7	61.4
Revaluation gains	17.4	0.0	0.0	17.4
Total income	**49.7**	**30.8**	**–1.7**	**78.8**
Operating expense	–6.8	–21.4	1.3	–26.9
EBITDA	**42.9**	**9.4**	**–0.4**	**51.9**
Depreciation and amortisation	0.0	–0.5	–0.9	–1.4
EBIT	**42.9**	**8.9**	**–1.3**	**50.5**
Net finance expense	–10.0	–0.4	0.1	–10.3
Income tax	–6.5	–2.5	–0.1	–9.1
Net profit	**26.4**	**6.0**	**–1.3**	**31.1**
EBITDA excl. revaluation gains	25.5	9.4	–0.4	34.5
EBIT excl. revaluation gains	25.5	8.9	–1.3	33.1
Net profit excl. revaluation effect	**13.9**	**6.0**	**–1.3**	**18.6**
Operating margin[1]	78.9	28.9	n.m.	53.9
Operating net cash flow[2]	22.2	7.7	–0.4	29.5
Balance sheet 30.06.2002				
Fixed assets	1 309.7	248.9	7.0	1565.6
Current assets	4.1	39.9	1.3	45.3
Total assets	**1 313.8**	**288.8**	**8.3**	**1610.9**
Long-term provisions	39.7	18.1	0.0	57.8
Other liabilities (excl. financing)	95.6	68.4	2.3	161.7
Net operating assets	**1 178.5**	**202.3**	**10.6**	**1391.4**
Borrowings	670.8	120.0	0.0	790.8
Equity	**507.7**	**82.3**	**10.6**	**600.6**
Cash flow statement 1st half-year 2002				
Cash flow	14.8	8.6	–0.4	23.0
Cash flow from operations	89.2	47.1	3.2	139.5
Cash flow from investing activities	–264.1	–26.4	1.1	–289.4
Investments in existing properties	**3.3**	**1.7**	**0.0**	**5.0**

[1] EBIT less revaluation gains in per cent of income from operations
[2] EBITDA less revaluation gains, reversal of project write-downs, capital expenditures and purchase/sale of property, plant and equipment

Allreal operates in Switzerland only. A break-down per geographical segment is therefore not required.

Notes to the consolidated financial statements, 1st half-year 2003

1 Principles

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and in particular meet the requirements of IAS 34 with regard to interim financial reporting. They correspond to the financial guidelines included in the Listing Rules and the Additional Rules for the Listing of Real Estate Companies set out by the SWX Swiss Exchange, as well as to the Swiss Code of Obligations. The accounting principles applied in this half-year report are consistent with those used in the consolidated financial statements for the year ended December 31, 2002. The scope of consolidation remained unchanged.

The consolidated financial statements for the 1st half-year 2003 were approved by the board of directors of Allreal Holding AG on August 19, 2003.

2 Income from Real Estate Division

CHF million	1st HY 2003	1st HY 2002
Rental income from commercial real estate	32.2	22.8
Rental income from residential real estate	9.7	9.7
Total rental income	**41.9**	**32.5**
Profit on sale of properties	4.7	0.1
Loss on sale of properties	–0.5	–0.8
Income from investment property	**46.1**	**31.8**

The profit/loss from property sales is broken down as follows:

Revenue	227.1	52.0
Expenses	–5.0	–0.7
Provisions for rental guarantees	–5.1	0.0
Carrying value = market value at 31 December 2002	–212.8	–52.0
Profit/loss from property sales	**4.2**	**–0.7**

When including the profit of CHF 28.6 million on the initial valuation of the Andreashof and Eggbühl properties, both in Zurich, the realised capital profit 2003 is CHF 32.8 million.

3 Income from Project & Development Division

CHF million	1st HY 2003	1st HY 2002
Third-party fees and income from construction activity	23.3	23.3
Capitalised own costs	3.9	4.0
Income from project development	7.9	2.2
Other income	0.6	0.1
Income from Project & Development	**35.7**	**29.6**

4 Revaluation of investment property

CHF million	1st HY 2003	1st HY 2002
Downward revaluation of commercial real estate	–12.5	–2.9
Initial market valuation	12.7	20.3
Revaluation of investment property	**0.2**	**17.4**

A detailed assessment of market value for all commercial and residential buildings in the investment portfolio is carried out every fiscal year for the annual financial closing. The basis for valuation is the appraisal prepared by an independent real estate appraiser applying the DCF method. The market value of the portfolio at 31 December 2002 was calculated by taking into consideration the additions and disposals executed during the 1st half-year 2003 as well as capital expenditures. In view of pending lease renewals in the medium term, the value of individual commercial buildings has been reduced by a total of CHF 12.5 million.

An initial market valuation of the completed buildings, and therefore reclassified from buildings under construction to commercial buildings in 1st HY 2003, resulted in a revaluation profit of CHF 12.7 million.

5 Real estate expenses

CHF million	1st HY 2003	1st HY 2002
Administration and operating expense	2.9	2.1
Maintenance and repair expense	3.4	2.2
Real estate expense	**6.3**	**4.3**

6 Net profit per share

	1st HY 2003	1st HY 2002
Number of outstanding shares at 1 Jan. (in ’000)	6 198	6 274
Change in treasury shares (in ’000)	181	–70
Number of outstanding shares on 30 June (in ’000)	6 379	6 204
Average number of outstanding shares (in ’000)	6 305	6 208
Net profit incl. revaluation effect (CHF million)	31.3	31.1
Net profit per share incl. revaluation effect (CHF)	**4.96**	**5.01**
Net profit excl. revaluation effect (CHF million)	31.6	18.6
Net profit per share excl. revaluation effect (CHF)	**5.01**	**3.00**
Diluted earnings per share		
— incl. revaluation effect (CHF)	4.93	4.96
— excl. revaluation effect (CHF)	4.98	2.98

7 Investment property

CHF million	30.06.2003	31.12.2002	30.06.2002
Commercial real estate	983.6	1 085.3	943.3
Residential real estate	257.1	292.7	292.9
Buildings under construction	72.0	93.9	52.3
Land reserves	34.5	34.0	19.7
Investment property	**1 347.2**	**1 505.9**	**1 308.2**

The changes for 2003 are summarised as follows:

CHF million	Commercial real estate	Residential real estate	Buildings under construction/ land reserves	Total
As of 1 January 2003	1 085.3	292.7	127.9	1 505.9
Acquisitions	30.8	0.0	0.0	30.8
From own construction activity	0.0	0.0	21.7	21.7
Capitalised expenditures	–0.9	2.3	0.0	1.4
Disposals	–174.9	–37.9	0.0	–212.8
Reclassifications	43.1	0.0	–43.1	0.0
Market value adjustment	0.2	0.0	0.0	0.2
As of 30 June 2003	**983.6**	**257.1**	**106.5**	**1 347.2**

The acquisitions refer to the purchase of the property under land-use right at Brandschenkestrasse 38–40 in Zurich. The commercial building on the property had been acquired in 2001.

The disposals refer to the following buildings:

Location	Address	Type[1]	Year of purchase	Change of use
Basel	Hammerstr. 160–164, Bläsiring 150–160	WL	1999	01.07.2003
Opfikon	Rietgraben 40–48/Wallisellenstr. 131–135	WL	1999	01.06.2003
Zurich	Andreasstr. 13–17	GL	1999	01.01.2003
Zurich	Eggbühlstr. 15–17	GL	1989	01.02.2003
Zurich	Oetenbachgasse 26	GL	2000	01.04.2003

[1] GL = commercial property, WL = residential property

For detailed information on the real estate portfolio at 31 December 2003, please refer to the 2002 Financial Report, p. 52–71.

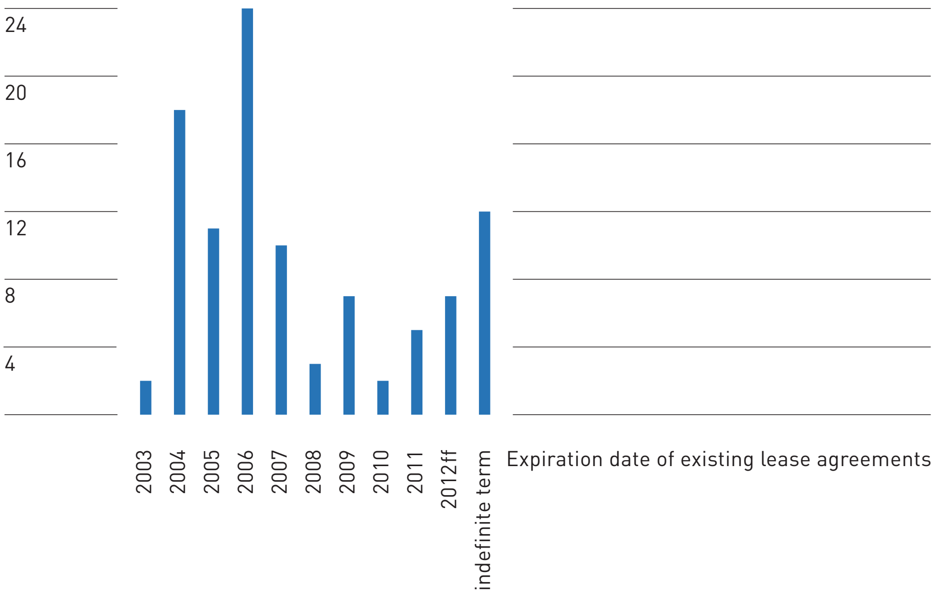
Largest tenants commercial real estate

The five largest tenants are Bank Vontobel AG, IBM (Switzerland) AG, MAN Turbomaschinen AG, Bank Julius Bär & Co.AG, and Hewlett-Packard (Switzerland) GmbH. The breakdown of total rental income from commercial property is as follows:

	30.06.2003	31.12.2002	30.06.2002
Largest tenant	9 %	9 %	9 %
Three largest tenants	22 %	22 %	20 %
Five largest tenants	31 %	31 %	29 %

Profile of expiration date of lease agreements for commercial real estate

As a per centage of rental income



8 Development property

CHF million	30.06.2003	31.12.2002	30.06.2002
Land reserves	71.2	90.4	91.6
Building under construction	58.5	49.3	139.2
Other real estate	9.4	17.9	14.3
Real estate for development	**139.1**	**157.6**	**245.1**

At the beginning of 2003, Allreal sold Arnikahof, a residential property under construction in Zurich, to an investor. Construction of the residential property Wängimatt, in Uitikon-Waldegg near Zurich, has commenced.

9 Intangible assets

CHF million	30.06.2003	31.12.2002	30.06.2002
Goodwill	17.7	17.7	17.7
Reduction in purchase price	–7.4	–5.9	–5.9
Accumulated amortisation	–10.0	–9.2	–8.4
Intangible assets	**0.3**	**2.6**	**3.4**

The reduction in purchase price refers to warranty claims.

10 Financing liabilities

Maturity of financing (capital commitment)

CHF million	<1 year	1–3 years	3–5 years	>5 years	Total
At 31 December 2002	30.0	0.0	0.0	853.8	883.8
At 30 June 2003	**35.0**	**0.0**	**0.0**	**730.6**	**765.6**
Amount with repayment	0.0	0.0	0.0	129.1	129.1
Annual repayment	0.0	0.0	0.0	5.6	5.6

Mortgages secured by investment property are treated as having a long-term nature (<5 years), regardless of the maturity terms originally agreed upon.

Maturity of interest rates (interest rate lock up period)

CHF million.	<1 year	1–3 years	3–5 years	>5 years	Total
At 30 June 2003					
Financing liabilities	**747.9**	**7.7**	**7.3**	**2.7**	**765.6**
Effect of interest rate swap	–550.0	50.0	150.0	350.0	0.0
Total	**197.9**	**57.7**	**157.3**	**352.7**	**765.6**
Total in %	25.9	7.5	20.5	46.1	100.0
At 31 December 2002					
Financing liabilities	824.5	44.5	12.0	2.8	883.8
Effect of interest rate swap	–200.0	0.0	100.0	100.0	0.0
Total	**624.5**	**44.5**	**112.0**	**102.8**	**883.8**
Total in %	70.7	5.0	12.7	11.6	100.0

The average interest rate lock up period as of 30 June 2003 was 49 months (as of 31 December 2002: 18 months). The average interest rate as of 30 June 2003 was 2.8% (as of 31 December 2002: 2.4%).

During the first half-year of 2003, interest attributable to construction totalling CHF 0.2 million was capitalised in the balance sheet (1st HY 2002: CHF 2.3 million).

11 Equity (NAV) per share

	30.06.2003	31.12.2002
Outstanding shares (in ´000)	6 379	6 198
Share capital (CHF million)	629.0	611.3
Equity (NAV) per share after deferred tax (CHF)	**98.60**	**98.63**
Equity plus provisions deferred taxes less deferred tax assets (CHF million)	673.5	672.7
Equity (NAV) per share before deferred taxes (CHF)	**105.58**	**108.54**
Equity less revaluation reserves (CHF million)	589.0	554.0
Equity per share excl. revaluation effect	**92.33**	**89.38**

12 Consolidated cash flow statement: other items

Other items include the profit from the sale of real estate of CHF 9.3 million in 2003; CHF 5.1 million thereof has been posted as a provision.

13 Purchase obligations, contingent liabilities and legal disputes

CHF million	30.06.2003	31.12.2002
Purchase obligations	33.4	35.2
Guarantees and liens	0.3	0.3
Other contingent liabilities	9.2	12.0

The purchase obligations as of 30 June 2003 reflect the planned acquisition of three plots of land for development purposes.

The guarantees and liens are connected with the activities of the Project & Development division on behalf of third parties.

The remaining contingent liabilities concern the obligation to purchase on demand a maximum of 115 000 (31 December 2002: 160 000) Allreal shares from the counterparty (put option) staggered across the period ending 31 July 2007.

There were no pending legal disputes as of 30 June 2003 that would significantly influence the financial position of the Allreal Group.

14 Transactions with related parties, option plan

In 2000 and 2001 members of the board of directors and senior management were granted options to purchase Allreal shares. During the 1st half-year 2003, 16 860 options were exercised. At 30 June 2003, 43 341 options were outstanding.

15 Subsequent events

No significant events occurred after the balance sheet date.

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To the general meeting of

Allreal Holding AG, Baar

Zurich, February 20, 2003

Report of the group auditors

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes/pages F20 to F66) of Allreal Holding AG for the year ended December 31, 2002.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

Ernst & Young AG

M. Schneider
Swiss Certified Accountant
(in charge of the audit)

C. Dolensky
Swiss Certified Accountant

Consolidated income statement

	2002	2001
Income from investment property	73.2	52.0
Income from projects & development	60.7	72.7
Revaluation gains	26.8	16.6
Total income	**160.7**	**141.3**
Property expense	–8.5	–11.0
Personnel expense	–32.1	–32.2
Other operating expense	–12.6	–12.2
EBITDA	**107.5**	**85.9**
Depreciation	–1.1	–1.2
Amortisation	–1.7	–2.0
Operating profit (EBIT)	**104.7**	**82.7**
Finance income	1.3	1.5
Finance expense	–23.7	–16.4
Profit before income tax	**82.3**	**67.8**
Current tax	–12.3	–4.6
Deferred tax on revaluation gains	–15.6	–4.2
Other deferred taxes	–3.3	–8.4
Net profit	**51.1**	**50.6**
Total income excl. revaluation gains	133.9	124.7
EBITDA excl. revaluation gains	80.7	69.3
EBIT excl. revaluation gains	77.9	66.1
Net profit excl. revaluation gains	**39.9**	**38.2**
Net profit per share in CHF		
— incl. revaluation gains	8.25	8.01
— excl. revaluation gains	6.44	6.04
Diluted earnings per share in CHF		
— incl. revaluation gains	8.19	7.92
— excl. revaluation gains	6.39	5.99

Consolidated balance sheet

CHF million	2002	2001
Investment property	1 505.9	1 025.5
Development property	157.6	206.4
Intangible assets	2.6	5.1
Property, plant and equipment	1.7	0.9
Deferred tax assets	4.7	3.3
Financial assets	0.0	18.7
Fixed assets	**1 672.5**	**1 259.9**
Trade receivables	55.7	65.5
Other receivables	14.2	9.8
Securities	0.0	2.2
Cash	3.2	3.5
Current assets	**73.1**	**81.0**
Total assets	**1 745.6**	**1 340.9**
Share capital	325.2	325.2
Capital reserves	175.8	176.1
Treasury shares	–24.6	–20.3
Retained earnings	134.9	112.3
Total equity	**611.3**	**593.3**
Long-term borrowings	853.8	489.4
Prepayments received	4.2	15.1
Deferred tax liabilities	66.1	45.9
Other provisions	7.6	5.8
Other long-term liabilities	12.3	0.0
Long-term liabilities	**944.0**	**556.2**
Trade payables	108.0	37.0
Current tax liabilities	14.8	9.4
Other current liabilities	37.5	22.3
Short-term borrowings	30.0	122.7
Short-term liabilities	**190.3**	**191.4**
Total liabilities	**1 134.3**	**747.6**
Total equity and liabilities	**1 745.6**	**1 340.9**
Equity (NAV) per share in CHF		
— before deferred tax	108.54	101.35
— after deferred tax	98.63	94.55
— excl. revaluation gains	89.38	88.83

Consolidated statement of changes in shareholders' equity

CHF million	Share capital	Capital reserves	Treasury shares	Financial instruments	Revaluation reserve	Other retained earnings	Total
As at 01.01.2001	**325.2**	**175.3**	**–11.7**	**–1.6**	**23.6**	**41.4**	**552.2**
Valuation of financial instruments				–0.8			–0.8
Purchase of own stock			–8.6				–8.6
Net profit					12.4	38.2	50.6
Reclassification		0.8				–0.8	0.0
Rounding difference						–0.1	–0.1
As at 31.12.2002	**325.2**	**176.1**	**–20.3**	**–2.4**	**36.0**	**78.7**	**593.3**
Expenses from 2000 capital increase		–0.3					–0.3
Dividend payment						–18.6	–18.6
Valuation of financial instruments				–9.9			–9.9
Purchase of own shares			–4.3				–4.3
Net profit					11.2	39.9	51.1
Reclassification					10.1	–10.1	0.0
As at 31.12.2002	**325.2**	**175.8**	**–24.6**	**–12.3**	**57.3**	**89.9**	**611.3**

Consolidated cash flow statement

CHF million	Note	2002	2001
Net profit		51.1	50.6
Revaluation gains	3.3	–26.8	–16.6
Reversal of project write-downs	3.2	0.0	–8.7
Depreciation	4.4	1.1	1.2
Amortisation	4.3	1.7	2.0
Change in provisions		22.0	7.9
Change in deferred tax assets		–1.4	–3.3
Other items		1.0	2.4
Cash flow		**48.7**	**35.5**
Change in securities		2.2	–0.1
Change in trade receivables		9.8	128.1
Change in other receivables		–4.4	–8.3
Change in trade payables		71.0	–112.4
Change in current tax liabilities		5.4	–0.1
Change in other current liabilities		15.2	12.8
Other non-cash items	5.1	2.4	–51.6
Change in net current assets		**101.6**	**–31.6**
Cash flow from operations		**150.3**	**3.9**
Purchase of investment property	5.2	–508.8	–185.3
Sale of investment property	5.3	54.8	44.1
Change in development property	4.2	48.8	14.2
Purchase (net) of plant, property and equipment	4.4	–1.9	–0.3
Change in financial assets		18.6	–3.5
Acquisition of subsidiary, net of cash acquired	5.4	0.0	–38.2
Cash flow from investing activities		**–388.5**	**–169.0**
Change in prepayments received		–10.9	–25.4
Change in short-term borrowings		–92.7	–87.9
Change in long-term borrowings		364.4	249.8
Purchase of treasury shares		–4.3	–8.6
Dividend payment		–18.6	0.0
Cash flow from financing activities		**237.9**	**127.9**
Change in cash		**–0.3**	**–37.2**
Cash at 01.01.		3.5	40.7
Cash at 31.12.		3.2	3.5
Change in cash		**–0.3**	**–37.2**
Additional information			
Interest received		0.3	1.2
Interest paid		29.1	11.3
Tax paid		7.4	1.6

Segment information
Year ended 31 December 2002

CHF million	Real Estate	Projects & Development	Other	Total
Income statement				
Income from operations	74.5	62.8	–3.4	133.9
Revaluation gains	26.8	0.0	0.0	26.8
Total income	**101.3**	**62.8**	**–3.4**	**160.7**
Operating expense	–13.1	–42.5	2.4	–53.2
EBITDA	**88.2**	**20.3**	**–1.0**	**107.5**
Depreciation and amortisation	0.0	–1.1	–1.7	–2.8
Operating profit (EBIT)	**88.2**	**19.2**	**–2.7**	**104.7**
Net finance expense	–22.2	–0.3	0.1	–22.4
Income tax	–16.7	–13.9	–0.6	–31.2
Net profit	**49.3**	**5.0**	**–3.2**	**51.1**
EBITDA excl. revaluation gains	61.4	20.3	–1.0	80.7
EBIT excl. revaluation gains	61.4	19.2	–2.7	77.9
Net profit excl. revaluation gains	**38.1**	**5.0**	**–3.2**	**39.9**
Operating margin[1]	82.4	30.6	n.m.	58.2
Operating net cash flow[2]	47.7	18.4	0.0	66.1
Balance sheet				
Non-current assets	1 510.5	159.4	2.6	1 672.5
Current assets	8.5	62.4	2.2	73.1
Total assets	**1 519.0**	**221.8**	**4.8**	**1 745.6**
Deferred tax liabilities and provisions	–54.5	–19.2	0.0	–73.7
Non-financial liabilities	–29.1	–150.0	2.3	–176.8
Net operating assets	**1 435.4**	**52.6**	**7.1**	**1 495.1**
Borrowings	–853.8	–30.0	0.0	–883.8
Equity	**581.6**	**22.6**	**7.1**	**611.3**
Cash flow statement				
Cash flow	39.9	9.9	–1.1	48.7
Cash flow from operations	31.9	121.2	–2.8	150.3
Cash flow from investment activities	–454.0	60.9	4.6	–388.5
Purchase of plant, property & equipment	**0.0**	**1.9**	**0.0**	**1.9**

[1] EBIT less revaluation gains in per cent of income from operations
[2] EBITDA less revaluation gains, reversal of project write-downs, capital expenditures, and purchase/sale of property, plant and equipment

Allreal operates in Switzerland only. Therefore, no geographical break-down is provided.

Segment information
Year ended 31 December 2001

CHF million	Real Estate	Projects & Development	Other	Total
Income statement				
Income from operations	52.3	74.1	–1.7	124.7
Revaluation gains	6.6	10.0	0.0	16.6
Total income	**58.9**	**84.1**	**–1.7**	**141.3**
Operating expenses	–13.8	–41.7	0.1	–55.4
EBITDA	**45.1**	**42.4**	**–1.6**	**85.9**
Depreciation and amortisation	0.0	–1.0	–2.2	–3.2
Operating profit (EBIT	**45.1**	**41.4**	**–3.8**	**82.7**
Net finance expenses	–13.9	–0.8	–0.2	–14.9
Income tax	–5.7	–11.4	–0.1	–17.2
Net profit	**25.5**	**29.2**	**–4.1**	**50.6**
EBITDA excl. revaluation gains	38.5	32.4	–1.6	69.3
Operating income (EBIT) excl. revaluation gains	38.5	31.4	–3.8	66.1
Earnings excl. revaluation gains	**20.6**	**21.7**	**–4.1**	**38.2**
Operating margin (in %)[1]	73.6	34.7	n.m.	49.5
Operating net cash flow[2]	36.2	23.4	–1.6	58.0
Balance sheet				
Non-current assets	1027.0	223.1	9.8	1259.9
Current assets	2.8	76.8	1.4	81.0
Total assets	**1029.8**	**299.9**	**11.2**	**1340.9**
Deferred tax liabilities and provisions	–34.6	–17.1	0.0	–51.7
Non-financial liabilities	–19.0	–70.4	5.6	–83.8
Net operating assets	**976.2**	**212.4**	**16.8**	**1205.4**
Borrowings	–472.4	–139.7	0.0	–612.1
Total equity	**503.8**	**72.7**	**16.8**	**593.3**
Investments in property, plant and equipment	**0.0**	**0.3**	**0.0**	**0.3**

[1] EBIT less revaluation gains/Income from operations
[2] EBITDA less revaluation gains, change in project provisions, capital expenditures, and purchase/sale of property, plant and equipment

Allreal operates in Switzerland only. Therefore, no geographical break-down is provided.

Notes to the 2002 consolidated financial statements

1 Principles

1.1 Activity and investment policy

The Allreal Group is a real estate company active only in Switzerland with a focus on the Greater Zurich Area. On the one hand the company develops and implements building projects for its own use and on behalf of third parties ("Project & Development"), and on the other hand it develops and administers its real estate portfolio ("Real Estate"). Within the framework of its activity, Allreal invests in development, residential and commercial real estate.

Allreal Holding AG is the parent company and headquartered at Zugerstrasse 50 in Baar (Switzerland). The company is listed on the SWX Swiss Stock Exchange.

No changes in investment policy were made during the fiscal year 2002.

1.2 Basis of preparation

The financial reporting of the Allreal Group is in accordance with International Financial Reporting Standards (IFRS, formerly IAS). It corresponds to the financial guidelines included in the Listing Rules and the Additional Rules for the Listing of Real Estate Companies as set out by the SWX Swiss Stock Exchange, as well as to the Swiss Code of Obligations. All IFRSC standards in force by the publishing date of the group annual accounts and the interpretation of the Standing Interpretations Committee (SIC) have been taken into consideration.

The financial statements of the individual companies at 31 December represent the basis for the consolidated accounts. The consolidated balance sheet – and correspondingly the consolidated cash flow statement – have been reorganised in that development property is now shown in fixed assets as the investment is for a period of more than one year. Prepayments for development property are no longer shown in the balance sheet as short-term but as long-term debt. Furthermore, in the cash flow statement such prepayments have been reclassified from operating activities to financing activities. The comparative figures of the previous year have been adjusted.

The consolidated financial statements were approved by the board of directors of Allreal Holding AG on 19 February 2003.

1.3 Basis of consolidation

Companies in which Allreal has more than 50% of the voting rights are fully consolidated. All intercompany transactions and balances are eliminated.

Companies acquired during the fiscal year are included in the financial statements from the purchase date onwards.

1.4 Scope of consolidation

Company	Domicile	Share capital	Investment 2002	Investment 2001
Allreal Holding AG	Baar	CHF 325.2 million	–	–
Allreal Finanz AG	Baar	CHF 100.5 million	100%	100%
Allreal Generalunternehmung AG	Zurich	CHF 10.0 million	100%	100%
Allreal Home AG	Zurich	CHF 26.5 million	100%	100%
Allreal Office AG	Zurich	CHF 100.0 million	100%*	100%
Allreal Vulkan AG	Zurich	CHF 40.0 million	100%	–
Allreal West AG	Zurich	CHF 1.0 million	100%	–
Juventus AG	Zurich	CHF 0.1 million	–	100%**
Grundstückgesellschaft Juventus	Zurich	CHF 0.8 million	–	100%**
Immobiliengesellschaft ATZ	Zurich	CHF 0.6 million	–	100%**

* of which 17.8% are held indirectly via Allreal Generalunternehmung AG
** indirectly via Allreal Office AG

Allreal Home AG, Allreal Office AG, Allreal Vulkan AG and Allreal West AG are combined in the Real Estate division. Allreal Generalunternehmung AG corresponds largely to the Project & Development division. Allreal Finanz AG serves internal group financing needs.

Effective 1 January 2002 Allreal Office AG merged with the following companies acquired at the end of 2001: Juventus AG, Grundstückgesellschaft Juventus, and Immobiliengesellschaft ATZ. Allreal Vulkan AG was founded at the beginning of 2002 and is the owner of the new headquarters for IBM (Switzerland) located at Vulkanstrasse in Zurich. Allreal West AG was founded in August 2002 and subsequently acquired the Escher Wyss-Areal in Zurich.

1.5 Capital consolidation

Capital consolidation is carried out in accordance with the purchase method of accounting, and goodwill corresponds to the difference between the purchase consideration and the fair value of the acquired net assets at the time of acquisition. Goodwill is amortised over the economic useful life and charged to the income statement.

2 Significant principles of accounting and valuation

2.1 General

When drawing up the consolidated accounts, it is necessary to make assumptions and estimates. These refer to the disclosed assets, liabilities and contingent liabilities at the time of drawing up the balance sheet, as well as to income and expenditure during the reporting period. Should such assumptions and estimates, made to the best knowledge at the time of drawing up the balance sheet, at a later stage deviate from reality, the original assumptions and estimates will be adjusted in the reporting year in which the circumstances changed.

2.2 Income from investment properties

Income from real estate comprises net rental income (excl. tenant expenses and interest on leasehold) as well as profit and loss from selling investment properties. Profit or loss from sales correspond to the difference between net proceeds and the reported market value.

2.3 Income from general contracting

Income from general contracting comprises mainly fee income and earnings, incl. earnings from selling real estate and promotion projects. Income from sales is recorded when legal title passes to the buyer, while fees and subcontractor margins are recorded at the time of rendering the service. Internally generated assets are valued at cost.

Fees and carefully estimated profits from third party buildings under construction, and depending on the stage of completion (based on number of working hours invested or construction invoices received), are recognised in accordance with the percentage of completion (POC) method. Own buildings, which upon completion enter the company's own real estate portfolio, only the effective costs are accrued (incl. own costs and accumulated interest for building financing, but excl. profit shares) until the time of transfer. Expected project losses are recognised as an expense immediately.

2.4 Revaluation investment properties

The revaluation of commercial and residential buildings reflects the changes in the market value of these buildings established in accordance with IAS 40 and is based on the annual valuation prepared by an independent real estate appraiser. In 2002 the valuation was for the first time carried out without taking into consideration transfer costs arising at the time of sale.

The initial valuation of company-built real estate based on market value is carried out following completion of the building and its transfer into the company's real estate portfolio. Land reserves are re-valued once the Project & Development division's development property is transferred to the Real Estate division.

2.5 Investment properties

Existing residential and commercial buildings serve long-term investment goals and are reported at market value in accordance with IAS 40. Market value is established annually by an external and independent real estate appraiser by applying the discounted cash flow (DCF) method. Changes in market value, taking into consideration deferred taxes, are posted to the income statement (see Note 2.4 "Revaluation investment properties").

Buildings under construction and land reserves are carried at the lower of cost (incl. interest for building finance) or market, except in the case of a revaluation of land reserves due to reclassification (see Note 2.4 "Revaluation investment properties").

Investment properties are not amortised. Interest for building financing accrued during the construction phase is capitalised. Subsequent (value-increasing) investments etc are also capitalised if the resulting market value is above the continued historic cost value.

2.6 Development real estate

Development reserves, buildings under construction and completed real estate not yet sold are valued at the lower of cost (incl. interest on building financing) or market. Prepayments received are shown as prepayments under long-term debt. Third-party costs (excl. own costs) connected with projects that are expected to be realised, are capitalised.

2.7 Intangible assets

Intangible assets concern goodwill on acquisitions and represent the excess cost of an acquisition over the fair value of the net assets. Goodwill is capitalised and amortised over a period of 5 years using the straight-line method.

2.8 Fixed assets

Fixed assets are stated at cost less depreciation. Depreciation is calculated using the straight-line method over the estimated useful economic life of a fixed asset.

2.9 Financial investments

Financial investments are reported at market value or amortised cost.

2.10 Trade receivables

Trade receivables from construction activity for third parties are reported under the net presentation principle, ie prepayments received from building owners and liabilities from construction activity are directly set off against receivables ("order balance"). Positive net items are shown as trade receivables, while negative net items are reported as trade liabilities. Deductions are made for individual value adjustments required on specific projects as well as a provision for contingent losses (bad debt reserve) of 1% of the receivables.

2.11 Other receivables

Other receivables are shown at face value less value adjustments operationally required.

2.12 Cash and cash equivalents

Cash and cash equivalents comprising of cash, postal and current bank accounts and short-term deposits are reported at par value.

2.13 Securities

Securities are reported at market value. Changes in market value are shown in the income statement. The treasury shares held by Allreal Holding AG are presented as a deduction from equity. Profits and losses from the sale of equity shares and bonuses from standstill agreements are also shown as equity not affecting the operating result.

2.14 Provisions

Provisions and value adjustments are made to the degree that corresponding liabilities, impairments, or threatening losses are known at the time of drawing up the annual financial statements.

2.15 Income tax

The income tax shown in the income statement comprises of tax on corporate profits for the financial year, tax on profits from the disposal of real estate, and deferred taxes on valuation adjustments and other timing differences.

Current income tax is determined by taking into consideration tax losses from the previous year and the results of the individual group companies based on the corresponding tax regulations.

Deferred taxes are assessed using the comprehensive balance sheet liability method and are calculated at average tax rates. Provisions for deferred taxes take into consideration income tax-related effects of the differences between the consolidated accounts and the tax-base of individual assets and liabilities. Deferred tax credits (resulting from tax loss as brought forward and reductions in valuation of investment properties) are capitalised to the degree that it seems certain they will be offset against future taxable income.

2.16 Management of financial risks

The management of financial risk in the Allreal Group is concerned mainly with the capital structure and risks involved with changes in interest rates. The basis is represented by the financing and investment guidelines approved by the board of directors, while instruments of asset and liability management (ALM) offer further support. The goal is to optimise risk by taking into consideration the existing income situation and the potential for opportunities. Allreal does not enter into foreign-exchange risks.

With regard to its capital structure, the Allreal Group aims at a net gearing (ratio of net financial debt to equity) permitted over the long term of a maximum of 150%. This presupposes a share of equity which over the long term should remain above 35%. In terms of interest coverage (EBITDA excl. revaluation of investment property/net financing expenses), this value should not fall below 2.0.

The group’s financial debt is based on a mixture of variable and fixed-term loans. As a rule, Allreal aims at a balanced distribution of interest rates. In order to ensure the best possible interest rate pegging, Allreal uses different hedging instruments, such as interest rate swaps, options and futures. As a rule they are to be implemented only in support of current operating activity and not for speculative purposes.

Allreal has entered into various interest rate swaps with top rated banks; the company enters into loan agreements at variable interest rates and swaps these against fixed-rate interest rates. The result is a hedge against future interest payments.

For further details please see the chapter "Risk management in the Allreal Group" on page 16 onward.

2.17 Derivative financial instruments

Derivative financial instruments, such as interest rate swaps, are reported at historic cost and subsequently valued at market value. The interest rate swaps used by Allreal are generally known as cash flow hedges. Subsequent changes in market values (calculated on the basis of the present value of future cash flows) are recognised as changes in equity and not in the income statement. The effect thus shown as equity flows into the income statement only when the hedged cash flows effectively impact the income statement.

2.18 Option plans

There is an option plan for the members of the board and management. The options are issued from treasury stocks, and option exercises are reported in the income statement (personnel expenses or other operating expenditure).

2.19 Employee benefits

Until 31 December 2001, the Allreal Group companies were attached to external, legally independent pension plans ("Multi Employer Plan"). Therefore, a calculation of the pension liabilities in accordance with IAS Standard 19 was not required. The Allreal Pension Fund, founded on 1 January 2002, insures all employees of the Allreal Group and took over the assets of the predecessor pension fund which was partly liquidated.

This pension fund is financed with contributions by both employer and employees in accordance with a defined contribution plan. However, owing to its characteristics IAS 19 defines the pension fund as a defined benefit plan, and the expenses of the pension benefits are calculated by the projected unit credit method. In terms of this method, the total expenses for employee benefits are spread across the years of service up to retirement and are charged to the income statement annually. The expenses for the 2002 financial year are based on actuarial calculations by an independent actuary.

Actuarial profit and loss are entered as income or expense across the average remaining period until the insured person's retirement age only if the accumulated and unaccounted for actuarial profit and loss surpass the cash value of the pension liabilities or pension assets by 10%. The first application of IAS 19 effective 1 January 2002 resulted in an actuarial shortfall of CHF 5.6 million.

3 Notes to the Group Income Statement

3.1 Income from Real Estate Division

CHF million	2002	2001
Rental income from commercial property	54.1	32.8
Rental income from residential property	19.7	17.9
Total rental income	**73.8**	**50.7**
Profit from sales	0.3	1.6
Loss from sales	–0.9	–0.3
Income from investment properties	**73.2**	**52.0**

Rental income is calculated as follows:

Target rental income (after deduction of interest for land-use rights)	76.9	51.3
Vacancy loss	–2.9	–0.8
Collecting loss	–0.2	0.2
Rental income	73.8	**50.7**

Rental income is broken down as follows:

from investment properties held continuously in 2001/2002	43.2	42.6
from additions 2001	5.9	1.9
from additions 2002	20.4	0.0
from own developments 2002	3.9	0.0
from real estate sold in 2001	0.0	2.4
from real estate sold in 2002	0.4	3.8
Rental income	**73.8**	**50.7**

3.2 Income from Projects & Developments Division

CHF million	2002	2001
Third-party fees and profit from construction activity	43.2	52.7
Capitalised own costs	8.6	4.5
Income from project development	8.0	4.9
Restoration of valuation adjustments of projects	0.0	8.7
Other income	0.9	1.9
Income from general contracting	**60.7**	**72.7**

Income from project development in 2001 exclusively regards profit from land sales. Effective 2002 this item also includes sales and agency fees previously reported in "Fees and earnings from construction activity".

The restoration of value adjustments on projects for 2001 concerns amortisation on individual projects carried out in earlier years.

Other income primarily concerns rental income from completed but only partly sold buildings.

Income from general contracting is subject to a completed project volume (incl. construction on Allreal's own account, fees and subcontractor margins for third-party construction) as follows:

CHF million	2002	2001
Construction for third parties	431.0	430.3
Own projects	139.0	171.0
Completed project volume	**570.0**	**601.3**

3.3 Revaluation of investment properties

CHF million	2002	2001
Upward valuation residential and commercial real estate	12.8	24.1
Downward valuation residential and commercial real estate	–14.6	–17.5
Initial valuation own development projects	28.6	0.0
Revaluation of land reserves	0.0	10.0
Revaluation of investment properties	**26.8**	**16.6**

For the 2002 valuation in accordance with IAS 40, paragraph 30, the revaluation, based on a real estate valuation by an independent real estate appraiser, for the first time waives the deduction for transaction costs at the time of sale. In previous years a deduction of 2% was made. As a result, the upward valuation amounts to CHF 10.3 million. When taking into consideration the connected deferred taxes of CHF 3.6 million, the consolidated accounts show a net profit of CHF 6.7 million.

Without the adjustment effect the revaluation of commercial real estate would have resulted in a reduction of CHF 2.5 million while residential real estate would have been reduced by CHF 9.6 million. While the additions made during 2002 were re-valued by CHF 2.6 million, the real estate in the portfolio at 31 December 2001 was reduced by CHF 14.7 million.

The initial valuation of own developments concerns the commercial properties completed in 2002 at Andreasstrasse 13–17 and Eggbühlstrasse 15, both in Zurich. Both properties were sold at the beginning of 2003 and the revaluation profits thus turned into cash.

The 2001 revaluation of land reserves concerns two land items which in view of future development purposes were reclassified from development real estate in the Project & Development division to land reserves in the Real Estate division.

For further details regarding revaluations please refer to Note 4.1.

3.4 Real estate expenses

CHF million	2002	2001
Administration and operating expenses commercial real estate	2.4	1.9
Administration and operating expenses residential real estate	2.0	2.4
Maintenance and repair expenses commercial real estate	2.1	4.1
Maintenance and repair expenses residential real estate	2.0	2.6
Real estate expenses	**8.5**	**11.0**

Real estate expenses exclusively relate to commercial and residential real estate of the Real Estate division.

The administration and operating expenses are broken down as follows:

CHF million	2002	2001
Administration fees and expenses	2.2	2.1
Insurance and taxes	0.4	0.4
House keeping	0.6	0.6
Other expenses	1.2	1.2
Administration and operating expenses	**4.4**	**4.3**

3.5 Personnel expenses

CHF million	2002	2001
Wages and salaries	26.3	26.8
Social security expenses	2.4	2.6
Pension fund	2.3	2.1
Other personnel expenses	1.1	0.7
Personnel expenses	**32.1**	**32.2**
Number of employees at 31 December (full time equivalent)	208	219
Average number of employees (full time equivalent)	215	232

Personnel expenses exclusively relate to the Project & Development division. Personnel services supplied to other divisions are charged to them by means of management fees (see Note 6.6).

3.6 Other operating expenses

CHF million	2002	2001
IT expenses	2.2	2.1
Rental expenses	0.6	1.9
Consulting expenses	1.4	1.4
Administration expenses	3.8	3.6
Capital and organisation tax	2.2	1.1
Other general operating expenses	2.4	2.1
Other operating expenses	**12.6**	**12.2**

Other operating expenses mainly relate to the Project & Development division. The reduction in rental expenses is due to the relocation to the Eggbühl commercial property owned by Allreal.

3.7 Financial income

CHF million	2002	2001
Interest income	0.4	1.2
Other financial income	0.9	0.3
Financial income	**1.3**	**1.5**

Other financial income 2002 concerns premiums received on transactions with derivatives.

3.8 Financial expenses

CHF million	2002	2001
Interest expenses	20.9	15.9
Other financial expenses	2.8	0.5
Financial expenses	**23.7**	**16.4**

Interest on building financing of CHF 3.2 million (2001: CHF 3.3 million) was capitalised and deducted from the interest expenses for 2002. Average interest income on this amount was 2.3% (2001: 3.1%).

Based on financial liabilities outstanding at 31 December 2002 with interest fixed for less than one year, a one per cent increase in short-term interest rates would mean an increase in interest expenses by CHF 6.2 million.

Other financial expenses 2002 concern expenses in connection with the redemption or price reduction of interest swaps.

3.9 Earnings per share

	2002	2001
Number of outstanding shares at 1 January ('000)	6 274	6 376
Change in treasury shares ('000)	–76	–102
Number of outstanding shares at 31 December ('000)	6 198	6 274
Average number outstanding shares ('000)	6 195	6 320
Corporate results incl. revaluation effect (CHF million)	51.1	50.6
Earnings per share incl. revaluation effect (CHF)	**8.25**	**8.01**
Corporate results excl. revaluation effect (CHF million)	39.9	38.2
Earnings per share excl. revaluation effect (CHF)	**6.44**	**6.04**

The dilution effect resulting from the possible execution of share options given to board members and management takes into consideration the opposite effects resulting from an increase in the number of outstanding shares (31 December 2002: 60 201 shares; 31 December 2001: 92 139 shares) as well as the possible interest savings based on the subscription price received.

Diluted earnings per share		
— incl. revaluation effect (CHF)	8.19	7.92
— excl. revaluation effect (CHF)	6.39	5.99

4 Notes to the Consolidated Balance Sheet

4.1 Investment property

CHF million	Commercial real estate 2002	Commercial real estate 2001	Residential real estate 2002	Residential real estate 2001	Buildings under construction/ land reserves 2002	Buildings under construction/ land reserves 2001	Total Investment property 2002	Total Investment property 2001
Historic cost								
Status 1 January	647.9	482.1	214.6	252.6	103.3	0.0	965.8	734.7
Change scope of consolidation	0.0	48.0	0.0	0.0	0.0	0.0	0.0	48.0
Acquisitions	307.2	119.3	65.3	8.1	40.2	5.6	412.7	133.0
From own building activity	0.0	0.0	0.0	0.0	82.4	49.9	82.4	49.9
Investments	5.8	2.4	7.9	0.0	0.0	0.0	13.7	2.4
Disposals	–56.8	–3.9	–1.6	–46.1	0.0	0.0	–58.4	–50.0
Reclassification	108.4	0.0	0.0	0.0	–108.0	38.2	0.4	38.2
Value adjustments	0.0	0.0	0.0	0.0	0.0	9.6	0.0	9.6
Status 31 December	1012.5	647.9	286.2	214.6	117.9	103.3	1416.6	965.8
Revaluation								
Status 1 January	36.4	23.7	13.3	12.2	10.0	0.0	59.7	35.9
Upward revaluation	40.5	20.8	0.9	3.3	0.0	10.0	41.4	34.1
Downward revaluation	–6.8	–8.3	–7.8	–9.2	0.0	0.0	–14.6	–17.5
Disposals	2.7	0.2	0.1	7.0	0.0	0.0	28	7.2
Status 31 December	72.8	36.4	6.5	13.3	0.0	10.0	89.3	59.7
Carrying value = fair market value at 31 December	**1085.3**	**684.3**	**292.7**	**227.9**	**127.9**	**113.3**	**1505.9**	**1025.5**
Of which pledged or with limited availability	758.7	548.6	293.3	131.9	82.5	82.5	1154.4	680.5
Of which effectively used	712.6	391.1	216.6	103.4	62.1	62.1	989.3	494.5
Fire insurance value	888.9	**590.5**	316.3	**217.8**	0.0	0.0	1205.2	**808.3**

Reclassifications 2002 concern the buildings at Andreasstrasse and Eggbühl which were reclassified from buildings under construction (total CHF 118.2 million), and the building at Militärstrasse/Jägergasse in Zurich, which was reclassified from commercial property to land reserves.

Reclassifications 2001 concern vacant land and buildings under construction classified as development property at 31 December 2000. They were reclassified as land reserve and buildings under construction at 31 December 2001. The reclassification resulted in a higher valuation by CHF 10.0 million.

Value adjustments 2001 concern the buildings at Andreasstrasse (gross representation not affecting operating result but taking into consideration deferred taxes, which have so far been directly deducted from the value of the real estate; CHF 4.4 million) and Eggbühlstrasse (restoration of value adjustments on projects affecting operating result); CHF 5.2 million).

Regarding the individual regions and types of property, historic cost and fair market value are allocated as follows:

	Cost		Fair market value		Change in fair market value[1]	
CHF million	2002	2001	2002	2001	2002	2001
Zurich city	678.1	391.5	745.6	426.0	33.0	11.6
Zurich canton	198.1	110.0	205.6	117.7	0.0	3.0
Other regions	136.3	146.3	134.1	140.6	0.7	–2.1
Commercial real estate	**1012.5**	**647.8**	**1085.3**	**664.3**	**33.7**	**12.6**
Zurich city	37.3	25.8	38.4	28.2	–1.4	–0.5
Zurich canton	211.3	151.2	217.1	162.3	–5.3	–4.9
Other regions	37.6	37.6	37.2	37.4	–0.2	–0.6
Residential real estate	**286.2**	**214.6**	**292.7**	**227.9**	**–6.9**	**–6.0**
Buildings under construction	93.9	95.6	93.9	95.6	0.0	0.0
Land reserves	24.0	7.7	34.0	17.7	0.0	10.0

[1] from revaluation compared to previous year

Historic cost comprises all costs connected with the purchase (purchase price, legal and transfer expenses, commissions), the effective cost of production of the additions from own building activity (incl. own costs and interest for building financing) as well as value-increasing investments and total renovations or similar. The value of the land reserves includes accumulated project expenses.

Revaluation is based on the fair market value appraisal carried out every year at 31 December by a recognised independent real estate appraiser (Ernst & Young AG, Real Estate Corporate Finance) applying the discounted cash flow method (DCF). Major factors for the years 2001 and 2002 included the changed expectations regarding rents obtainable in the future, necessary investments and renovations, and general market expectations. In 2002, additions of CHF 10.3 million were reported owing to conversion charges no longer considered at the time of sale (see Note 3.3).

Revaluation for 2002 and 2001 is based on the following significant assumptions:

Indexing rental income commercial real estate	1.00a% (2001: 0.75%) p.a.
Indexing rental income residential real estate	0.50% p.a.
Indexing operating expenses	1.00% p.a.
Indexing building expenses	1.50% p.a.
Discount rate	5.25%–6.25% (average weighting 2002: 5.53%)
Capitalisation rate residual value	5.25%–6.25% (average weighting 2002: 5.68%)

For details regarding investment property see page 56 onward. The 2002 detailed valuation report of the real estate appraiser is on page 51 onward.

4.2 Development property

CHF million	2002	2001
Development reserves	90.4	55.1
Buildings under construction	49.3	133.5
Completed buildings	17.9	16.1
Prepayments made	0.0	1.7
Development property	**157.6**	**206.4**
Of which pledged or with limited availability	45.0	204.5
Of which effectively used	30.0	118.0

Completed real estate concerns buildings which have been partly sold. For details regarding development property please refer to page 62.

Prepayments made are now shown as other receivables.

4.3 Intangible assets

CHF million	2002	2001
Goodwill	17.7	17.7
Purchase price reduction	–5.9	–5.0
./. accumulated amortisation	–9.2	–7.5
Intangible assets	**2.6**	**5.1**

Reduction of historic cost is connected with warranty claims.

4.4 Tangible assets

CHF million	2002	2001
At cost		
Status 1 January	2.7	3.2
Additions	1.9	0.3
Disposals	0.0	–0.8
Status 31 December	4.6	2.7
Accumulated depreciation		
Status 1 January	1.8	1.4
Additions	1.1	1.2
Disposals	0.0	–0.8
Status 31 December	2.9	1.8
Carrying value 31 December	**1.7**	**0.9**
Of which pledged or mortgaged	0.0	0.0
Fire insurance value	5.0	8.7

The active fixed assets concern IT equipment and office equipment of the Project & Development division.

4.5 Financial assets

CHF million	2002	2001
Loans	0.0	18.6
Investments	0.0	0.1
Financial assets	**0.0**	**18.7**

In 2002 Allreal paid back loans amounting to CHF 13.0 million by purchasing plots of land serving as security for construction purposes.

The investments shown under Financial investments were written down completely in 2002.

4.6 Trade receivables

CHF million	2002	2001
Accounts receivable general contracting	36.4	65.0
Order balances general contracting	18.2	8.0
./. Value adjustments	–2.9	–9.1
Real estate business area	4.0	1.6
Trade receivables	**55.7**	**65.5**

Value adjustments essentially concern current and completed orders. In addition there is a bad debt provision on accounts receivable of CHF 0.4 million (2001: CHF 0.7 million).

The values shown in the balance sheet are presented net after prepayments made and open liabilities per project in accordance with the valuation principles as described in Note 2.10:

CHF million	2002	2001
Gross receivables	1098.5	1418.6
./. Value adjustments	–2.9	–9.1
./. Liabilities and prepayments	–1039.9	–1344.0
Trade receivables	**55.7**	**65.5**

4.7 Other receivables

CHF million	2002	2001
Short-term financial receivables	6.3	3.5
Prepayments made	2.0	0.0
Other receivables	5.9	6.3
Other receivables	**14.2**	**9.8**

4.8 Share capital
Share capital at 31 December 2002/31 December 2001 amounted to CHF 325.2 million and consists of a total of 6 504 822 registered shares at CHF 50 par value each. At 31 December 2002 the Allreal Group held 306 555 treasury shares (31 December 2001: 230 331 shares). The average purchase price per share was CHF 81.25 (31 December 2001: CHF 88.25). The total purchase price is deducted from equity (see "Consolidated statement of changes in shareholders' equity", page 27).

In 2002 Allreal deposited 200 000 treasury shares in connection with call options on Allreal shares. The options are an entitlement to purchase Allreal shares at the price of CHF 77.50 by 18 December 2003. The option proceeds of CHF 0.7 million were reported to equity not affecting operating results.

The board of directors is authorised until 21 March 2004 to increase the share capital (authorised capital) – if necessary by excluding the subscription right – (1) to acquire investments or real estate by means of an equity swap, (2) to finance or refinance the acquisition of companies, parts of companies, investments or new investment projects, or (3) for an international placement of maximal CHF 160.0 million by means of issuing a maximum of 3.2 million registered shares (authorised capital). As of 19 February 2003 this authorisation had not been used.

Furthermore, Allreal Holding AG has been granted, without a time deadline, conditional capital of CHF 10.0 million (200 000 registered shares at CHF 50 par value each) to set aside for the option rights issued to board members and senior management. The conditional capital has not been claimed; treasury shares had been used to execute the existing option plan.

4.9 Reserves
Capital reserves correspond to the additional paid-in capital (after deduction of costs) from capital increases carried out in previous years. The reduction in 2002 by CHF 0.3 million is due to a subsequent claim for value added tax in connection with expenses resulting from the 2000 capital increase.

The reclassification of other retained earnings to revaluation reserves is related to the sale of investment property in 2001 and 2002. Earlier revaluation effects in accordance with IAS 40 were recouped when selling real estate and as a result the reserve positions changed correspondingly. Of the reclassification, CHF 7.8 million are allocated to 2001 and CHF 2.3 million to 2002.

The revaluation reserves of CHF 57.3 million are not available for distribution to shareholders.

4.10 Financing liabilities

Maturity of financing (Capital commitment)

CHF million	<1 year	1–3 years	3–5 years	>5 years	Total
At 31 December 2001	122.7	0.0	0.0	489.4	612.1
At 31 December 2002	**30.0**	**0.0**	**0.0**	**853.8**	**883.8**
Amount with repayment	0.0	0.0	0.0	191.2	191.2
Annual repayment	0.0	0.0	0.0	8.1	8.1

Nearly all of the Allreal Group's financial debt refers to bank loans secured by real estate (see Note 6.3). They consist of fixed term advances, mortgages and building financing. Mortgages secured by investment properties are treated as having a long-term nature (>5 years).

Based on the wording of the loan agreements, CHF 12.8 million was allocated to the >5 years segment, CHF 59.0 million to the 3–5 years segment, CHF 42.5 million to the 1–3 years segment, and CHF 769.5 million to the <1 year segment.

Maturity of interest rates (interest rate lock up period)

CHF million	<1 year	1–3 years	3–5 years	>5 years	Total
At 31 December 2002					
Financing liabilities	824.5	44.5	12.0	2.8	883.8
Effect of interest rate swaps	–200.0	0.0	100.0	100.0	0.0
Total	**624.5**	**44.5**	**112.0**	**102.8**	**883.8**
Total in %	70.7	5.0	12.7	11.6	100.0
At 31 December 2001					
Financing liabilities	482.2	109.9	20.0	0.0	612.1
Effect of interest rate swaps	–300.0	0.0	100.0	200.0	0.0
Total	**182.2**	**109.9**	**120.0**	**200.0**	**612.1**
Total in %	29.7	18.0	19.6	32.7	100.0

The average interest rate lock up period as of 31 December 2002 was 6 months excluding interest rate swaps and 18 months including interest rate swaps (31 December 2001: 6 and 30 months).

The average interest rate as of 31 December 2002 was 2.0% excluding interest rate swaps and 2.4% when including interest rate swaps (as of 31 December 2001: 3.4% and 3.8%).

4.11 Other provisions

The other provisions primarily reflect existing risks resulting from current and completed work by the Project & Development division:

CHF million	Construction risk		Construction guarantees		Other		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
Status 1 January	4.2	19.0	0.8	0.3	0.8	0.0	5.8	19.3
Allocation	0.0	5.9	3.2	2.3	0.0	0.8	3.2	9.0
Utilised	–1.0	–13.1	0.0	–1.8	–0.4	0.0	–1.4	–14.9
Reclassification	0.0	–7.6	0.0	0.0	0.0	0.0	0.0	–7.6
Status 31 December	**3.2**	**4.2**	**4.0**	**0.8**	**0.4**	**0.8**	7.6	**5.8**

4.12 Other long-term liabilities

From 2002 onwards, owing to their long-term nature, the valuation effects of financial instruments (CHF 12.3 million) are shown as "Other long-term liabilities" and no longer as "Other short-term liabilities".

4.13 Trade payables

CHF million	2002	2001
General contracting division	56.0	n.v.
Order balance general contracting division	52.0	37.0
Trade payables	**108.0**	**37.0**

The values shown in the balance sheet are taken as liabilities after deduction of the corresponding receivables per project, in accordance with the valuation principles as defined in Note 2.10.

CHF million	2002	2001
Liabilities gross	1 147.9	1 381.0
./. Prepayments received	–1 039.9	–1 344.0
Trade payables	**108.0**	**37.0**

4.14 Other short-term liabilities

CHF million	2002	2001
Other liabilities	28.1	6.4
Valuation financial instruments	0.0	2.4
Accruals for vacation allowance	2.2	1.9
Other accruals	7.2	11.6
Other short-term liabilities	**37.5**	**22.3**

Other liabilities include a purchase price instalment due at 31 March 2003 from the acquisition of development property amounting to CHF 16.1 million.

Other accruals refer mainly to accrued interest expenses.

4.15 Equity (NAV) per share

	2002	2001
Outstanding shares (in '000)	6 198	6 274
Consolidated equity (CHF million)	611.3	593.3
Equity (NAV) per share after deferred taxes (CHF)	**98.63**	**94.55**
Consolidated equity plus provisions for deferred taxes minus deferred tax assets (CHF million)	672.7	635.9
Equity (NAV) per share before deferred taxes (CHF)	**108.54**	**101.35**
Consolidated equity minus revaluation reserves (CHF million)	554.0	557.3
Equity per share excl. revaluation effect (CHF)	**89.38**	**88.83**

5 Notes to the consolidated cash flow statement

5.1 Non cash changes in net current assets

The non cash changes concern in particular the effects of the reclassification of development property to investment property and in 2001 the reclassification of trade receivables to financial investments.

5.2 Investment property

CHF million	2002	2001
Additions	412.7	133.0
Buildings from internal development	82.4	49.9
Investments and similar	13.7	2.4
Investment in investment property	508.8	**185.3**
Additions from consolidations	0.0	48.0
Total investment in investment property	**508.8**	**233.3**

For details, please refer to page F59, "Additions commercial and residential real estate".

Buildings from internal development concern the two properties completed in 2002 at Andreasstrasse and Eggbühlstrasse, both in Zurich, as well as the investment property under construction at Brandstrasse in Schlieren and at Vulkanstrasse in Zurich.

5.3 Disposals of investment property

For details, please refer to page F60, "Disposals of commercial and residential real estate".

5.4 Changes in the scope of consolidation

The changes in the scope of consolidation for 2001 concern the acquisition of the following companies: Juventus AG, Grundstückgesellschaft Juventus, and Immobiliengesellschaft ATZ.

6 Supplementary notes

6.1 Income taxes

Current income taxes

The actual tax rates were applied when calculating current income taxes.

Deferred income taxes

When calculating deferred taxes a uniform tax rate of 25% before taxes is applied both to the general contracting division in general, and to the Real Estate division with regard to timing differences and for calculating deferred tax assets resulting from the decrease in value of investment properties.

The calculation of deferred taxes resulting from an increase in value of investment properties is based on a flat rate regardless of the peculiarities of cantonal taxation systems and rules (especially regarding taxes on gains from disposal of investment properties). In view of the long-term investment horizon the flat tax rate was defined as 25%, in accordance with an average ownership period of 20 years. In 2002 the rate was adjusted to 38% in accordance with an average ownership period of 10 years. As a result, surcharges on taxes on real estate earnings, as applied for shorter durations of ownership, do not apply. This rule excludes real estate for which a lower tax rate is applied owing to an ownership period exceeding 10 years.

The adjustment is made in view of the continuing strategy of value realisation which Allreal aims to increasingly follow in the future.

Deferred taxes on revaluation gains

The deferred taxes on revaluation gains consist of the following:

CHF million	2002	2001
On revaluation gains current year	4.0	4.2
On adjustment of tax rate	8.0	–
On adjustment of transfer expenses	3.6	–
Total deferred taxes on revaluation gains	**15.6**	**4.2**

For further information regarding deferred taxes on the adjustment of transfer expenses, please refer to Note 3.3.

Deferred tax liabilities and assets

Allreal's deferred tax liabilities, which serve as the basis for provisions for deferred taxes as shown in long-term debt, are as follows:

CHF million	2002	2001
Appreciation of investment property	35.6	18.1
Other value differences on investment property	9.7	6.4
Trade receivables	5.1	10.4
Change in scope of consolidation	11.3	11.0
Other balance sheet items	4.4	0.0
Provisions for deferred taxes	**66.1**	**45.9**

Deferred tax liabilities in connection with the upward revaluation of investment property in 2002 are based on an average holding period of 10 years from the date of purchase. An application of the tax rate related to real estate profits, which would have been due under the assumption of selling all real estate holdings at 31 December 2002, would lead to an increase of the deferred tax liabilities by approximately CHF 10.0 million.

Deferred tax assets consist of the following:

CHF million	2002	2001
Reduction in value of investment property	3.9	1.6
Tax loss carry-forward	0.8	1.7
Deferred tax assets	**4.7**	**3.3**

When capitalising deferred tax assets from loss carry-forwards or from negative adjustments to market value, IAS 12 assumes they can be offset. Based on the long-term scope of the investment, a value reduction in investment properties also assumes an upward valuation in future years; furthermore, there is the possibility of offsetting losses from real estate sales with other current earnings.

Transition account

The following table shows the transition from the income taxes calculated at the theoretical tax rates applicable to the group to the effective tax rate:

CHF million	2002	2001
Income taxes at an average tax rate of 25% (23%)	20.6	15.6
Non-deductible expenses	0.4	0.5
Adjustment of tax rate for revaluations	8.0	0.0
Other revaluation effects	0.9	0.4
Other items	1.3	0.7
Effective tax liability	**31.2**	**17.2**

6.2 Purchase obligations, contingent liabilities and legal disputes

CHF million	2002	2001
Purchasing obligations	35.2	19.2
Guarantees and liens	0.3	2.8
Other contingent liabilities	12.0	0.0

The purchase obligations concern the planned purchase in 2003 of three plots/pieces of land for project development.

The guarantees and liens are in connection with activities of the general contracting division for third parties.

The remaining contingent liabilities regard the obligation to purchase on demand a maximum of 160 000 Allreal shares from the counterparty (put option) staggered across the period ending 31 July 2007. The purchase price corresponds to 90% of the share price on the day of execution, subject to a minimum price of CHF 75 per share. The disclosed contingent liability corresponds to the minimum price.

At 31 December 2002 there were no pending legal disputes which could materially affect the financial situation of the Allreal Group. For the record, for pending or threatened legal disputes arising from normal business activity Allreal has made provisions to the extent required (see Note 4.11).

6.3 Pledged assets to insure own liabilities

CHF million	2002	2001
Investment properties	1 505.9	1 025.5
Development property	157.6	206.4
Total assets affected	**1 663.5**	**1 231.9**
Of which pledged or with limited availability	1 199.4	950.0
Of which used	1 019.3	603.5

6.4 Derivative financial instruments

Allreal makes use of derivative financial instruments in the form of interest swaps and interest swaptions. Since these are cash flow hedges, changes in value are shown in equity as follows:

CHF million	2002	2001
Status 1 January	–3.3	–1.6
Losses from market valuation	–13.1	–1.7
Status 31 December	–16.4	–3.3
Minus deferred taxes	4.1	0.9
Status 31 December net	**–12.3**	**–2.4**

At 31 December 2002 the interest swaps amounted to CHF 200.0 million as follows (in CHF):

Term	Interest rate	Contract value	Negative cost of replacement
March 2006	2.9%	50.0	–3.3
August 2006	3.3%	50.0	–3.6
August 2008	3.45%	100.0	–9.0
Total interest swaps		**200.0**	**–15.9**

In addition there were interest swaptions amounting to a total of CHF 300.0 million with a negative cost of replacement totalling CHF –2.9 million.

6.5 Transactions with related parties

The board of directors fees for the 2002 financial year amounted to CHF 0.3 million in total (2001: CHF 0.3 million), and the remuneration of the general management totalled CHF 1.7 million. There are no receivables, liabilities or guarantees in connection with members of the board. Loans totalling CHF 0.3 million were granted at arm's length to members of management.

In 2000 and 2001 members of the board and members of management were assigned options to purchase Allreal shares at a price of CHF 69 per share. The options issued are encumbered by a lock up period of one, two and three years following the date of issue (29 September 2000). The term of all options is four years. The following options were outstanding at 31 December:

	2002	2001
Outstanding options at 1 January	92 139	87 474
Assigned options	0	13 875
Executed options	–31 938	0
Expired options	0	-9 210
Outstanding options at 31 December	**60 201**	**92 139**

6.6 Inter-Group relations

The transactions between the individual group companies were carried out at arm's length conditions. This is especially the case for construction performance by the Project & Development division for the Real Estate division. Furthermore, the Project & Development division provided management services in favour of the other divisions, for which it was remunerated CHF 1.9 million by the Real Estate division (2001: CHF 1.5 million) and CHF 0.2 million (CHF 0.2 million) from Allreal Holding AG.

6.7 Employee benefits

Until 31 December 2001 the companies in the Allreal Group were attached to an external and independent pension plan (Multi Employer Solution). Effective 1 January 2002, all Allreal employees are insured with the newly founded Allreal Pension Fund. The fund took over the assets (CHF 43.3 million) which were assigned to it from the part liquidation of the predecessor fund.

The Allreal Pension Fund is organised in accordance with Swiss law and is a legally independent defined contribution plan. Allreal is not liable for the obligations of the pension fund, and its obligations are limited to annual contribution payments. The statutes foresee that a possible cover shortage of the pension fund be balanced out either by higher contributions or lower benefits. By the same token, Allreal has no claim to any surpluses generated by the fund.

The pension fund shows the following items in accordance with Swiss legal regulations and calculations based on actuarial models:

CHF million	31.12.2002	01.01.2002
Total plan assets	42.5	43.3
Pension obligations (assurance cover)	40.6	39.6
Net assets	**1.9**	**3.7**

In accordance with IAS standard 19, which governs the IFRS rendering of accounts, and based on the projected unit credit method, the Allreal Group's consolidated financial statements are shown as follows:

CHF million	31.12.2002	01.01.2002
Present value of funded obligations	55.1	49.0
Fair value of plan assets	–49.7	–43.4
Net pension liability/technical difference	5.4	5.6
Unrecognised actuarial loss	7.2	0.0
Net pension liability/technical difference	**12.6**	**5.6**

The calculation of the pension obligations is based on the following assumptions:

	31.12.2002	01.01.2002
Technical interest rate (discount rate)	4.00%	4.00%
Future salary increases	3.00%	3.00%
Future pension increases	1.00%	1.00%
Expected return on assets	5.25%	5.25%
Age-related, average fluctuation rate	16.0% p.a.	15.0% p.a.

Movement of net pension liabilities

CHF million	2002
Net pension liabilities at 1 January	5.6
Total pension expenses	1.8
Employer contributions	–2.0
Net pension liabilities at 31 December	**5.4**

Calculation of pension expenses

CHF million	2002
Current service cost	4.1
Interest cost	2.0
Total expenses	**6.1**
Employees' contributions	–2.0
Expected return on plan assets	–2.4
Net pension expenses charged to employer	**1.7**
Employer contributions (reported in personnel expenses)	–2.0
Additional pension expenses (charged to consolidated accounts)	**–0.3**

In addition to the Allreal Pension Fund an insurance has been concluded for management, for which the Allreal Group's obligations concern only the annual contributions.

In total, the reported pension fund expenses for 2002 amounted to CHF 2.3 million (2001: CHF 2.1 million).

The Allreal Pension Fund owns Allreal shares amounting to CHF 0.5 million.

6.8 Subsequent events

Allreal sold the two commercial buildings at Andreasstrasse 13–17 and Eggbühl, both in Zurich, effective 1 January 2003 and 1 February 2003 respectively. The proceeds from the sales amounted to CHF 156 million. As a result, Allreal not only realised the revaluation profit reported for 2002 of CHF 28.6 million but over and above that a further profit from the sale of CHF 2.5 million. Seed to the historic cost the total profit is reported at CHF 31 million (before taxes).

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Information on the real estate portfolio

Commercial real estate 31 December 2002

Place	Address	Ownership[1]	Year of purchase	Year of construction	Renovations[2]	Land area in m[2]	Register of assumed contaminated sites
City of Zurich							
Zurich	Andreasstr. 13–17	AE	1999	2002		8 079	no
Zurich	Badenerstr. 141	BR	2002	1968	2002 TR	713	yes
Zurich	Birmensdorferstr. 108/Weststr. 75	AE	2000	1983		1 254	no
Zurich	Bleicherweg 66/Freigutstr. 6	AE	1984	1896	1987 GR	698	no
Zurich	Brandschenkestr. 38/40	BR	2001	1992		1 402	no
Zurich	Dianastr. 5	AE	2000	1966		790	no
Zurich	Dreikönigstr. 37	AE	2000	1990		1 264	no
Zurich	Dufourstr. 101	AE	1999	1969		710	no
Zurich	Eggbühlstr. 15–17[7]	AE	1989	2002		3 019	no
Zurich	Grüngasse 27–31/Badenerstr. 119–133	AE	2002	1925	1987 TR	7 870	yes
Zurich	Hardstr. 319 (Escher-Wyss-Areal)	AE	2002	1945–1997		60 729	yes
Zurich	Hardturmstr. 100–106	BR	2002	1911		2 674	yes
Zurich	Hofwiesenstr. 370/Nansenstr. 12/16	StWE	1999	1972		1 757	no
Zurich	Hohlstr. 600	AE	2001	1986		2 894	no
Zurich	Kalchbühlstr. 22/24	AE	2000	1976		3 101	no
Zurich	Lagerstr. 41+45	AE	2001	1954		1 000	no
Zurich	Langgrütstr. 172	BR	2002	1964	2000 TR	1 243	yes
Zurich	Langstr. 94/Dienerstr. 33	BR	2002	1952	1996 TR	772	no
Zurich	Neugasse 50+52	BR	2002	1930		744	no
Zurich	Oetenbachgasse 26	AE	2000	1900	1970 TR	372	no
Zurich	Renggerstr. 3	AE	1999	1966	2001 TR	1 389	no
Zurich	Sihlhallenstr. 28–30	BR	2002	1985		737	no
Zurich	Tellstr. 31	AE	1999	1956	1992/1995 TR	433	yes
Zurich	Thurgauerstr. 39	AE	1999	1970	1989/2000 GR	3 640	no
Zurich	Weststr. 117–119	BR	2002	1956	2002 TR	922	yes
Zurich	Zollstr./Josefstr. 23–29/Klingenstr. 4	BR	1993	1997		4 201	no
Total City of Zurich						**112 407**	
Canton of Zurich							
Dielsdorf	Kronenstr. 10	AE	1999	1979	1995 TR	1 936	no
Glattbrugg	Talackerstr. 11, Glattor	AE	1997	1969	1995 TR	4 086	no
Kloten	Schaffhauserstrasse 115/121	AE	2001	1992		4 000	no
Schlieren	Zürcherstr. 104	AE	2002	1988		4 724	no
Urdorf	In der Luberzen 29	AE	2000	1993		4 667	no
Winterthur	Schützenstr. 2/Zürcherstr. 12+14	AE	2002	1928/53/86		18 386	no
Zumikon	Farlifangstr. 1	AE	2000	1986	2000/2001 GR	2 717	no
Total Canton of Zurich						**40 516**	

[1] AE = sole ownership; BR = building law; StWE = condominium
[2] GR = total renovation; TR = part renovation
[3] in per cent of target rental income 2002
[4] in accordance with valuation at 31 December 2002
[5] H = maintain; I = invest; V = sell
[6] sold at the beginning of 2003
[7] for own use

Useable surface area in m[2]	Office share in %	Retail store share in %	Residential share in %	Other utilisation in %	Target rental income in CHF million	Vacancy rate in %[3]	Number of tenants	Share of major tenants in %	Rental maturity major tenants (term)	Discounting or capitalisation rate in %[4]	Strategy[5]
19 940	90.1	0.0	0.0	9.9	6.3	31.0	7	33	2007	5.50	V[6]
2 409	79.0	0.0	0.0	21.0	0.8	0.0	5	39	2006	5.50	H
5 095	74.9	2.8	5.7	16.6	1.8	0.0	6	48	2005	5.50	H
2 063	52.6	0.0	27.0	20.3	0.8	1.8	5	26	2009	5.25	V
6333	37.9	0.0	22.6	39.5	2.1	0.0	1	100	2011	5.25	H
2 750	78.7	0.0	14.5	6.8	2.0	0.0	5	75	2004	5.25	H
3 748	79.3	0.0	8.1	12.6	2.5	0.0	1	100	2009	5.25	H
3 639	86.3	0.0	0.0	13.7	1.5	0.9	8	20	2003	5.38	H
8 118	77.6	4.9	0.0	17.5	2.7	47.0	1	100	2017	5.50	V[6]
14 082	16.5	7.6	32.8	43.1	3.3	4.0	34	34	2006	5.25/6.25	I
47 978	34.7	0.0	0.0	65.3	6.8	0.0	15	67	2006	6.00–12.00	I
4 460	7.5	18.4	65.7	8.4	0.8	0.0	1	100	2006	5.50/6.25	H
1 250	100.0	0.0	0.0	0.0	0.4	0.0	1	100	2007	5.38	H
10 190	91.0	0.0	0.0	9.0	3.5	0.0	1	100	2004	5.50	H
6 244	45.8	0.0	6.0	48.2	1.4	0.0	1	100	2009	5.38	H
5 279	75.4	0.0	0.0	24.6	3.0	0.0	1	100	2004	5.50	I
1 545	69.4	0.0	0.0	30.6	0.3	0.0	9	30	2006	5.50/6.00	H
2 652	61.2	14.3	0.0	24.5	0.5	0.0	10	27	2006	5.50/6.50	H
2 480	0.0	0.0	69.4	30.6	0.9	0.0	1	100	2006	5.50	H
1 591	42.4	25.6	17.0	15.1	0.9	0.5	6	38	2004	5.25	V
1 729	77.1	0.0	0.0	22.9	0.5	0.0	7	32	2005	5.50	H
2 755	16.7	14.2	66.8	2.3	0.9	0.0	4	12	–	5.50/6.00	H
1 352	62.9	5.2	6.7	25.3	0.3	0.2	6	27	–	5.50	V
10 189	68.4	9.5	1.3	20.8	2.4	3.3	8	23	–	5.50	H
2 784	77.4	0.0	0.0	22.6	0.3	0.0	4	16	–	5.50/6.25	H
10 703	56.9	3.3	29.8	9.9	2.5	1.5	5	20	2007	5.38	H
181 358	**54.9**	**2.8**	**10.0**	**32.3**	**49.2**	**4.9**					
1 705	26.0	56.0	3.6	14.4	0.4	0.3	4	70	2009	5.50	H
7 417	9.0	74.7	0.0	16.3	1.8	1.6	62	5	2007	5.50	H
3 794	97.5	0.0	0.0	2.5	1.8	1.3	6	70	2010	5.50	H
2 705	35.5	43.1	0.0	21.4	1.2	0.0	1	100	2012	5.50/5.75	H
10 891	75.9	0.0	0.0	24.1	2.6	0.0	1	100	2006	5.50	H
24 010	84.0	0.0	0.0	16.0	5.3	1.0	20	85	2007	5.50	H
3 557	51.4	0.0	0.0	48.6	0.8	0.0	1	100	2006	5.50	H
54 079	**66.6**	**14.2**	**0.1**	**19.1**	**13.9**	**1.6**					

Commercial real estate 31 December 2002

Place	Address	Ownership[1]	Year of purchase	Year of construction	Renovations[2]	Land area in m²	Register of assumed contaminated sites
Other regions							
Aarau	Bahnhofstr. 29	AE	1999	1971		898	no
Baar	Baarermatte	AE	2002	1981		17960	no
Baar	Oberdorfstr. 9–13	AE	2000	1989		5216	no
Basel	Clarastr. 56	AE	1999	1980		185	yes
Basel	Missionsstr. 60–62a	AE	1999	1972	2002 GR	1811	yes
Basel	Steinenvorstadt 36	AE	1999	1982	2002 TR	718	no
Muttenz	St. Jakobs-Str. 110	AE	1999	1987		2367	no
Total other regions						**29155**	
Total commercial real estate						**182078**	
Buildings under construction							
Schlieren	Brandstr. 30	AE	2001	2003		7089	no
Zurich	Andreasstr. 13–17 (Mieterausbauten)	AE	1999	2003		–	–
Zurich	Vulkanstrasse	AE	2002	2005		16322	yes
Total buildings under construction						**23411**	
Land reserves							
Opfikon	Lightcube	AE	1987	2005[6]		5241	no
Rümlang	Airport Business Park, Trakt A	AE	1987	2006[6]		11000	no
Zurich	Militärstr. 42/Jägergasse 7	AE	2001	2007		6284	no
Total land reserves						**22525**	

[1] AE = sole ownership; BR = building law; StWE = condominium
[2] GR = total renovation; TR = part renovation
[3] in per cent of target rental income 2002
[4] in accordance with valuation at 31 December 2002
[5] H = maintain; I = invest; V = sell
[6] expected date of completion

Useable surface area in m^2	Office share in %	Retail store share in %	Residential share in %	Other utilisation in %	Target rental income in CHF million	Vacancy rate in %[3]	Number of tenants	Share of major tenants in %	Rental maturity major tenants (term)	Discounting or capitalisation rate in %[4]	Strategy[5]
2 920	41.6	41.7	0.0	16.7	0.9	0.3	13	23	2003	5.50	H
9 878	75.4	0.0	0.0	24.6	2.7	3.4	12	36	2006	5.50	H
6 703	63.0	12.4	11.1	13.5	2.1	4.8	19	29	2004	5.50	H
1 289	58.6	33.8	7.6	0.0	0.3	0.0	6	28	2007	5.50	V
3 985	81.8	0.0	8.0	10.2	1.1	32.0	1	100	2017	5.50	H
4 292	37.5	27.8	30.3	4.4	1.4	7.4	4	25	2007	5.38	H
2 043	98.0	0.0	0.0	2.0	0.5	21.8	5	24	2003	5.75	H
31 110	**658**	**12.0**	**68**	**54**	**9.0**	**6.2**					
266 547	**58.6**	**6.1**	**7.8**	**27.5**	**72.1**	**4.2**					

12 040		Book value CHF million:	30.6	Investment volume CHF million:	45.0
–			10.9		15.0
37 700			**52.4**		185.0
49 740			**93.9**		**245.0**

	Project status: planning permission	Book value CHF million:	13.8	Investment volume CHF million:	50.0
	planning permission		10.3		80.0
	At planning stage		9.9		35.0
			34.0		**165.0**

Residential real estate 31 December 2002

Place	Address	Owner ship[1]	Year of purchase	Year of construction	Renovations[2]	Land area in m²	Register of assumed contaminated sites	Residential surface area in m²
City of Zurich								
Zurich	Bächlerstr. 54–58	BR	2002	1954		2 327	no	1 412
Zurich	Bäulistr. 15–21	StWE	2002	1982		5 143	no	1 977
Zurich	Josefstr. 137	AE	1999	1984		903	yes	2 747
Zurich	Weststr. 74	AE	1996	1995		1 482	no	1 810
Total City of Zurich						**9855**		**7946**
Canton of Zurich								
Au ZH	Seeguetstr. 2+4/9–15	BR	2002	1962	2002 TR	6 181	no	3 748
Au ZH	Seeguetstr. 8	BR	2002	1961		1 979	no	1 435
Bülach	Hohfuristr. 7–11/ Unterweg 55–59/Im Stumpen 2	AE	1999	1979		8 412	no	3 850
Effretikon	Brandriet 2+4, Florastr. 4+6, Rütli 3+5	BR	2002	1970		5 337	yes	2 808
Glattbrugg	Hohenstieglenstr. 1–23	AE	1999	1990		29 639	no	14 654
Glattbrugg	Plattenstr. 12	AE	1999	1963	2002 TR	1 568	no	984
Glattbrugg	Schaffhauserstr. 141	AE	1999	1969	1985/1991 TR	1 430	yes	933
Glattbrugg	Schaffhauserstr. 38	AE	1999	1964	1994 GR	1 687	yes	384
Kloten	Schaffhauserstr. 117/119	AE	2001	1992		3 643	no	2 090
Niederhasli	Heiselstr. 81–91	AE	1992	1996		20 672	no	6 096
Opfikon	Rietgraben 40–48/Wallisellerstr. 131–145	AE	1999	1962	1982/1989 TR	17 632	no	7 860
Richterswil	Bodenstr. 13–21	BR	2002	1974		6 142	no	4 693
Schlieren	Limmataustr. 2–8/ Limmatstr. 9–11/Engstringermatt	AE	1999	1984		8 907	yes	5 100
Schlieren	Schulstr. 71–77/Flöhrebenstr. 6	StWE	2002	1988		2 543	no	3 332
Schlieren	Zürcherstr. 52	AE	2002	1972		2 214	no	1 515
Schlieren	Zürcherstr. 64	AE	1999	1972		1 395	yes	1 783
Volketswil	Sunnebüelstr. 1–17/ Ifangstr. 12–20/Neufund 1/3	AE	1999	1968	2002/2003 GR	20 110	no	12 236
Total Canton of Zurich						**139491**		**73501**
Other regions								
Allschwil	Kurzelängeweg 26–38+32a	AE	1999	1989		6 260	no	4 015
Basel	Hammerstr. 160/164/ Bläsiring 150–160/Efringerstr. 25	AE	1999	1979		5 394	yes	7 569
Total other regions						**11 654**		**11 584**
Total residential real estate						**161000**		**93031**

[1] AE = sole ownership; BR = building law; StWE = condominium
[2] GR = total renovation; TR = part renovation
[3] in per cent of target rental income 2002
[4] in accordance with valuation at 31 December 2002
[5] H = maintain; I = invest; V = sell

1–1½-room apartment	2–2½-room apartment	3–3½-room apartment	4–4½-room apartment	≥5-room apartment	Total apartments	Other utilisation in m²	Target rental income in CHF million	Vacancy rate in %[3]	Discounting or capitalisation rate in %[4]	Strategy[5]
6	4	10	2	2	24	10	0.2	0.0	5.50	H
2	9	15	0	0	26	45	0.6	0.0	5.50/5.75	H
4	36	0	0	0	40	212	0.7	0.4	5.50	H
3	7	7	7	0	24	1 454	1.0	0.0	5.50	H
15	**56**	**32**	**9**	**2**	**114**	**1 721**	**2.5**	**0.2**		
0	12	24	20	0	56	269	0.7	0.0	5.75/6.25	H
0	12	7	5	0	24	0	0.3	0.0	5.75/6.25	H
0	9	16	6	18	49	112	0.9	1.8	5.50	H
9	36	9	0	0	54	0	0.6	0.0	5.75/6.25	H
18	30	71	41	0	160	659	3.3	0.1	5.50	H
7	3	3	3	0	16	100	0.2	0.1	5.50	H
33	0	1	0	0	34	469	0.4	3.8	5.50	H
25	0	0	1	0	26	28	0.1	7.9	5.50	H
0	4	0	10	4	18	200	0.6	0.6	5.50	H
0	9	15	47	0	71	158	1.6	2.6	5.50	H
0	31	62	12	12	117	171	1.5	0.1	5.50	V
1	9	26	18	5	59	217	0.8	0.0	5.75/6.00	H
0	18	24	12	0	54	286	1.0	0.3	5.50	H
0	0	24	16	0	40	354	0.4	4	5.50/5.75	H
0	5	11	6	0	22	671	0.3	0.0	5.50	H
7	5	12	5	0	29	268	0.5	3.0	5.50	H
0	0	48	60	40	148	110	1.7	5.9	5.50	I
100	**183**	**353**	**262**	**79**	**977**	**4 072**	**14.9**	**1.7**		
0	7	20	20	0	47	490	1.0	0.5	5.50	H
11	7	48	11	7	84	1 324	1.6	5.5	5.50	V
11	**14**	**68**	**31**	**7**	**131**	**1 814**	**2.6**	**3.4**		
126	**253**	**453**	**302**	**88**	**1 222**	**7 607**	**20.0**	**1.6**		

Development property

Place	Building	Type[1] or description	Purchase	Land area in m[2]	Register of assumed contaminated sites	Book value in CHF million	Estimated investment volume in CHF million[2]	Status of project or sales	Expected completion
Development reserves									
Bülach	Wisental	162 StWE (Phase 1: 54 StWE)	2002	22 808	no	14.6	76.0	Planning permission; 20/54 reserved	2005
Opfikon	Oberhauserriet	WL	1987	10 828	no	5.8	40.0	Research contract	open
Regensdorf	Rainbow Park	GL	1990	18 700	no	9.3	85.0	Planning permission	open
Rümlang	Airport Business Park Trakt B/C	GL	1987	20 976	no	8.7	160.0	At the planning stage	open
Uitikon-Waldegg	Wängimatt	21 StWE	2002	7 459	yes	5.4	19.0	Planning permission;15/21 reserved	2004
Wallisellen	Richti-Areal	GL	2002	16 429	yes	18.1	90.0	Planning permission	open
Zurich	Langmatt	55 WL/StWE	2002	5 071[3]	no	6.1[3]	82.0	Urban district planning	2006
Zurich	Mühlackerstrasse	WL/GL	1998	31 056	yes	14.7	120.0	At the planning stage	open
Zurich	Neunbrunnenstr. 45–55	GL	1993	4 538	yes	6.0	27.0	Rented existing building	open
Zurich	Riedhof-/ Singlistrasse	16 StWE	1989/99	2 314	no	1.7	12.0	Urban district planning	2005
Total development reserves				**140 140**		**90.4**	**711.0**		
Buildings under construction									
Niederhasli	Wiesenfeld	33 EFH	1992	9 040	no	12.7	23.0	18/33 sold	2003
Zurich	Arnikahof	WL	2001	11 553	no	12.4	51.0	–	2004
Zurich	Frohbühl	116 StWE	2001	13 154	no	24.2	53.0	76/116 sold	2003
Total buildings under construction				**42 428**		**49.3**	**127.0**		
Completed buildings									
Fällanden	Zilbach	60 StWE	2000	8 681	no	8.0		41/60 sold	2002
Gland	Ch. de la Perroude	46 StWE	1993	4 644	no	4.4		33/46 sold	1995
Oberrieden	Säntisstrasse	38 StWE	1999	9 856	no	4.0		35/38 sold	2002
Diverse		WL/StWE	–	–	–	1.5		–	–
Total completed buildings						**17.9**			

[1] EFH = single family home, GL = commercial building, StWE = condominium, WL = residential building
[2] Cost of building and land
[3] Only part of land purchased so far

Further information on the real estate portfolio (as at 31 December 2002)

Major tenants commercial real estate

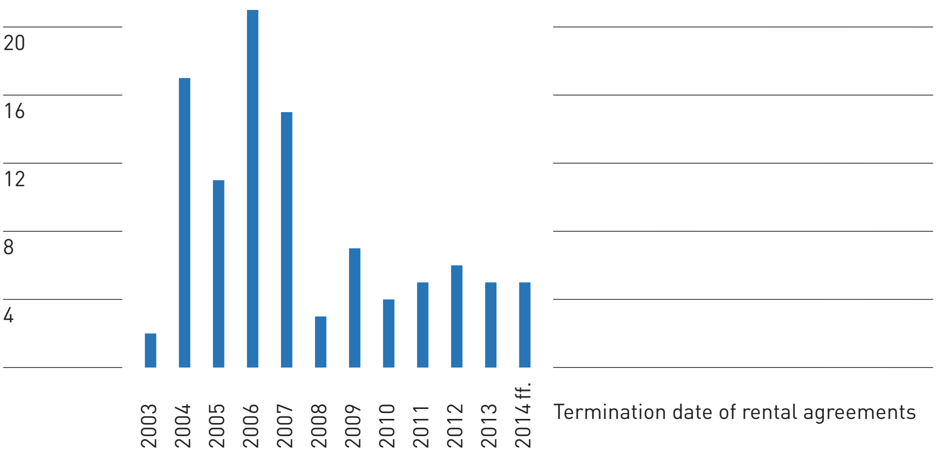
The five major tenants are Bank Vontobel AG, IBM (Switzerland) AG, MAN Turbomaschinen AG, Bank Julius Bär & Co. AG, and Hewlett-Packard (Switzerland) AG. The total earnings commercial real estate are broken down as follows:

	2002	2001
— the largest tenant	9 %	11 %
— the three largest tenants	22 %	25 %
— the five largest tenants	31 %	36 %

The average term of the leases negotiated with the largest three tenants is 4 years.

Expiration profile of the limited lease agreements commercial real estate

In per cent of rental income



Unlimited rental agreements contribute 6.8% to total rental income.

Additions commercial and residential real estate

CHF million	Historical cost	Market value	Target rental income p.a.
Additions commercial real estate	307.2	312.9	25.6
Additions residential real estate	65.3	62.1	5.3
Own developments completed	119.0	147.6	10.0
Total additions	**491.5**	**522.6**	**39.9**

In total for 2002, twelve commercial and eight residential buildings were acquired and two commercial buildings completed. For the buildings acquired under leasehold, Allreal holds an option to acquire in 2007/08 the land on which they stand for a total amount of CHF 45.6 million.

Disposals commercial and residential real estate

Town	Address	Type[1]	Year of acquisition	Transfer of use
Frenkendorf	Parkstrasse 3	GL	1999	02.05.2002
St. Gallen	Spisergasse 13–19/ Löwengasse 4/ Brühlgasse 29	GL	2000	01.01.2002
St. Moritz	Via Maistra 16	GL	1999	01.01.2002
Wädenswil	Seestrasse 104	GL	1999	01.10.2002
Zürich	Goldbrunnenstr. 150	WL	1999	01.10.2002

[1] GL = Commercial real estate, WL = Residential real estate

Changes real estate under construction

During the first half-year 2002, Allreal acquired the land required for the commercial headquarters of IBM (Switzerland) AG at Vulkanstrasse in Zurich and began the construction.

The buildings at Andreasstrasse 13–17 and Eggbühlstrasse 15, both in Zurich, were completed during the first half-year 2002 and transferred from buildings under construction to commercial real estate. Various tenant extensions were only completed in 2003.

The property at Militärstrasse 42/Jägerstrasse 7 will be newly developed by the year 2007, and it was therefore reclassified from commercial real estate to land reserve.

Changes in development property

The following development properties were sold in 2002:

Town	Property	Type[1]
Küsnacht	Zeltengut	WL/StWE
Zürich	Eichrain	WL
Zürich	Neunbrunnenstrasse	WL

Construction was started in 2002 on the following properties:

Niederhasli	Wiesenfeld	WL/EFH
Zürich	Arnikahof	WL

The following properties were acquired in 2002 and will be developed in the coming years and transferred to new owners upon completion:

Bülach	Wisental	WL/StWE
Wallisellen	Richti-Areal	GL
Zürich	Langmatt	WL/StWE
Uitikon-Waldegg	Wängimatt	WL/StWE

[1] EFH = One-family house; GL = Residential real estate; StWE = Condominium; WL = Residential real estate

Report by the independent real estate appraiser

To the management of

Allreal Holding AG, Baar

Zurich, 10 February 2003

Valuation of the real estate portfolio as at 31 December 2002

Instructions
As instructed and for the purposes of your annual accounts, we have valued the 40 commercial and 23 residential buildings included in your annual report in the chapter "Information on the real estate portfolio" as at 31 December 2002 based on the discounted cash flow method (DCF).

The buildings are known to us. We have inspected them in accordance with your requirements. We carried out the necessary inspections on location and thus obtained further information which we considered to be necessary.

Valuation principles
We confirm that we carried out the valuation as external appraisers and in accordance with the guidelines and implementation regulations set out by the Royal Institution of Chartered Surveyors (RICS).

The values reflect our appraisal of open market values at 31 December 2001. Value-added tax, tax on profit made on real estate, public fees and brokers' commissions were not included.

Our appraisals were carried out using the discounted cash flow (DCF) method and correspond to the open market value on 31 December 2002 as defined by the Royal institution of Chartered Surveyors. In agreement with IVSC (International Valuation Standards Committee) and TEGOVA (The European Group of Valuers' Associations) the appraised amount which should be exchanged in a usual business transaction for a real estate asset on the day of valuation between a willing seller and a willing buyer following an appropriate period set aside for marketing the property, serves as the market value, assuming that each party acts independently, knowledgeably, prudently and without coercion.

The above definition corresponds to that of the fair value model as published in IAS 40, paragraphs 27–49. Value added tax, transfer fees, tax on the profit made when selling the property and other commissions were not taken into account. We took no consideration of the owner's liabilities regarding taxes or financing expenses. In contrast to the valuation of 31 December 2001 the valuation of 31 December 2002 deducts the expected cost of sale (2% of market value) in coordination with the IAS guidelines.

The determination of market value of a building that is completely or partly vacant is made under the assumption that renewed leasing would take time. Lower rental, rent free periods and other incentives for new tenants that correspond to the prevailing use were taken into consideration for the valuation.

The discount rates were chosen in such a way that they reflect current rates on the market.

Valuation at 31 December 2002
By taking into consideration the factors mentioned above, we estimate the market value of the appraised properties at 31 December 2002 as follows:

Commercial real estate	CHF	1 085.3 million
Residential real estate	CHF	292.7 million
Total	**CHF**	**1 378.0 million**

Confidentiality
Finally and corresponding to our usual business policy we would like to point out that the present valuation was carried out only for the reasons mentioned above and excludes all liabilities assumed toward third parties.

Ernst & Young AG
Real Estate Corporate Finance

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Enclosure: Definition of the DCF valuation

Definition of the DCF valuation

The valuation method, value drivers and assumptions described below apply to an overwhelmingly large part of Allreal's real estate. There are reservations regarding valuations based on other information than that mentioned below.

Value drivers for real estate investments

DCF value drivers

Cash flow income

Value change

Net income

(rental income ./. service and maintenance costs ./. vacancies)

Real estate expenses

(management and upkeep)

Rental market

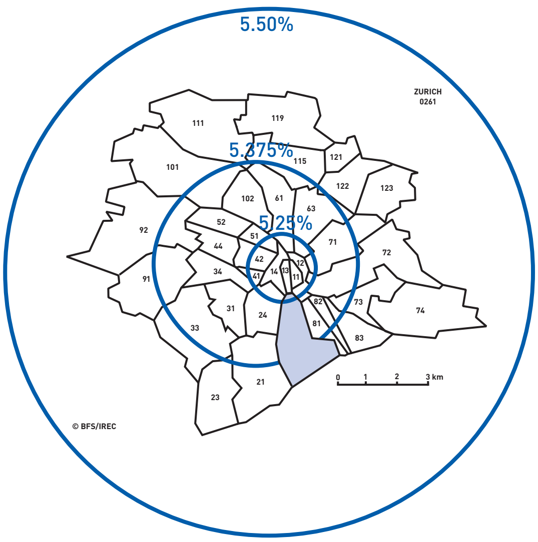
(changes in current rentals)

Transaction market

(change in initial income paid)

Discount and capitalisation rate

The discount rate for discounting future cash flows is based on the interest rate for a risk-free 10-year Swiss federal bond including an increase for risk pertaining to real estate. In Switzerland, the spread between a federal bond and an investment in real estate is currently between 250 and 400 basis points as verified regularly by Ernst & Young Real Estate based on real estate transactions carried out. The liquidity of local real estate markets correlates with the centrality of the locations. Therefore, the discount rate is varied in accordance with the structure of urban centres as applied by the Swiss Federal Statistical Office. The city of Zurich and surrounding areas, for example, presents the following structure:



Possible deviations from this structure are based on special circumstances in the micro situation.

In the calculations, the discount rate is treated as equivalent to the capitalisation rate of the exit value. This is based on the assumption that all risks specific to real estate (rental level, tenant creditworthiness, state of the building, etc) are already reflected in the cash flow and thus excludes the double counting risks in both the cash flow and the discount rate.

Owing to the method chosen, the discount and capitalisation rates have been changed only by applying great care and with a certain time-lag. For the valuation as at 31 December 2002, and as in previous years, they varied between 5.25% and 6.25%. While the discount rate was taken between 5.25% and 5.75% (weighted average: 5.53%), the capitalisation rate of the exit value lies between 5.25% and 6.25% (weighted average: 5.68%). The difference reflects a higher maintenance risk for acquisitions made in the year 2002.

The discount rate should not be compared to the capitalisation rate of a static income value appraisal, and for the independent appraisal of the market value of real estate it is not comparable to the weighted average cost of capital (WACC), which reflects the capital expense of specific companies and may vary considerably from company to company.

Rental income

The basis taken for the valuation is the effective rental income for the year 2002. This rental income has been indexed for the rental term. For rental agreements with a limited term, the rentals applied are estimated market rentals at the time of expiration from today's perspective. Market rentals are based on the rental databank and real estate research conducted by Ernst & Young Real Estate. In the case of tenant options to extend the agreement, the lower of market and contractual rent has been applied. Market rents were not used in the case of rental agreements with unlimited duration (which usually applies to residential real estate).

Indexing

The indexing of future rental income is one of the essential elements in protecting real estate against inflation, and therefore, in a dynamic examination, it has to be taken into account. The indexing rate essentially depends on the contents of the rental agreements. Based on the research results of Ernst & Young AG regarding the macro-economic development, the expectations regarding development of the consumer price index (CPI) were defined up to the month of September. A growth of 1% is expected for the long-term.

Expectations regarding CPI growth were applied to all of the real estate appraised by Ernst & Young. Based on our experience, a long-term forecast is connected with a high degree of uncertainty. However, the development of the forecasts over the past 15 months shows a significant downward trend. In accordance with our assessment of the macro-economic situation in the European economic region, and the related long-term economic situation, we assume a sliding average rate of inflation of 1% for our DCF valuations as at 31 December 2002. Restricted rent agreements are usually connected to the CPI while residential rent agreements are connected to the level or the change in mortgage rates.

The indexing of rental income used for the appraisal of Allreal's investment real estate does not necessarily reflect a change in the CPI or in mortgage rates, but in connection with the discount rate corresponds to the protection of real value in the real estate investment category. The following parameters apply:

	at 31 December 2002	at 31 December 2001
Rental income commercial real estate	1.00% p.a.	0.75% p.a.
Rental income residential real estate	0.50% p.a.	0.50% p.a.
Operating expenses	1.00% p.a.	1.00% p.a.
Building expenses	1.50% p.a.	1.50% p.a.

Within the framework of simplifying the macro-economic parameters used by Ernst & Young, the average indexing of rental income from commercial real estate was increased from 0.75% to 1.0% for the 10-year valuation horizon. However, for the 2002 valuation the assumption was made that commercial rents in 2003 would remain constant; thus the 1% indexing is only scheduled to start in 2004.

Vacancy rate
Structural vacancy is the result of supply and demand in a micro market. A rate of 0.5% was applied to residential real estate and 1.0% to commercial real estate.

Specific vacancy caused by tenant fluctuation in a specific building was analysed on the basis of historical data and reflected in future cash flows based on absorption scenarios.

Administrative expenses
The administrative expenses used in principle are based on the accounting of each building. They correspond to the owner's expenses. Future administrative costs are modelled on the analysis of historical data and internal benchmarks of Ernst & Young Real Estate.

Maintenance expenses

In addition to rental income, future expenses for maintenance are of enormous relevance. In the DCF valuations carried out by Ernst & Young Real Estate, the maintenance expenses were taken in accordance with the 10-year budget. These expenses only include expenses incurred for the upkeep of the building to secure the contractual and market rate level on which the appraisal was based. For the exit year, in addition to the individual appraisal, the calculation includes imputed maintenance expenses of at least 4% of the gross rental income.

In accordance with IAS 40, project developments or related additional rental income were not taken into consideration.

To the general meeting of

Allreal Holding AG, Baar

Zurich, February 20, 2003

Report of the statutory auditors

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes/pages F68 to F72) of Allreal Holding AG for the year ended December 31, 2002.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

Ernst & Young Ltd

M. Schneider
Swiss Certified Accountant
(in charge of the audit)

C. Dolensky
Swiss Certified Accountant

Income statement

CHF million	Note	2002	2001
Income from investments	2	54.0	22.1
Financial income	3	10.0	3.9
Other income		0.9	0.9
Total income		**64.9**	**26.9**
Financial expense	4	–0.3	–1.6
Other expense	5	–1.9	–2.1
Tax expense		–0.6	–0.3
Total expense		**–2.8**	**–4.0**
Net income		**62.1**	**22.9**

Balance sheet

Investments	6	503.0	463.0
Loans to Group companies		37.6	36.4
Other non-current assets		0.3	4.6
Non-current assets		**540.9**	**504.0**
Accounts receivable		2.6	0.0
Securities	7	23.9	18.9
Cash		0.2	0.9
Current assets		**26.7**	**19.8**
Total Assets		**567.6**	**523.8**
Share capital	8	325.2	325.2
Legal reserve	9	150.2	155.7
Treasury stock reserve	10	25.6	20.4
Retained earnings		65.6	22.2
Shareholders' equity		**566.6**	**523.5**
Short-term liabilities		1.0	0.3
Total liabilities		**1.0**	**0.3**
Total liabilities and shareholders' equity		**567.6**	**523.8**

Notes to the financial statements

1 Principles

Allreal Holding Ltd. was founded in 1999. As a holding company it is not operationally active. Its task is to manage the Allreal Group.

The financial statements of Allreal Holding Ltd.have been prepared in accordance with the Swiss Code of Obligations. They supplement the consolidated financial statements which are prepared in accordance with International Financial Reporting Standards (IFRS) (pages F19–F66). While the consolidated financial statements describe the economic situation of the group as a whole, the information set out in the financial statement of Allreal Holding Ltd. (pages F67–F72) refers only to the parent company.

2 Income from investments

CHF million	2002	2001
Allreal Generalunternehmung AG	50.0	17.0
Allreal Home AG	0.0	1.1
Allreal Finanz AG	4.0	4.0
Income from investments	54.0	**22.1**

3 Financial income

Of the 2002 financial income, CHF 7.4 million refer to commissions for warranties issued in favour of group companies (see Note 12) and CHF 0.7 million for profit connected with treasury shares.

4 Financial expense

Of the 2001 financial expense, CHF 0.9 million was allocated to unrealised losses on treasury shares.

5 Other expense

Other expenses refer to administration expenses typical of a holding company such as fees for the board of directors, the annual report, and the annual general meeting of shareholders etc, and also include public relations and marketing expenses. The management fee paid to Allreal Generalunternehmung AG amounted to CHF 0.2 million (2001: CHF 0.2 million).

6 Investments

Company	Domicile	Share capital CHF million	Invest-ment 2002	Invest-ment 2001
Allreal Finanz AG	Baar	100.5	100.0%	100.0%
Allreal Generalunternehmung AG	Zurich	10.0	100.0%	100.0%
Allreal Home AG	Zurich	26.5	100.0%	100.0%
Allreal Office AG	Zurich	100.0	82.2%[1]	82.2%[1]
Allreal Vulkan AG	Zurich	40.0	100.0%	–
Allreal West AG	Zurich	1.0	100.0%	–

[1] A further 17.8% is held by Allreal Generalunternehmung AG

The increase in investments is connected with the inceptions of Allreal Vulkan AG and Allreal West AG.

7 Securities

The securities held are exclusively treasury shares.

8 Share capital

The share capital of Allreal Holding AG consists of 6 504 822 registered shares at a par value of CHF 50 each. The additional paid-in capital in connection with the capital increase is shown in Legal reserve.

The board of directors is authorised until 21 March 2004 to increase the share capital (approved capital) – if necessary by excluding the subscription right – (1) to acquire investments or real estate by means of an equity swap, (2) to finance or refinance the acquisition of companies, parts of companies, investments, or new investment projects, or (3) for an international placement of a maximum of CHF 160.0 million by means of issuing a maximum of 3.2 million registered shares (approved capital). As of 19 February 2003 this authorisation had not been used.

The board of directors is furthermore authorised, without a time deadline, to increase the share capital by excluding the subscription right of shareholders by a maximum of CHF 10.0 million by issuing 200 000 shares (conditional capital), to set aside for the option rights issued to employees and members of the board of directors. This conditional capital has not been claimed.

9 Legal reserve

CHF million	2002	2001
Additional paid-in capital from capital increase	175.8	176.1
Carry-forward to reserve for treasury shares	–25.6	–20.4
Legal reserve	150.2	**155.7**

The legal reserve resulting from additional paid-in capital is not available for distribution to shareholders. Only retained earnings are available for the distribution to shareholders. The reduction of additional paid-in capital is a consequence of an additional charge for value added tax.

10 Treasury shares

	Number of shares	2002 value CHF million	Number of shares	2001 value CHF million
Amount or market value at 1 January	230 331	18.9	129 120	11.1
Additions	289 275	23.3	111 966	9.6
Disposals	–213 551	–18.1	–10 755	–0.9
Change in value		–0.2		–0.9
Amount or market value at 31 December	**306 555**	**23.9**	**230 331**	**18.9**
Amount of reserve for treasury shares		23.9		20.4

11 Major shareholders

The following shareholders with a shareholding of 5% or more (directly or indirectly) were registered in the share register of Allreal Holding Ltd. as of 31 December:

	2002	2001
Pensionskasse der Oerlikon-Contraves AG, Zurich	16.0	16.9 %
Basellandschaftliche Pensionskasse, Liestal	13.7	13.7 %
Helvetia Patria, St. Gallen/Basel	12.4	12.4 %
Bank Vontobel Holding AG, Zurich	10.5	10.7 %

12 Contingent liabilities

As of 31 December 2002 contingent liabilities of CHF 534.5 million (2001: CHF 637.0 million) in favour of group companies exist. Based on the VAT-group taxation concept, the company is jointly liable with other group companies for VAT.

13 Subsequent events

None.

Proposal for the distribution of earnings

The board of directors proposes to the annual general meeting of shareholders the following appropriation of the available earnings:

CHF million	2002	2001
Balance carried forward from previous year	3.5	–0.7
Net income	62.1	22.9
Retained earnings (available for appropriation)	**65.6**	**22.2**
Distribution of dividends CHF 4.50 (CHF 3.00) per share	–29.3	–18.7
Balance to be carried forward	**36.3**	**3.5**

The treasury shares held by the company (31 December 2002: 306 555 shares) are not entitled to dividends.

The dividend approved by the annual general meeting of shareholders for the 2002 financial year will be paid to shareholders free of charge and with a 35% withholding tax deduction by Bank Vontobel AG to payment location chosen by the shareholder.

Baar, 19 February 2003

For the board of directors:
Jack Schmuckli, Chairman

Report of the group auditors

To the general meeting of

Allreal Holding AG, Zug

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of changes in shareholers' equity, statement of cash flows and notes/pages F74 to F101) of Allreal Holding AG for the year ended December 31, 2001.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing of the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Accounting Standards (IAS) and comply with Swiss law.

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

Zurich, February 21, 2002

Ernst & Young Ltd

M. Schneider
Swiss Certified Accountant
(in charge of the audit)

M. Kühne
Swiss Certified Accountant

Consolidated income statement

CHF million	Note	2001	2000
Income from projects and development	3.1	72.7	63.3
Income from investment property	3.2	52.0	46.5
Revaluation gains	3.3	16.6	35.9
Total income		**141.3**	**145.7**
Personnel expenses	3.4	–32.2	–31.5
Property expense	3.5	–11.0	–7.3
Other operating expenses	3.6	–12.2	–11.3
EBITDA		**85.9**	**95.6**
Depreciation	4.1	–1.2	–1.0
Amortisation	4.2	–2.0	–3.7
Operating profit (EBIT)		**82.7**	**90.9**
Finance income	3.7	1.5	2.2
Finance expenses	3.8	–16.4	–16.0
Profit before income tax		**67.8**	**77.1**
Current tax	6.1	–4.6	–7.3
Deferred tax	6.1	–12.6	–12.3
Net profit		**50.6**	**57.5**
Net profit without revaluation effect		**38.2**	**33.9**
Earnings per share (CHF)			
— incl. revaluation effect	3.9	8.01	9.75
— excl. revaluation effect	3.9	6.04	5.75
Diluted earnings per share (CHF)			
— incl. revaluation effect	3.9	7.91	9.64
— excl. revaluation effect	3.9	5.95	5.70

Consolidated balance sheet

	Note	Year ended 31 December	
CHF million		2001	2000
Investment property	4.1	1025.5	770.6
Intangible assets	4.2	5.1	12.2
Property, plant and equipment	4.3	0.9	1.8
Deferred tax assets	6.1	3.3	0.0
Financial assets	4.4	18.7	2.2
Non-current assets		**1053.5**	**786.8**
Development property	4.5	206.4	220.6
Trade receivables	4.6	65.5	193.6
Other receivables	4.7	9.8	1.5
Securities		2.2	2.1
Cash and cash equivalents	4.8	3.5	40.7
Current assets		**287.4**	**458.5**
Total assets		**1340.9**	**1245.3**
Share capital	4.9	325.2	325.2
Capital reserves	4.10	176.1	175.3
Treasury shares	4.9	–20.3	–11.7
Retained earnings	4.10	112.3	63.4
Total equity		**593.3**	**552.2**
Long-term borrowings	4.11	489.4	235.8
Deferred tax liabilities	6.1	45.9	19.5
Provisions	4.12	5.8	19.3
Non-current liabilities		**541.1**	**274.6**
Prepayments received		15.1	40.5
Trade payables	4.13	37.0	149.4
Current tax liabilities	6.1	9.4	8.9
Other current liabilities	4.14	22.3	9.1
Short-term borrowings	4.11	122.7	210.6
Current liabilities		**206.5**	**418.5**
Total liabilities		**747.6**	**693.1**
Total equity and liabilities		**1340.9**	**1245.3**
Net Asset Value (NAV) per share (CHF)			
— before deferred taxes	4.15	101.35	89.65
— after deferred taxes	4.15	94.55	86.60

Consolidated statement of changes in shareholders'equity

CHF million	Equity funds	Capital reserves	Treasury shares	Valuation financial instruments	Retained earnings from revaluation	Other retained earnings	Total
As at 1 January 2000	**143.9**	**53.5**	**–0.3**	**0.0**	**0.0**	**7.4**	**204.5**
Capital increases	181.3	121.8					303.1
Valuation financial instruments				–1.6			–1.6
Purchase of treasury shares			–11.4				–11.4
Net profit					23.6	33.9	57.5
Rounding difference						0.1	0.1
Status at 31 December 2000	**325.2**	**175.3**	**–11.7**	**–1.6**	**23.6**	**41.4**	**552.2**
Valuation financial instruments				–0.8			–0.8
Purchase of treasury shares			–8.6				–8.6
Net profit					12.4	38.2	50.6
Reclassification		0.8				–0.8	0.0
Rounding difference						–0.1	–0.1
Status at 31 December 2001	**325.2**	**176.1**	**–20.3**	**–2.4**	**36.0**	**78.7**	**593.3**

Consolidated cash flow statement

CHF million	Note	2001	2000
Net profit		50.6	57.5
Revaluation gains		–16.6	–35.9
Change in project provisions	3.1	–8.7	0.0
Depreciation	4.3	1.2	1.0
Amortisation	4.2	2.0	3.7
Change in deferred tax liabilities and provisions		7.9	11.8
Change in tax assets		–3.3	0.0
Other non-cash items	5.1	–49.2	–1.4
Change in securities		–0.1	–1.6
Change in trade receivables		128.1	–55.1
Change in other receivables		–8.3	22.8
Change in development property		14.2	–48.4
Change in trade payables		–112.4	21.9
Change in prepayments received		–25.4	15.9
Change in current tax liabilities		–0.1	5.2
Change in other current liabilities		12.8	–2.8
Cash flows from operations		**–7.3**	**–3.8**
Purchase of investment property	5.2	–185.3	–194.7
Sale of investment property	5.3	44.1	9.2
Purchase/sale of property, plant and equipment		–0.3	–1.5
Change in financial assets		–3.5	1.2
Acquisition of subsidiary, net of cash acquired	5.4	–38.2	–42.1
Cash flows from investing activities		**–183.2**	**–227.9**
Change in short-term borrowings		–87.9	–127.6
Change in long-term borrowings		249.8	83.8
Net proceeds from issue of shares		0.0	303.1
Purchase of treasury shares		–8.6	–11.4
Cash flows from financing activities		**153.3**	**247.9**
Change in cash and cash equivalents		**–37.2**	**14.6**

Cash and cash equivalents as of 01.01	40.7	26.1
Cash and cash equivalents as of 31.12.	3.5	40.7
Change in cash and cash equivalents	**–37.2**	**14.6**

Other information		
Interest received	1.2	1.9
Interest paid	19.3	14.2
Income taxes paid	1.6	0.8

Segment information
Year ended 31 December 2001

CHF million	Home	Office	Projects & Development	Corporate	Eliminations	Group
Income from operations	19.1	33.2	74.1	0.9	–2.6	124.7
Revaluation gains	–5.9	12.5	10.0	0.0	0.0	16.6
Total income	**13.2**	**45.7**	**84.1**	**0.9**	**–2.6**	**141.3**
Operating expenses	–5.7	–8.1	–41.7	–2.5	2.6	–55.4
EBITDA	**7.5**	**37.6**	**42.4**	**–1.6**	**0.0**	**85.9**
Depreciation and amortisation	0.0	0.0	–1.0	–2.2	0.0	–3.2
Operating profit (EBIT)	**7.5**	**37.6**	**41.4**	**–3.8**	**0.0**	**82.7**
Net finance expenses	–4.1	–9.8	–0.8	0.0	–0.2	–14.9
Income tax	0.4	–6.1	–11.4	–0.1	0.0	–17.2
Net profit	**3.8**	**21.7**	**29.2**	**–3.9**	**–0.2**	**50.6**
Operating margin (in %)[1]	70.2	75.9	42.4	n.m.	n.m.	53.0
Operating net cash flow[2]	13.4	22.8	23.3	–1.6	0.0	57.9
Fixed assets	228.9	798.1	16.7	9.8	0.0	1053.5
Current assets	1.2	1.6	283.2	3.4	–2.0	206.4
Total assets	**230.1**	**799.7**	**299.9**	**13.2**	**–2.0**	**1340.9**
Deferred tax liabilities and provisions	–5.7	–28.9	–17.1	0.0	0.0	–51.7
Other liabilities (excl. financing)	–4.5	–14.5	–70.4	–0.3	5.9	–83.8
Net operating assets	**219.9**	**756.3**	**212.4**	**12.9**	**3.9**	**1205.4**
Borrowings	–106.0	–366.4	–139.7	0.0	0.0	–612.1
Total equity	**113.9**	**389.9**	**72.7**	**12.9**	**3.9**	**593.3**
Investments	**8.1**	**225.2**	**0.3**	**0.0**	**0.0**	**233.6**

[1] EBIT less revaluation gains/Income from operations

[2] EBITDA less revaluation gains, change in project provisions, capital expenditures, and purchase/sale of property, plant and equipment

Allreal operates in Switzerland only. Therefore, no geographical break-down is provided.

Year ended 31 December 2000

CHF million	Home	Office	Projects & Development	Corporate	Eliminations	Group
Income from operations	18.9	27.6	64.9	0.0	–1.6	109.8
Revaluation gains	12.2	23.7	0.0	0.0	0.0	35.9
Total income	**31.1**	**51.3**	**64.9**	**0.0**	**–1.6**	**145.7**
Operating expenses	–5.0	–3.7	–41.0	–2.0	1.6	–50.1
EBITDA	**26.1**	**47.6**	**23.9**	**–2.0**	**0.0**	**95.6**
Depreciation and amortisation	0.0	0.0	–0.9	–3.8	0.0	–4.7
Operating profit (EBIT)	**26.1**	**47.6**	**23.0**	**–5.8**	**0.0**	**90.9**
Net finance expenses	–3.8	–7.6	–1.8	–0.6	0.0	–13.8
Income tax	–7.4	–11.1	–3.6	2.5	0.0	–19.6
Net profit	**14.9**	**28.9**	**17.6**	**–3.9**	**0.0**	**57.5**
Operating margin (in %)[1]	73.5	86.6	35.4	n.m.	n.m.	50.1
Operating net cash flow[2]	13.9	23.9	22.6	–2.2	0.0	58.2
Fixed assets	264.8	505.8	3.7	12.5	0.0	786.8
Current assets	6.4	28.0	417.6	6.5	0.0	458.5
Total assets	**271.2**	**533.8**	**421.3**	**19.0**	**0.0**	**1245.3**
Deferred tax liabilities and provisions	–5.1	–9.1	–24.6	0.0	0.0	–38.8
Other liabilities (excl. financing)	–4.0	–5.6	–203.4	5.1	0.0	–207.9
Net operating assets	**262.1**	**519.1**	**193.3**	**24.1**	**0.0**	**998.6**
Borrowings	–116.2	–243.4	–86.6	–0.2	0.0	–446.4
Total equity	**145.9**	**275.7**	**106.7**	**23.9**	**0.0**	**552.2**
Investments	**2.1**	**256.3**	**1.3**	**0.2**	**0.0**	**259.9**

[1] EBIT less revaluation gains/Income from operations

[2] EBITDA less revaluation gains, change in project provisions, capital expenditures, and purchase/sale of property, plant and equipment

Allreal operates in Switzerland only. Therefore, no geographical break-down is provided.

Notes to the 2001 financial statements

1 Principles

1.1 General

The Allreal Group is a real estate company active only in Switzerland. On the one hand the Company develops and implements building projects for its own use and on behalf of third parties (Project & Development division), and on the other hand it develops and administers its real estate portfolio (Real Estate division). Within the framework of its activity, the Company invests in development, residential and commercial real estate.

Allreal Holding AG is the parent company and domiciled at Alpenstrasse 14 in Zug (Switzerland). The Company is listed on the SWX Swiss Stock Exchange.

1.2 Basis of preparation

The financial reporting of the Allreal Group is in accordance with International Accounting Standards (IAS). It corresponds to the financial guidelines included in the listing Rules and the Additional Rules for the listing of Real Estate Companies set out by the SWX Swiss Stock Exchange, as well as to the Swiss Code of Obligations. All IASC standards in force by the publishing date of the Group annual accounts and the interpretation of the Standing Interpretations Committee (SIC) have been taken into consideration. The IAS 40 standard had been applied to the 2000 annual report.

The financial statements of the individual companies at 31 December 2000 and 31 December 2001 respectively represent the basis for the consolidated accounts.

The consolidated financial statements were approved by the board of directors of Allreal Holding AG on 20 February 2002.

1.3 Basis of consolidation

Companies in which Allreal has more than 50% of the voting rights are fully consolidated. Minority interests in the capital and in the results of these companies are reported separately. All intercompany transactions and balances are eliminated.

Investments in companies in which Allreal does not have a significant influence, are shown at cost while a permanent impairment is accounted for.

Companies acquired during the fiscal year are included in the financial statements from the purchase date onwards.

1.4 Scope of consolidation

Company	Domicile	Share capital		Investment	
				2001	2000
Allreal Holding AG	Zug	CHF	325.2 million	–	–
Allreal Home AG	Zurich	CHF	26.5 million	100%	100%
Allreal Office AG	Zurich	CHF	100.0 million	100%*	100%*
Allreal Generalunternehmung AG	Zurich	CHF	10.0 million	100%	100%
Allreal Finanz AG	Baar	CHF	100.5 million	100%	100%
Juventus AG	Zurich	CHF	0.1 million	100%**	–
Grundstückgesellschaft Juventus	Zurich	CHF	0.8 million	100%**	–
Immobiliengesellschaft ATZ	Zurich	CHF	0.6 million	100%**	–

*of which 17.8% are held indirectly via Allreal Generalunternehmung AG
**Indirectly via Allreal Office AG

Allreal Home AG and Allreal Office AG are combined in the Real Estate division. Allreal Generalunternehmung AG corresponds largely to the Project & Development division. Allreal Finanz AG serves internal group financing needs.

At the end of 2001 Allreal Office AG and Allreal Home AG transferred their domicile from Zug to Zurich; Allreal Finanz AG relocated from Zug to Baar. Allreal Office AG increased its share capital from CHF 49.4 million to CHF 100.0 million.

Effective 1 December 2001 Allreal Office AG purchased the following companies: Juventus AG, Grundstückgesellschaft Juventus, and Immobiliengesellschaft ATZ. The companies own the commercial buildings at Lagerstrasse 41–45/Jägergasse7/Militärstrasse 42. The companies have been fully consolidated since 1 December 2001.

1.5 Capital consolidation

Capital consolidation is carried out in accordance with the purchase method of accounting, and goodwill corresponds to the difference between the purchase consideration and the fair value of the acquired net assets at the time of acquisition. Goodwill is amortised over the economic useful life and charged to the income statement.

2 Significant principles of accounting and valuation

2.1 Income from Project & Development

Income from Projects & Development comprises fee income, rental income and earnings, as well as earnings from selling real estate and promotion projects. Income from sales of property is recorded, while fees and subcontractor margins are recorded at the time of rendering the service. Internally generated assets are valued at cost.

Fees and carefully assessed profits from third party construction work in process, depending on the stage of completion (based on number of working hours invested and construction invoices received), are recognised in accordance with the percentage of completion (POC) method. In the case of own buildings, which upon completion enter the company's own real estate portfolio, only the effective costs are accrued (incl. own costs and accumulated interest for building financing, but excl. profit shares) until the time of transfer.

Expected project losses are recognised as an expense immediately.

2.2 Income from investment property

Income from real estate comprises net rental income (excl. tenant expenses and interest on land-use rights) as well as profit and loss from selling investment properties. Profit or loss from sales corresponds to the difference between net proceeds and the reported market value.

2.3 Revaluation of investment properties

The revaluation of commercial and residential buildings reflects the changes in the market value of these buildings established in accordance with IAS 40, and it is based on the annual valuation prepared by an independent real estate appraiser.

The revaluation of property reserves was carried out in accordance with IAS 40 whereby development real estate is reclassified to investment property.

2.4 Investment properties

Existing residential and commercial buildings serve long-term investment goals and are reported at market value in accordance with IAS 40. Market value is established annually by our external and independent real estate appraisers by applying the discounted cash flow (DCF) method. Changes in market value, taking into consideration deferred taxes, are debited or credited to the income statement (see Note 2.3 "Revaluation of investment properties").

Investment property is not amortised. Interest for financing during the construction phase is capitalised as are subsequent capital expenditures.

2.5 Intangible assets

Intangible assets concern goodwill on acquisitions and represent the excess cost of an acquisition over the fair value ofthe net assets. Goodwill is capitalised and amortised over a period of 5 years using the straight-line method.

2.6 Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful economic life of a fixed asset.

2.7 Financial investments

Financial investments are stated at cost or, in the case of impairments, at the lower market value. Essentially, financial investments refer to loans provided in connection with the general business activity and interest is paid at the prevailing interest rates.

2.8 Development property

Development reserves, construction work in process and completed real estate not yet sold are valued at cost (incl. interest on building financing), or at the lower market value. Prepayments received are shown as prepayments in short-term liabilities. Third-party costs (excl. own costs) connected with projects, that are expected to be realised, are capitalised.

2.9 Trade receivables

Trade receivables from construction activity for third parties are reported under the net presentation principle, ie prepayments received from building owners and liabilities from construction activity are directly set off against receivables. Positive net items are shown as trade receivables, while negative net items are reported as trade liabilities. Deductions are made for individual value adjustments required on specific projects and for provisions for contingent losses (bad debt provision) of 1% of the receivables.

2.10 Other receivables

Other receivables are shown at face value less necessary value adjustments as operationally required.

2.11 Cash and cash equivalents

Cash and cash equivalents comprising of cash, postal and current bank accounts and short-term deposits are reported at par value.

2.12 Securities

Securities are reported at market value. Changes in market value are shown in the income statement. Treasury shares held by Allreal Holding AG are presented as a deduction from equity.

2.13 Provisions

If operationally necessary or legally required, provisions and value adjustments are made to the degree that corresponding liabilities, impairments, or potential losses are known at the time of drawing up the annual financial statements.

2.14 Income tax

The income tax shown in the income statement comprises of tax on corporate profits for the financial year, tax on profit the disposal of real estate, and deferred taxes on valuation adjustments and other timing differences.

Current income tax is determined by taking into consideration tax losses from the previous year and the results of the individual group companies based on the corresponding tax regulations.

Deferred taxes are assessed using the comprehensive balance sheet liability method and are calculated at average tax rates. Provisions for deferred taxes take into consideration income tax-related effects of the differences between values in the consolidated accounts and the tax-base of individual assets and liabilities. Deferred tax credits (resulting from tax losses brought forward and reductions in valuation) are capitalised to the degree that it seems certain they will be offset against future taxable income.

2.15 Management of financial risks

The management of financial risk in the Allreal Group is concerned mainly with the capital structure and risks involved with changes in interest rates. The basis is represented by the financing and investment guidelines approved by the board of directors, while instruments of asset and liability management (ALM) offer further support. The goal is to optimise risk by taking into consideration the existing income situation and the potential for opportunities. The Group does not enter into foreign-exchange risks.

With regard to its capital structure, the Allreal Group aims at a net gearing (target ratio of net financial debt to equity) of a maximum of 150%. This presupposes a share of equity, which over the long term should remain above 35%. In terms of interest coverage (EBITDA excl. revaluation of investment property/net finance expenses), this value should not fall below 2.0.

The group's financial debt is based on a mixture of variable and fixed-term loans. As a rule, Allreal aims at a balanced pegging of interest rates. In order to ensure the best possible interest rate pegging, Allreal uses different hedging instruments, such as interest rate swaps, options and futures. As a rule they are to be implemented only in support of current operating activity and not for speculative purposes.

The Company has entered into various interest rate swaps with top rated banks; the company enters into loan agreements at variable interest rates and swaps these against fixed-rate interest rates. The result is a hedge against future interest payments.

2.16 Derivative financial instruments

Derivative financial instruments, such as interest rate swaps, are reported at cost and subsequently valued at market value. The interest rate swaps used by The Group are generally known as cash flow hedges. Subsequent, changes in market values (calculated on the basis of the present value of future cash flows) are recognized as changes in equity and not in the income statement. The effect thus shown as equity is only recognised in the income statement when the hedged cash flows effectively impact the income statement.

2.17 Option plans

There is an options plan for the members of the board and management. The options are issued from conditional capital, and option exercises are recognized through equity.

3 Notes to the Group Income Statement

3.1 Income from Projects & Development

CHF million	2001	2000
Third-party fees and profit	52.7	39.8
Capitalised own costs	4.5	6.7
Income from sale of real estate	4.9	13.3
Reversal of valuation adjustments on projects	8.7	0.0
Other income	1.9	3.5
Income from Projects & Development	**72.7**	**63.3**

Income from sale of real estate in 2000 and 2001 relates to the part disposal of the Eichrein property under construction in Zurich. The reversal of value adjustments on projects 2001 refers to amortisation in connection with the projects at Eggbühlstrasse, Neunbrunnenstrasse (both in Zurich) and Grossächer (Regensdorf).

Other income primarily concerns rental income from completed but only partly sold buildings. While in 2000 further settlement of expenditure was partly reported as income, in 2001 the expenditure was offset under the expenditure item.

Income from Project & Development is subject to a completed project volume (incl. construction on the Group's own account, fees and subcontractor margins on third-party construction) as follows:

CHF million	2001	2000
Construction for third parties	430.3	n.a.
Own projects	171.0	n.a.
Completed project volume	**601.3**	**640.5**

In 2001, value adjustments were made on continuing risks of CHF 9.5 million on various old projects and charged to income from Projects & Development. These value adjustments were fully compensated for in favour of the income from Projects & Development by releasing existing value adjustments on other projects and through earnings from projects finalised in previous years.

3.2 Income from investment property

CHF million	2001	2000
Rental income "Office"	32.8	27.2
Rental income "Home"	17.9	19.1
Profit from the sale of investment property	1.6	0.4
Loss from the sale of investment property	–0.3	–0.2
Income from investment property	**52.0**	**46.5**

Earnings in 2001 were generated fully by the "Home" division (2000: loss of CHF 0.2 million). Of the losses in 2001, CHF 0.1 million were generated by the "Office" division (2000: earnings of 0.4 million) and CHF 0.2 million by the "Home" division.

3.3 Revaluation of investment property

CHF million	2001	2000
Upward valuation of investment property	24.1	49.4
Downward valuation of investment property	–17.5	–13.5
Revaluation of land reserves	10.0	0.0
Revaluation of investment property	**16.6**	**35.9**

For further details regarding the implemented revaluations please refer to Note 4.1 and information on the real estate portfolio (p. 42 onwards).

The 2001 revaluation of land reserves refers to two land items, which in view of future development purposes were reclassified from development property to investment property and thus – as a land reserve in the real estate division – required revaluation at market prices in accordance with IAS 40.

3.4 Personnel expenses

CHF million	2001	2000
Wages and salaries	26.8	24.6
Social security expenses	2.6	2.8
Pension fund	2.1	2.0
Other personnel expenses	0.7	2.1
Personnel expenses	**32.2**	**31.5**
Number of employees at 31 December (full-time equivalent)	219	242
Average number of employees (full-time equivalent)	232	n.a.

Personnel expenses exclusively relate to the Project & Development division. Personnel services supplied to other divisions are charged to them by means of management fees (see Note 6.6).

3.5 Property expenses

CHF million	2001	2000
Administration and operating expenses	4.3	4.2
Maintenance and repair expenses	6.7	3.1
Real estate expenses	**11.0**	**7.3**

Property expenses exclusively relate to commercial and residential real estate of the Real Estate division.

3.6 Other operating expenses

CHF million	2001	2000
IT expenses	2.1	1.3
Rental expenses	1.9	2.0
Consulting expenses	1.4	1.7
Administration expenses	3.6	3.0
Capital taxes	1.1	0.6
Other general operating expenses	2.1	2.7
Other operating expenses	**12.2**	**11.3**

Other operating expenses mainly concern the Project & Development division.

3.7 Financial income

CHF million	2001	2000
Interest income	1.2	1.5
Other financial income	0.3	0.7
Financial income	**1.5**	**2.2**

3.8 Financial expenses

CHF million	2001	2000
Interest expenses	15.9	16.0
Other financial expenses	0.5	0.0
Financial expenses	**16.4**	**16.0**

Interest expenses are reported after deduction of interest on building financing of CHF 3.3 million (2000: CHF 0), which was capitalised. Average interest rate on this amount was 3.1%.

3.9 Earnings per share

	2001	2000
Average number of outstanding shares ('000)	6320	5898
Net profit incl. revaluation effect (CHF million)	50.6	57.5
Earnings per share incl. revaluation effect (CHF)	**8.01**	**9.75**
Net profit excl. revaluation effect (CHF)	38.2	33.9
Earnings per share excl. revaluation effect (CHF)	**6.04**	**5.75**

The dilution effect resulting from the possible execution of share options given to board members and management staff takes into consideration the opposite effects resulting from an increase in the number of outstanding shares (+101 349 shares) as well as the possible interest savings based on the subscription price received (CHF 0.2 million).

Diluted earnings per share		
– incl. revaluation effect (CHF)	7.91	9.64
– excl. revaluation effect (CHF)	5.95	5.70

4 Notes to the Consolidated Balance Sheet

4.1 Investment property

	Investment property "Office" division		Investment property "Home" division		Total investment property	
CHF million	2001	2000	2001	2000	2001	2000
At cost						
Status 1 January	482.1	246.7	252.6	257.5	734.7	504.2
Change in scope of consolidation	48.0	62.1	0.0	1.6	48.0	63.7
Acquisitions	124.9	194.2	8.1	0.5	133.0	194.7
From own building activity	49.9	0.0	0.0	0.0	49.9	0.0
Value-increasing investments	2.4	0.0	0.0	0.0	2.4	0.0
Disposals	–3.9	–2.0	–46.1	–7.0	–50.0	–9.0
Reclassification	38.2	–18.9	0.0	0.0	38.2	–18.9
Value adjustments	9.6	0.0	0.0	0.0	9.6	0.0
Status 31 December	751.2	482.1	214.6	252.6	965.8	734.7
Revaluation						
Status 1 January	23.7	0.0	12.2	0.0	35.9	0.0
Upward revaluation	30.8	29.2	3.3	20.2	34.1	49.4
Downward revaluation	–8.3	–5.5	–9.2	–8.0	–17.5	–13.5
Disposals	0.2	0.0	7.0	0.0	7.2	0.0
Status 31 December	46.4	23.7	13.3	12.2	59.7	35.9
Carrying value = fair market value at 31 December	**797.6**	**505.8**	**227.9**	**264.8**	**1025.5**	**770.6**
Of which commercial or residential property	684.3	505.8	227.9	264.8	912.2	770.6
Of which investment property under construction	95.6	0.0	0.0	0.0	95.6	0.0
Of which property reserves	17.7	0.0	0.0	0.0	17.7	0.0
Of which pledged or mortgaged	548.6	347.3	131.9	178.1	680.5	525.4
Of which effectively used	391.1	231.7	103.4	116.3	494.5	348.0
Fire insurance value*	**590.5**	**415.8**	**217.8**	**262.2**	**808.3**	**678.0**

*The fire insurance value refers to completed buildings and excludes investment property under construction.

Reclassifications 2001 concern the vacant land Bäuler in Rümlang and Oberhauserriet in Opfikon which at 31 December 2000 had been reported as development property. They are now shown as land reserves. The reclassification resulted in a revaluation gain of CHF 10.0 million, and the land is now valued at CHF 17.7 million. Furthermore, the buildings at Andreasstrasse and Eggbühl, both in Zurich-Oerlikon, which in 2000 had been classified as buildings under construction, were assigned to development property and effective 31 December 2001 reclassified as investment property under construction.

Value adjustments 2001 concern the buildings at Andreasstrasse (gross representation not affecting operating result, but taking into consideration deferred taxes which have previously been directly deducted from the value of the real estate; CHF 4.4 million) and Eggbühlstrasse (reversal of value adjustments on projects affecting operating result; CHF 5.2 million).

Regarding the individual regions and types of property, historic cost and fair market value are allocated as follows:

	At cost		Market value		Changes in market value[1]	
CHF million	2001	2000	2001	2000	2001	2000
Commercial real estate Zurich Region	501.6	335.9	543.7	363.2	14.7	+27.3
Commercial real estate Basel Region	55.8	55.8	55.5	53.3	2.2	–2.5
Commercial real estate other regions	90.5	90.4	85.1	89.3	–4.3	–1.1
Investment property under construction	95.6	0.0	95.6	0.0	0.0	0.0
Land reserves	7.7	0.0	17.7	0.0	10.0	0.0
Investment property "Office" division	**751.2**	**482.1**	**797.6**	**505.8**	**22.6**	**+23.7**
Residential real estate Zurich Region	177.0	172.4	190.5	191.4	–5.4	+18.9
Residential real estate Basel Region	37.6	50.1	37.4	48.3	–0.6	–1.7
Residential real estate other regions	0.0	30.1	0.0	25.1	0.0	–5.0
Investment property "Home" division	**214.6**	**252.6**	**227.9**	**264.8**	**–6.0**	**+12.2**

[1] from revaluation compared to previous year

Cost comprises all costs connected with the purchase (purchase price, legal and transfer expenses, commissions), the effective cost of production of the additions from own building activity (incl. own cost and interest for building financing) as well as capital expenditures. The value of the land reserves includes accumulated project expenses.

Revaluation is based on the fair market value appraisal carried out every year at 31 December by a recognised independent real estate appraiser (Arthur Andersen AG, Real Estate Consulting) applying the discounted cash flow method (DCF). Major factors for the years 2000 and 2001 included the changed expectations regarding rents obtainable in the future, necessary investments and renovations, and general market expectations. The downward valuation 2001 in the "Home" division is primarily the result of lower mortgage rates introduced at the end of 2001, resulting in lower rental income expected for the future.

Revaluation for 2001 is based on the following significant assumptions:

– Indexing rental income "Office" division	0.75 % p.a.
– Indexing rental income "Home" division	0.50 % p.a.
– Indexing operating expenses	1.00 % p.a.
– Indexing building expenses	1.50 % p.a.
– Discount rate	5.25 %–6.25 % (average 5.5 %)
– Capitalisation rate residual value	5.25 %–6.25 % (average 5.5 %)

The 2001 detailed valuation report by Arthur Andersen AG, Real Estate Consulting, is shown on page 51 onward.

Further details on investment property are available on page 42 onward.

Details of the calculation of deferred taxes resulting from revaluation are shown in Note 6.1.

4.2 Intangible assets

CHF million	2001	2000
Goodwill	17.7	17.7
Purchase price reduction	–5.0	0.0
./. accumulated amortisation	–7.5	–5.5
Intangible assets	**5.2**	**12.2**

With regard to the 1999 acquisition of Allreal Generalunternehmung AG, Allreal in 2001 obtained a refund on the purchase price of CHF 5.0 million connected with warranty claims. The goodwill amortisation consequently decreased from CHF 3.7 million in 2000 to CHF 2.0 million p.a. in 2001.

4.3 Tangible assets

CHF million	2001	2000
At cost		
Status 1 January	3.2	1.7
Additions	0.3	1.5
Disposals	–0.8	0.0
Status 31 December	2.7	3.2
Accumulated depreciation		
Status 1 January	1.4	0.4
Additions	1.2	1.0
Disposals	–0.8	0.0
Status 31 December	1.8	1.4
Carrying value 31 December	**0.9**	**1.8**
Of which pledged or mortgaged	0.0	0.0
Fire insurance value	8.7	8.5

Fixed assets capitalised on 31 December 2001 concern IT equipment exclusively.

4.4 Financial assets

CHF million	2001	2000
Loans	18.6	2.1
Investments	0.1	0.1
Financial assets	**18.7**	**2.2**

The increase in loans is primarily attributable to the reclassification of a claim of CHF 13.0 million which in 2000 was reported in trade receivables.

4.5 Development property

CHF million	2001	2000
Land	55.1	59.2
Buildings under construction	133.5	145.0
Other buildings	16.1	15.6
Prepayments made	1.7	0.8
Development property	**206.4**	**220.6**
Of which pledged or mortgaged	204.5	132.1
Of which effectively used	118.0	60.8

Land includes the historic cost plus accumulated project expenses (excl. own costs). The remaining real estate mainly refer to shares in completed buildings not yet sold. For more details regarding development property please refer to page 48.

4.6 Trade receivables

CHF million	2001	2000
Projects & Development division	73.0	201.2
./. Bad debt provision	–9.1	–8.5
Real Estate division	1.6	0.9
Trade receivables	**65.5**	**193.6**

The decrease in trade receivables in the Projects & Development division is the result of a comprehensive consolidation and adjustment of project positions and a simultaneous reduction of accounts payable in the Projects & Development division of the same amount, as well as the write-off of various accounts receivable charged to existing provisions or to net income 2001.

Value adjustments 2001 essentially refer to current and completed orders (CHF 8.4 million). At 31 December 2000, these provisions were reported under provisions for cost overruns. In addition there is a bad dept provision of CHF 0.7 million (2000: 0.2 million). The value adjustments 2000 refer to mortgage receivables against consortiums. They are now reported under financial investments.

The values shown in the balance sheet are presented net after prepayments made and open liabilities per project in accordance with the valuation principles described in Note 2.9:

CHF million	2001	2000
Gross receivables	1424.6	1455.2
./. Value adjustments	–15.1	–8.5
./. Liabilities and prepayments	–1344.0	–1253.1
Trade receivables	**65.5**	**193.6**

4.7 Other receivables

CHF million	2001	2000
Short-term financial receivables	3.5	0.0
Other receivables	6.3	1.5
Other receivables	**9.8**	**1.5**

4.8 Liquid assets

CHF million	2001	2000
Bank balances	3.5	23.7
Time deposits/fixed term deposit	0.0	17.0
Liquid assets	**3.5**	**40.7**

4.9 Share capital

Share capital at 31 December 2001/31 December 2000 amounted to CHF 325.2 million and consists of a total of 6 504 822 registered shares at CHF 50 par value each. At 31 December 2001 the Allreal Group held 230 331 treasury shares (31 December 2000: 129 120 shares). The average purchase price per share was CHF 88.25 (31 December 2000: CHF 90.85). The total purchase price is deducted from equity (see "Consolidated statement of changes in shareholders' equity", page 15).

The board of directors is authorised to increase the share capital – if necessary by excluding the subscription right – by 22 February 2002 (1) to acquire investments or real estate by means of an equity swap, (2) to finance the acquisition of companies, parts of companies or investments, or (3) for an international placement of max. CHF 100.0 million by means of issuing a maximum of 2 million registered shares (authorised capital). However, this authorisation was not used within the set term.

Furthermore, Allreal Holding AG has been granted, without a time deadline, conditional capital of CHF 10.0 million (200 000 registered shares at CHF 50 par value each) set aside for the option rights issued to board members and management to purchase Allreal shares at a price of CHF 69 per share. The options are burdened with a lock up period of one, two and three years from the date of issue (29 September 2000). The maturity of all options is four years.

	2001	2000
Options outstanding at 1 January	87 474	0
Options allocated	13 875	87 474
Options exercised	0	0
Options expired	0	0
Options outstanding at 31 December	**101 349**	**87 474**

In December 2001 the board members were allocated 13 875 options at a strike price of CHF 69 per share.

4.10 Reserves

Capital reserves correspond to the additional paid-in capital (after deduction of costs) from capital increases carried out in previous years.

Of the retained earnings CHF 36.0 million is apportionable to revaluation profit which cannot be distributed.

4.11 Financing liabilities

Nearly all of the Allreal Group's financial debt refers to bank loans secured by real estate (see Note 6.3). These consist of fixed term advances, mortgages and building financing. When determining the term to maturity for loans on investment property secured by mortgage it is normally assumed that they are of a long-term nature (>5 years). The financing liabilities at 31 December 2001 show the following structure:

CHF million	<1 year	1–5 years	>5 years	Total
Financing liabilities	122.7	0.0	489.4	612.1

Maturity of interest rates (interest rate lock up period)

At 31 December 2001

CHF million	<1 year	1–2 years	2–5 years	>5 years	Total
Liabilities from financing	482.2	109.9	20.0	0.0	612.1
./. Effect of interest rate swaps	–300.0	0.0	100.0	200.0	0.0
Total	**182.2**	**109.9**	**120.0**	**200.0**	**612.1**
Total in %	29.7	18.0	19.6	32.7	100.0

At 31 December 2000

CHF million	<1 year	1–2 years	2–5 years	>5 years	Total
Liabilities from financing	421.4	5.0	20.0	0.0	446.5
./. Effect of interest rate swaps	–59.0	59.0	0.0	0.0	0.0
Total	**362.4**	**64.0**	**20.0**	**0.0**	**446.5**
Total in %	81.2	14.3	4.5	4.0	100.0

The average interest rate lock up period at 31 December 2001 amounted to 6 months excluding interest rate swaps and 2.5 years including interest rate swaps.

The average interest rate at 31 December 2001 amounted to 3.4% excluding interest rate swaps and 3.7% when including interest rate swaps.

4.12 Other provisions

The other provisions primarily reflect existing risks resulting from current and completed work by the Project & Development division:

CHF million	Construction risk		Construction guarantees		Other		Total	
	2001	2000	2001	2000	2001	2000	2001	2000
Status 1 January	19.0	14.6	0.3	5.2	0.0	0.0	19.3	19.8
Allocation	5.9	5.3	2.3	0.0	0.8	0.0	9.0	5.3
Utilised	–13.1	–0.9	–1.8	–4.8	0.0	0.0	–14.9	–5.7
Reclassification	–7.6	0.0	0.0	0.0	0.0	0.0	–7.6	0.0
Status 31 December	**4.2**	**19.0**	**0.8**	**0.4**	**0.8**	**0.0**	**5.8**	**19.4**

The reduction in provisions for construction risks is connected with the completion of various projects, but also with provisions existing at 31 December 2000, which were used to write off various current projects (see Notes 3.1 and 4.6).

4.13 Trade payables

CHF million	2001	2000
Projects & Development division	37.0	149.1
Real Estate division	0.0	0.3
Trade payables	**37.0**	**149.4**

The decrease in liabilities of the Projects & Development division is due to a comprehensive consolidation of project positions (see Note 4.6).

The values shown in the balance sheet are taken as liabilities after deduction of the corresponding receivables per project, in accordance with the valuation principles defined in Note 2.9.

CHF million	2001	2000
Liabilities gross	1381.0	1402.5
./. Prepayments	–1344.0	–1253.1
Trade payables	**37.0**	**149.4**

4.14 Other short-term liabilities

CHF million	2001	2000
Other liabilities	6.4	1.3
Valuation financial instruments	2.4	1.6
Accruals for vacation allowance	1.9	1.9
Other accruals	11.6	4.3
Other short-term liabilities	**22.3**	**9.1**

The other accruals refer mainly to accrued interest expenses.

4.15 Equity (NAV) per share

	2001	2000
Outstanding shares (in '000)	6 274	6 376
Consolidated equity (CHF million)	593.3	552.2
Equity (NAV) per share after deferred taxes (CHF)	**94.55**	**86.60**
Consolidated equity plus provisions for deferred taxes minus deferred tax assets (CHF million)	635.9	571.7
Equity (NAV) per share before deferred taxes (CHF)	**101.35**	**89.65**

5 Notes to the consolidated cash flow statement

5.1 Other non-cash items

The non-cash changes concern in particular the effects of the reclassification of development property to investment property (–CHF 37.9 million) and the reclassification of trade receivables to financial investments –CHF 13.0 million), capitalised interest on building financing (–CHF 3.3 million), various project consolidations (CHF 4.4 million) and earnings from the disposal of investment property (–CHF 1.3 million).

5.2 Investment property

CHF million	2001	2000
Additions	133.0	194.7
Buildings from internal development	49.9	0.0
Value-increasing investments	2.4	0.0
Investment in investment property	**185.3**	**194.7**
Additions from consolidations	48.0	63.7
Total investment in investment property	**233.3**	**256.4**

For details regarding the additions in 2001 from consolidation and additions, please see p. 50 ("Total additions").

Buildings from internal development concern the three properties under construction, namely at Andreasstrasse and Eggbühlstrasse, both in Zurich, and Brandstrasse in Schlieren.

5.3 Disposals of investment property

Compared to the market value at 31 December 2000, total sales in 2001 of CHF 44.1 million resulted in a profit of CHF 1.3 million. For details please refer to p. 49 ("Total disposals").

5.4 Changes in the scope of consolidation

In financial year 2000 Allreal acquired Innovita Spisermarkt AG and Hans Imholz Immobilien AG, and in financial year 2001 Allreal acquired Juventus AG, Grundstücksgesellschaft Juventus and Immobiliengesellschaft ATZ:

CHF million	2001	2000
Investment property	48.0	63.7
Financial assets	0.0	0.8
Liquid assets	6.5	0.5
Other current assets	0.0	0.5
Assets	**54.5**	**65.5**
Provisions	–5.0	–1.9
Other liabilities	–0.9	–6.0
Net assets	**48.6**	**57.6**
Minus liquid funds	–6.5	–0.5
Minus financial debt	–3.9	–15.0
Change in scope of consolidation, net liquid assets	**38.2**	**42.1**

The purchase price of the companies acquired in 2001 amounts to CHF 44.8 million. There was no goodwill.

6 Supplementary notes

6.1 Income taxes

CHF million	2001	2000
Current income taxes	4.6	7.3
Deferred taxes from revaluation	4.2	12.3
Other deferred taxes	8.4	0.0
Total income taxes	**17.2**	**19.6**

Current income taxes

When calculating income taxes, a rate of 25% (before taxes) is applied to the Real Estate division and a rate of 8.5% (federal tax) is applied to the Projects & Development division based on tax loss carry forwards for cantonal and local tax purposes. The effective tax rates are applied to income derived from property disposals.

Deferred income taxes

Owing to the long-term investment horizon, the calculation of deferred taxes for the Real Estate division, and regardless of the peculiarities of cantonal taxation systems and rules, a uniform tax rate of 25% is applied. As a result, surcharges on taxes on real estate profit as applied for shorter durations of ownership do not apply. The 25% tax rate also applies to the Projects & Development division.

Deferred tax liabilities and assets

Allreal's deferred tax liabilities, which serve as the basis for provisions for deferred taxes as shown in long-term debt, are as follows:

CHF million	2001	2000
Upward revaluation of investment property	18.1	12.3
Other value differences on investment property	6.4	0.0
Trade receivables	10.4	5.2
Change in scope of consolidation	11.0	2.0
Provisions for deferred taxes	**45.9**	**19.5**

Deferred tax assets consist of the following:

CHF million	2001	2000
Reduction in value of investment property	1.6	0.0
Tax losses carry-forward	1.7	0.0
Deferred tax assets	**3.3**	**0.0**

When capitalising deferred tax assets from tax loss carry-forwards or from negative adjustments to market value, IAS 12 assumes they can be offset. Contrary to the 2000 financial statements, which did not include capitalisation, at 31 December 2001 deferred tax assets from downward revaluation of investment property were capitalised in most cases. Based on the long-term scope of the investment, an upward revaluation may be assumed for future years. Based on existing timing differences with resulting deferred tax obligations it may be assumed that Allreal Generalunternehmung AG's existing tax loss carry-forwards can be offset against future income; the resulting tax assets were capitalised for the first time at 31 December 2001. In the previous year they were directly deducted from deferred tax liabilities which resulted from timing differences.

Tax loss carry-forwards

Due to the separate taxation of income from real estate disposals, Allreal Generalunternehmung AG has claimed loss carry-forwards for cantonal and local tax purposes which expire as follows:

CHF million	2001	2000
After 1 year	0.0	8.1
After 2 years	2.3	8.5
After 3 years	4.1	4.3
After 4 years and more	4.2	2.6
Tax loss carry-forwards	**10.6**	**23.5**

Transition account

The following table shows the transition from the income taxes calculated at the theoretical tax rates applicable to the group to the effective taxes:

CHF million	2001	2000
Income taxes at an average tax rate of 23%	15.6	18.6
Non-deductible expenses	0.5	0.0
Revaluations	0.4	3.3
Impact from loss carry-forwards	0.0	–1.0
Other items	0.7	–1.3
Effective tax liability	**17.2**	**19.6**

6.2 Purchasing obligations, contingent liabilities and legal disputes

CHF million	2001	2000
Purchasing obligations	19.2	29.7
Contingent liabilities and guarantees	2.8	0.0

The purchasing obligations of CHF 12.7 million refer to the Wiesental property in Bülach which was acquired at the beginning of 2002 (see Note 6.8).

The guarantees are in connection with activities of the Project & Development division for third parties. Purchase rights to development land serve as security.

At 31 December 2001 there were no pending legal disputes which could materially affect the financial situation of the Allreal Group. For the record, for pending or threatened legal disputes arising from normal business activity Allreal has made provisions to the extent required (see Note 4.12).

6.3 Pledged assets for securing of own liabilities

CHF million	2001	2000
Investment properties	1025.5	770.6
Development properties	206.4	220.6
Total assets affected	**1231.9**	**991.2**
Of which pledged or mortgaged	950.0	658.5
Of which used	603.5	408.8

6.4 Derivative financial instruments

Allreal makes use of derivative financial instruments in the form of interest swaps. Since these are cash flow hedges, changes in value are shown in equity as follows:

CHF million	2001	2000
Status 1 January	–1.6	0.0
Losses from market valuation	–1.7	–1.6
Status 31 December	–3.3	–1.6
Minus deferred taxes	0.9	0.0
Status 31 December net	**–2.4**	**–1.6**

Deferred taxes were considered for the first time at 31 December 2001.

At 31 December 2001, the interest swaps amounted to CHF 359.0 as follows (in CHF million):

Term	Contract value	Negative cost of replacement	Positive cost of replacement
09/2002	24.6	–0.6	
09/2002	34.4	–0.8	
03/2004	25.0	–0.6	
03/2004	50.0	–1.5	
04/2004	25.0	–0.6	
03/2006	50.0	–1.1	
08/2006	50.0		0.9
08/2008	100.0		0.1
Total interest swaps	**359.0**	**–5.2**	**1.0**

At 31 December 2001, fixed interest rates were available between 3.1% and 3.8%. The variable interest rates based on 3 and 6 month LIBOR rates were between 1.8% and 2.2%.

6.5 Transactions with related parties

The board of directors fees for the 2001 financial year amounted to CHF 0.3 million in total (2000: CHF 0.4 million). See Note 4.9 with regard to options allocated to members of the board. There are no receivables, liabilities or guarantees in connection with members of the board. Loans totalling CHF 0.6 million were granted at arm's length to members of management.

In 2000 the Allreal Group acquired the following real estate from major shareholders:

Vontobel Group (10.7% shareholding)	62.1
IHAG Holding AG (7.2% shareholding before IPO, <5% after IPO)	43.6
Innomag AG (5.9% shareholding before IPO, <5% after IPO)[1]	35.2
Total	**140.9**

[1] Indirectly through the acquisition of Innovita Spisermarkt AG, St. Gallen

No such transactions were carried out in 2001.

6.6 Inter-Group relations

The transactions between the individual Group companies were carried out at arm's length conditions. This was especially the case for construction activities performed by the Project & Development division for the Real Estate division. Furthermore, the Project & Development division provided management services in favour of the other divisions, for which it was remunerated CHF 0.5 million (2000: CHF 0.4 million) from the "Home" division, CHF 1.0 million (2000: 0.5 million) from the "Office" division, and CHF 0.2 million (2000: CHF 0.7 million) from Allreal Holding AG.

6.7 Employee benefits

Until 31 December 2001 the companies in the Allreal Group were attached to an external and independent pension plan. For the employees of Allreal Group, the assets and liabilities are not reported separately (Multi Employer Solution).

The newly created Allreal Pension Fund started operation at 1 January 2002. All employees are now insured with this pension fund. It took over the financial assets allocated to it following the part-liquidation of the previous pension fund.

6.8 Subsequent events

At the end of January, the Allreal Group acquired 12 buildings valued at CHF 114.5 million in total ("home": CHF 47.2 million and "Office" CHF 67.3 million). At the same time, two commercial buildings were sold for a total of CHF 44.4 million.

At the beginning of February Allreal acquired Wiesental, land in Bülach, for CHF 12.7 million (see Note 6.2).

Report of the statutory auditors

To the general meeting of

Allreal Holding AG, Zug

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes/pages F103 to F107) of Allreal Holding AG for the year ended December 31, 2001.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements comply with Swiss law and the company's articles of incorporation.

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

Zurich, February 21, 2002

Ernst & Young Ltd

M. Schneider	M. Kühne
Swiss Certified Accountant (in charge of the audit)	Swiss Certified Accountant

Income statement

CHF million	Note	2001	2000
Income from investments	2	22.1	3.6
Financial income		3.9	2.2
Other income		0.9	0.0
Total income		26.9	**5.8**
Financial expense	3	–1.6	–2.0
Other expense	4	–2.1	–1.8
Tax expense		–0.3	–0.1
Total expense		**–4.0**	**–3.9**
Net income		**22.9**	**1.9**

Balance sheet

Investments	5	463.0	426.5
Loans to Group companies		36.4	53.9
Other non-current assets		4.6	0.1
Non-current assets		**504.0**	**480.5**
Accounts receivable		0.0	4.2
Securities	6	18.9	11.1
Cash		0.9	5.0
Current assets		**19.8**	**20.3**
Total Assets		**523.8**	**500.8**
Share capital	7	325.2	325.2
Legal reserves	8	155.7	164.4
Treasury stock reserve	9	20.4	11.7
Retained earnings	10	22.2	–0.7
Shareholders' equity		**523.5**	**500.6**
Other liabilities		0.3	0.2
Total liabilities		**0.3**	**0.2**
Total liabilities and shareholders' equity		**523.8**	**500.8**

Notes to the financial statements

1 Principles
Allreal Holding Ltd. was founded in 1999. As a holding company it is not operationally active. Its task is to manage the Allreal Group.

The financial statements of Allreal Holding Ltd. have been prepared in accordance with the Swiss Code of Obligations. They supplement the consolidated financial statements which are prepared in accordance with International Accounting Standards (IAS) (pages 13–40). While the consolidated financial statements describe the economic situation of the group as a whole, the information set out in the financial statements of Allreal Holding AG (pages 58–62) refers only to the parent company.

2 Income from investments

CHF million	2001	2000
Allreal Generalunternehmung AG	17.0	3.6
Allreal Home AG	1.1	0.0
Allreal Finanz AG	4.0	0.0
Income from investments	**22.1**	**3.6**

3 Financial expense
Of the 2001 financial expenses, CHF 0.9 million was allocated to unrealised losses on treasury shares (2000: CHF 0.6 million).

4 Other expense
Other expenses refer to administration expenses typical for a holding company such as fees for the board of directors, the annual report, and the annual general meeting of shareholders etc, and also include public relations and marketing expenses. The management fee paid to Allreal Generalunternehmung AG amounted to CHF 0.2 million (2000: CHF 0.7 million). The higher amount for the year 2000 reflects the special expenses connected with the IPO in March 2000.

5 Investments

Company	Domicile	Share capital CHF million	Investment 2001	Investment 2000
Allreal Home AG	Zurich	26.5	100.0%	100.0%
Allreal Office AG	Zurich	100.0	82.2%	82.2%
Allreal Generalunternehmung AG	Zurich	10.0	100.0%	100.0%
Allreal Finanz AG	Baar	100.5	100.0%	100.0%

A further 17.8% are held by Allreal Generalunternehmung AG

In 2001, Allreal Office AG increased its share capital from CHF 49.4 million to CHF 100.0 million. Allreal Holding AG. used the share capital apportioned to it to repay shareholder loans.

In 2001, based on warranty claims Allreal Holding Ltd. was repaid a portion of the purchase price of Allreal Generalunternehmung AG amounting to CHF 5.0 million. The value of the investment was reduced accordingly.

6 Securities

The securities held are exclusively treasury shares.

7 Share capital

The share capital of Allreal Holding Ltd. consists of 6 504 822 registered shares at a par value of CHF 50 each. The additional paid-in capital in connection with the capital increase is shown in Legal reserve.

The board of directors is authorised until 22 February 2002 to increase the share capital (authorised capital) – if necessary by excluding the subscription right – (1) to acquire investments or real estate by means of an equity swap, (2) to finance the acquisition of companies, parts of companies, or investments or (3) for an international placement of a maximum of CHF 100.0 million by means of issuing a maximum of 2 million registered shares (authorised capital). This authorisation had not been used to date.

The board of directors is furthermore authorised to increase the share capital by excluding the subscription right of shareholders by a maximum of CHF 10.0 million by issuing 200 000 shares (conditional capital), to set aside for the option rights issued to employees and members of the board of directors. See Note 4.9 in the Notes to the Consolidated Financial Statements.

8 Legal reserve

CHF million	2001	2000
Additional paid-in capital from capital increase	176.1	176.1
Carry-forward to reserve for treasury shares	–20.4	–11.7
Legal reserve	**155.7**	**164.4**

The legal reserve resulting from additional paid-in capital is not available for distribution to shareholders. Only retained earnings are available for the distribution to shareholders.

9 Treasury shares

	2001		2000	
	Number of shares	Value CHF million	Number of shares	Value CHF million
Amount or market value at 1 January	129 120	11.1	9 955	0.3
Additions	111 966	9.6	186 441	17.1
Disposals	–10 755	–0.9	–64 276	–5.7
Change in value		–0.9		–0.6
Amount or market value at 31 December	**230 331**	**18.9**	**129 120**	**11.1**
Amount of reserve for treasury shares		20.4		11.7

10 Major shareholders

The following shareholders with a shareholding of 5% or more (directly or indirectly) were registered in the share register of Allreal Holding AG as of 31 December:

	2001	2000
Pensionskasse der Oerlikon-Contraves AG, Zurich	16.9%	16.9%
Basellandschaftliche Pensionskasse, Liestal	13.7%	13.5%
Helvetia Patria, St. Gallen/Basel	12.4%	12.4%
Bank Vontobel Holding AG, Zurich	10.7%	10.7%

11 Contingent liabilities

As of 31 December 2001 contingent liabilities of CHF 637.0 million (2000: CHF 402.0 million) in favour of group companies exist.

12 Subsequent events

None.

Proposal for the distribution of earnings

The board of directors proposes to the annual general meeting of shareholders the following appropriation of the available earnings as consisting of:

CHF million	2001	2000
Balance carried forward from previous year	–0.7	–2.6
Net income	22.9	1.9
Retained earnings (available for appropriation)	**22.2**	**–0.7**
Distribution of dividends CHF 3.0 (CHF 0) per share	–19.5	0.0
Balance to be carried forward	**2.7**	**–0.7**

The treasury shares held by the company (31 December 2001: 230 331 shares) are not entitled to dividends.

The dividend approved by the annual general meeting of shareholders for the 2002 financial year will be paid to shareholders free of charge and with a 35% withholding tax deduction by Bank Vontobel AG to the payment location chosen by the shareholder.

Zug, 20 February 2001

For the board of directors:
Jack Schmuckli, Chairman

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