

Annual Report 2005

allreal

holding

Key figures at a glance

		2005	2004	Change in % ¹
Allreal Group				
Total sales ²	CHF million	568.7	492.7	+15.4
Total income incl. revaluation gains ³	CHF million	173.7	137.6	+26.2
Operating profit (EBIT) incl. revaluation gains	CHF million	107.1	77.7	+37.8
Net profit incl. revaluation gains	CHF million	70.0	49.5	+41.4
Total income excl. revaluation gains ³	CHF million	169.7	145.8	+16.4
Operating profit (EBIT) excl. revaluation gains	CHF million	103.1	85.9	+20.0
Net profit excl. revaluation gains	CHF million	67.2	56.6	+18.7
Cash flow	CHF million	90.8	76.8	+18.2
Return on equity incl. revaluation effect	%	7.9	6.4	+1.5
Return on equity excl. revaluation effect	%	7.5	7.3	+0.2
Equity ratio	%	42.9	41.7	+1.2
Net gearing ⁴	%	109.1	111.3	-2.2
Market value real estate investments	CHF million	1 834.3	1 413.9	+29.7
Sales Projects & Development Division	CHF million	469.3	407.7	+15.1
Employees (number)	full-time equivalents	238	232	+2.6
Allreal Holding AG				
Net profit	CHF million	28.4	71.7	-60.4
Share capital	CHF million	487.9	406.6	+20.0
Allreal share				
Earnings per share incl. revaluation gains	CHF	7.55	5.96	+26.7
Earnings per share excl. revaluation gains	CHF	7.25	6.82	+6.3
Cash flow per share	CHF	9.79	9.25	+5.8
Dividend per share ⁵	CHF	4.80	4.50	+6.7
Net asset value (NAV) per share	CHF	99.80	96.30	+3.6
Share price as at 31 December	CHF	116.00	110.40	+5.1
Dividend yield ⁵	%	4.1	4.1	-
Operating key figures				
Net yield real estate investments ⁶	%	5.1	5.4	-0.3
Average interest rate on financial liabilities as at 31 December	%	2.79	2.77	-
Operating margin Projects & Development Division ⁷	%	42.2	33.4	+8.8
Valuation as at 31 December				
Market capitalisation ⁸	CHF million	1 131.6	897.1	+26.1
Enterprise value ⁹	CHF million	2 193.7	1 768.0	+24.1

¹ Changes in percentage values shown as absolute difference

² Income resulting from rental of investment real estate plus completed project volume by Projects & Development division

³ Rental income and earnings from sale of investment real estate plus earnings from Projects & Development

⁴ Finance liabilities minus cash and marketable securities as percentage of equity

⁵ Board of directors proposal of CHF 4.80 per share for 2005 financial year

⁶ Real estate profit as percentage of continued market value at 1 January

⁷ EBIT excl. revaluation and restoration of value adjustments on projects as percentage of profit from business activity

⁸ Stock price at balance sheet date multiplied by the number of outstanding shares

⁹ Market capitalisation plus net debts

Real estate at a glance

	City of Zurich		Remaining Canton of Zurich		Other Regions		Total Real Estate	
	2005	2004	2005	2004	2005	2004	2005	2004
Portfolio								
Commercial real estate								
Number of properties	28	25	10	10	7	7	45	42
Useable floor space '000 m ²	254	173	64	64	31	31	349	268
Vacancy rate ¹ %	5.9	3.2	5.1	7.6	11.3	7.1	6.2	4.7
Rental income CHF million	58.2	42.3	15.8	15.6	7.4	8.5	81.4	66.4
Real estate profit ² CHF million	47.3	35.3	14.0	13.8	6.0	6.7	67.3	55.8
Gross yield %	6.1	6.6	6.5	6.3	5.8	6.5	6.2	6.5
Net yield ³ %	5.1	5.5	5.8	5.5	4.7	5.3	5.2	5.5
Historical book value CHF million	1 112.0	696.2	234.7	234.2	135.3	135.3	1 482.0	1 065.7
Market value CHF million	1 135.6	717.6	242.7	242.5	126.9	126.6	1 505.2	1 086.7
Average market value ⁴ CHF million	40.6	28.7	24.3	24.3	18.1	18.1	33.4	25.9
Change in market value ⁵ CHF million	1.6	-2.3	0.2	-7.5	0.3	-0.9	2.1	-10.7
Land reserves								
Land '000 m ²	15	15	12	12	-	-	27	27
Investment volume CHF million	37.0	37.0	90.0	90.0	-	-	127.0	127.0
Book value CHF million	22.2	21.5	12.1	14.1	-	-	34.3	35.6
Change in market value ⁵ CHF million	0.0	0.0	-2.0	0.0	-	-	-2.0	0.0
Residential real estate								
Number of properties	5	5	15	15	1	1	21	21
Useable floor space '000 m ²	13	13	67	67	4	4	84	84
Vacancy rate ¹ %	3.9	1.0	2.6	1.5	1.9	2.7	2.9	1.4
Rental income CHF million	3.8	3.9	13.2	13.7	1.0	1.0	18.0	18.6
Real estate profit ² CHF million	3.2	3.4	10.0	11.4	0.8	0.7	14.0	15.5
Gross yield %	6.1	6.2	6.2	6.4	6.3	6.3	6.2	6.4
Net yield ³ %	5.2	5.4	4.7	5.4	4.7	4.4	4.8	5.3
Historical book value CHF million	61.9	61.9	200.9	201.6	15.6	15.6	278.4	279.1
Market value CHF million	61.3	61.6	217.0	214.1	16.5	15.9	294.8	291.6
Average market value ⁴ CHF million	12.3	12.3	14.5	14.3	16.5	15.9	14.0	13.9
Change in market value ⁵ CHF million	-0.3	-0.7	3.6	3.1	0.6	0.1	3.9	2.5
Real estate for development								
Land reserves								
Land '000 m ²	4.5	6.8	151.3	131.8	32.7	55.4	188.5	194.0
Investment volume CHF million	27.0	38.0	524.0	469.0	70.0	88.0	621.0	595.0
Book value CHF million	6.0	8.4	40.9	67.6	6.0	8.3	52.9	84.3
Buildings under construction								
Investment volume CHF million	134.5	289.5	324.0	125.0	99.0	41.5	557.5	456.0
Book value CHF million	75.5	195.4	99.3	33.5	46.1	16.0	220.9	244.9

¹ Percentage of target rental income

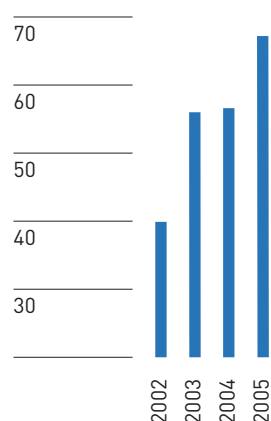
² Rental income minus real estate expenses

³ In percent of market value

⁴ Per property

⁵ Based on revaluation as compared to previous year

Net profit
excl. revaluation effect
CHF million



- Best operating result since stock exchange listing in 2000
- Continued portfolio expansion with stable-income properties
- Profitable Projects & Development division with outstanding operating result
- Solid long-term financing allowing for continuation of growth path
- Dividend increase proposed

In 2005 Allreal again reported improved results over the previous year. Due to a clearly enhanced overall performance and increased efficiency, the group's corporate results are shown as CHF 67.2 million, representing an increase of 18.7% over the previous year. The very good operating performance and a slightly higher valuation of the real estate portfolio performed by an external real estate valuer, resulted in a 41% growth in the corporate results when compared to the previous year, including a revaluation effect of CHF 70 million.

These very positive results underline the Allreal Group's competitiveness, and they justify the trust the shareholders have shown in terms of the capital increase implemented in the spring which resulted in the full exercise of subscription rights. The resulting net proceeds of CHF 154.1 million will allow Allreal to expand its real estate portfolio through buying investment properties and financing own projects.

On the stock exchange, Allreal represented a solid and secure value. Since 31 December 2004 the share price rose by 5.1 percent and closed at CHF 116.00 on the cut-off date. The share price increase, dividends and proceeds from the subscription rights from the capital increase resulted in a significant overall performance for shareholders of 11.4 percent.

As at 31 December 2005 the Allreal share was traded at a premium of 16% compared to its net asset value (NAV). Thanks to the positive price development and capital increase the market capitalisation (CHF 1 132 million) exceeded one billion Swiss francs for the first time.

In view of the outstanding operating result and in order to continue ensuring our shareholders an income that is comparable to that from a direct investment in real estate, the board of directors will propose to the shareholders of Allreal Holding AG a dividend of CHF 4.80 per share (2004: CHF 4.50).

Outstanding performance in Real Estate and Projects & Development

Due to the acquisition of two properties occupied by tenants with long-term leases and the on-time transfer of the IBM Switzerland headquarters, the real estate portfolio grew in 2005 by some CHF 420 million to CHF 1.8 billion.

As a result of this portfolio growth, rental income increased significantly by 16.9%. In the year under review the average net yield amounted to 5.1%. This very respectable result underlines the secure income provided by commercial and residential properties.

Despite a large oversupply of office space, the vacancy rate is shown at 5.6%, which is low when compared to the industry as a whole. Following the renewed lease after the cut-off date of an office building in Zurich-Altstetten and the sale of a residential property in Niederhasli, the vacancy rate fell even further.

The Projects & Development division also reported convincing results for 2005. While overall performance increased by 16% to CHF 70.3 million, operating profit is shown as CHF 29.7 million. With a high operating margin of 42.2%, the project volume of CHF 469.3 million consisting of project development, project management and the sale of residential properties is reported at CHF 62 million above the previous year's value.

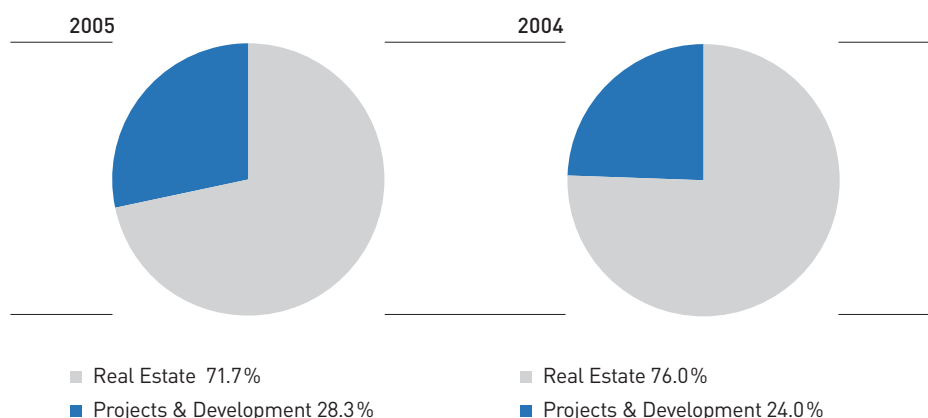
Allreal is especially pleased, and it considers it proof of the Project & Development division's competitiveness, that an above-average share of the growth is due to third-party contracts.

In 2005, the Real Estate division's contribution to the operating result excluding revaluation effect (EBIT) amounted to 71.1% and that of the Projects & Development division to 28.3%.

Soundly financed company

With an average interest rate on interest-bearing debt of 2.79% – practically unchanged to that of the previous year – and a slightly higher average interest rate pegging of 50 months, Allreal is soundly financed and well prepared for a rise in the general level of interest rates.

The divisions' contribution toward operating profit



Owing to the excellent operating performance reported by both divisions, the cash flow resulting from operations grew significantly by CHF 14.0 million to CHF 90.8 million.

At 31 December 2005, net gearing amounted to 109.1% while the interest cover was 4.3. Both values therefore remain within the range defined by Allreal.

In 2005, a large share of the funds obtained through the capital increase was used to purchase real estate for investment purposes and to finance own projects. On the cut-off date the equity ratio was shown as 42.9%. As this is clearly above the defined value of 35%, the company has CHF 300 million available for future activity.

Confident about 2006

Allreal's dependence on the economy and other factors outside the company's influence makes it difficult to reliably forecast future development. Thanks to the excellent results for 2005, the stable income portfolio, the Projects & Development division's good order situation, solid financing, the repeatedly proven competitiveness, and the management's and staff's impressive proof of competence, Allreal views the future with confidence. Based on cautiously positive market signals, we expect business activity to remain stable and results to compare favourably to a multi-year average.

The board of directors and group management wish to take this opportunity to thank all members of staff for their contribution to the good financial results and the shareholders for their trust and support.



Thomas Lustenberger
Chairman



Bruno Bettoni
Chief Executive Officer

Business model and strategy

Allreal combines a secure-income real estate portfolio with the activity of a general contractor (site and project development, project management, buying and selling properties).

Allreal's portfolio consists of commercial and residential properties in Switzerland's business centres, with a clear focus on the Greater Zurich Area.

This business model allows Allreal to cover the entire value-adding chain in real estate, from project development and realisation to an investment in real estate showing a profit across the long term. The company and its clients benefit from synergies resulting from the combination of two divisions, Real Estate and Projects & Development.

Since Allreal is active neither in the building and ancillary building trades nor in real estate administration, nor does it hold any investments in such companies, its independence and transparency in awarding contracts are guaranteed at all times. The choice of suppliers is based only on objective economic criteria.

Return on equity excl. revaluation effect:	6–7% p.a.
Return on equity incl. revaluation effect:	7–10% p.a.
Share of residential properties in the real estate portfolio:	20–30%
Net yield on investments / Net yield on total portfolio:	> 5%
Equity ratio:	> 35%
Net gearing / ratio of net financial debt to equity:	< 150%
Interest coverage ratio:	> 2.0
Share of liabilities for portfolio properties:	< 80%
Dividend policy:	< 75% of net profit (excl. revaluation effect)

Real Estate division

The active management of our real estate portfolio provides sustained added value and a consistently high cash flow from operating activity. The division acquires individual properties and entire real estate portfolios which are subsequently optimised for profit potential and either kept or sold, depending on the objective and the market situation. The focus is on stable income and profitable residential and commercial buildings at attractive locations in Switzerland's business centres. Allreal's aim is to position its real estate portfolio among the three largest of the listed Swiss real estate companies, with residential properties representing 20-30% of the portfolio. Allreal delegates the maintenance of its buildings to local and regional companies.

Projects & Development division

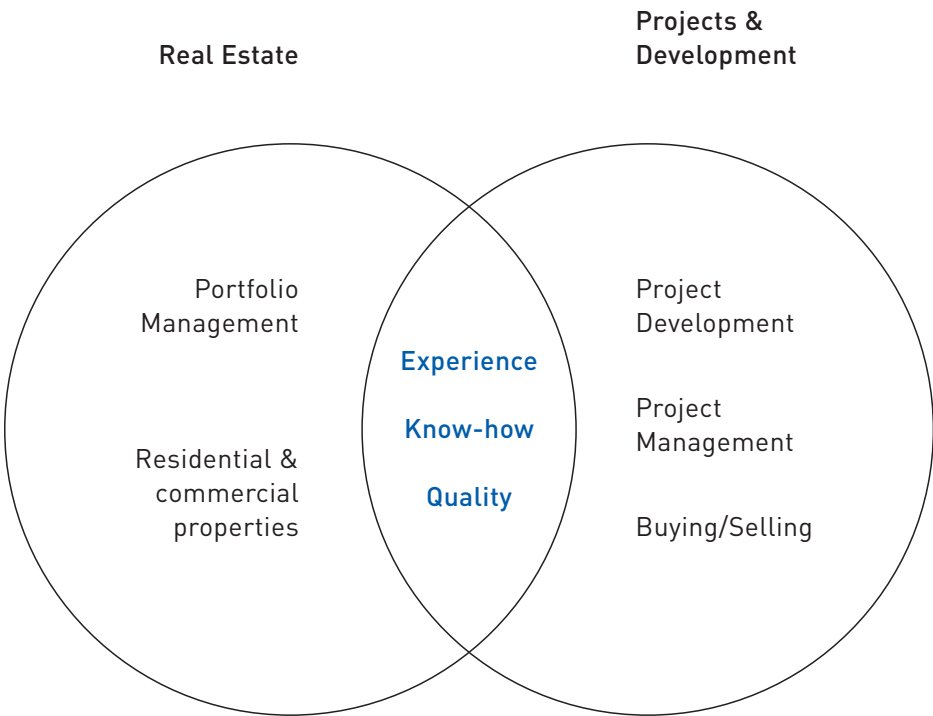
The Project & Development division combines project development with project management and with buying and selling of properties.

Allreal develops projects in all segments of real estate for investors and owners, and for its own portfolio. The results are projects ready for construction representing a market-oriented yield and the best possible added value.

Project Management comprises planning and realisation of buildings of any size or complexity, on time and in the quality demanded while remaining within budget, for new construction, conversion or refurbishment.

Allreal sells residential properties – family homes and condominiums – from its own development and production, and it advises private individuals, companies and institutional investors concerning real estate transactions of all kinds. There is also a significant activity in sourcing and brokering land, buying and selling real estate for investment, initial rentals of commercial and residential buildings, evaluation, drawing up agreements and consulting for sale transactions.

The aim is to be one of the three largest Swiss real estate companies and to be market leader in the Greater Zurich Area.



Organisation

Board of Directors

Dr. Thomas Lustenberger (*1951, Swiss) Chairman, member since 1999	Erich Walser (*1947, Swiss) Vice Chairman, member since 1999	Dr. Rudolf W. Hug (*1944, Swiss) Member since 2003	Dr. Jakob Baer (*1944, Swiss) Member since 2005	Albert Leiser (*1957, Swiss) Member since 2005
Dr. iur., LL.M.	lic. oec. HSG, lic. iur	Dr. iur., MBA INSEAD	Dr. iur., attorney Independent consultant since 2004	Certified real estate trustee
Since 1980 Partner in Zurich law firm, Meyer Lustenberger	Since 2003 Chairman of the Board and CEO of Helvetia Patria Group	Since 1997 Independent management consultant	1994–2004 CEO KPMG Switzerland and member of KPMG's European and international management boards	Board member VIV Switzerland
Member of the Board of Di- rectors of Calida Holding AG, Oberkirch (Chairman); Micronas Semiconductor Holding AG, Zurich (Vice Chairman); Schlatter Holding AG, Schlieren (Chairman); SEZ Holding AG, Zurich, and other non-listed companies	1994–2003 CEO Helvetia Patria Group	1987–1997 Managing Director, Interna- tional Division Credit Suisse/CSFB	1992–1994 Member of KPMG Switzer- land's executive board	Board member and delegate SVIT Zurich
	1991–1993 CEO Helvetia Versicherun- gen	1983–1986 Manager of Credit Suisse Bern branch	1975–1992 Various management positions with Fides Group	City of Zurich councillor
	1979–1990 Various management func- tions with Helvetia	1977–1982 Manager of Credit Suisse North America department	1971–1975 Legal service of Federal Finance Administration, Berne	Since 2004 Executive general manager of City of Zurich and Canton Zurich Home Owners' As- sociation
	Huber + Suhner AG, Herisau (Vice Chairman), and other non-listed com- panies	1972–1976 International credit business Chase Manhattan Bank New York and Düsseldorf	Member of the Board of Adecco S.A., Chésereux; Swiss Re, Zurich; and two non-listed companies	1999–2004 Head Real Estate and Mort- gages division, Rente- nanstalt/Swiss Life
	Vice chairman of Swiss Insurance Association, Zurich	Member of the Board of Swiss Post, Bern; Micronas Semiconductor Holding AG, Zurich; Deutsche Bank (Switzerland) Ltd., Zurich; Orell Füssli Holding AG, Zurich; Schlatter Holding AG, Schlieren; Panalpina World Transport (Holding) Ltd., Basel		1994–1998 Various management functions with Renten- anstalt/Swiss Life
				1990–1994 General Manager, Lips Immobilien AG
				1977–1990 Positions with various real estate companies
				Board member of a non-listed company

All members of the board of directors of Allreal Holding AG are non-executive in the company and independent, and they especially hold no official functions or political offices. None of the board members in the past held operating management functions within the Allreal Group. There are two board of directors committees (Risk and Audit Committee, and Nomination and Compensation Committee). The board members were appointed individually for a total of three years.

Group Management

<p>Bruno Bettoni (*1949, Swiss) Chief Executive Officer since 1999</p> <p>Vice-President of the Swiss Association of General Contractors</p> <p>Member of the Board of Directors of Eurogate AG</p> <p>1995–1999 Managing director of Oerlikon-Bührle Immobilien AG</p> <p>1983–1995 Member of Group Management of Oerlikon-Bührle Immobilien AG</p> <p>1973 Joined Oerlikon-Bührle Immobilien AG as project manager</p> <p>Apprenticeship as architectural draughtsman</p> <p>Additional apprenticeship as bricklayer</p> <p>Various management-related courses</p>	<p>Hans Engel (*1955, Swiss) Member of Group Management since 1999</p> <p>Holder of the Swiss federal diploma as real estate trustee</p> <p>1987–1999 Member of the group management of Oerlikon-Bührle Immobilien AG</p> <p>1981 Joined Oerlikon-Bührle Immobilien AG as an expert for contracts and the purchase, sale and development of real estate</p> <p>1974–1980 Recording officer in two Zurich notaries' offices</p>	<p>Eugen Bentele (*1953, Swiss) Member of Group Management since 2002</p> <p>1992–1999 Member of Group Management of Oerlikon-Bührle Immobilien AG</p> <p>1980 Joined Oerlikon-Bührle Immobilien AG as Head of Sales</p> <p>1972–1980 Recording officer in several notaries' offices in canton Zurich</p> <p>Commercial apprenticeship</p> <p>Various job-related courses</p>	<p>Roger Herzog (*1972, Swiss) Chief Financial Officer and Member of Group Management since 2004</p> <p>Swiss certified auditor</p> <p>2003 Joined Allreal Group as Head Accounting</p> <p>1998–2003 PricewaterhouseCoopers, Manager Auditing and Consulting</p> <p>1995–1998 Zurich Business School, degree in Business Administration</p> <p>1988–1995 Credit Suisse, employee in foreign exchange and commercial credit divisions</p> <p>Commercial apprenticeship</p>
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None of the members of Group Management hold other such functions, with the exception of directorships within the Allreal Group and the companies mentioned above and especially hold no official functions or political offices.

Auditors

KPMG Fides Peat, Zurich

External independent real estate evaluator

Sal. Oppenheim jr. & Cie. Corporate Finance (Schweiz) AG, Zurich

Consolidated income statement

Allreal reports operating net profit (net profit excluding revaluation effect) of CHF 67.2 million for the 2005 financial year, representing an 18.7% increase over the previous year's result. The expansion of the real estate portfolio and the resultant higher rental income, together with the convincing result of the Projects & Development division, were the main reasons for this increase.

The strategic target value of 7.5% (6%–7% range) for return on equity excluding revaluation effect was reached in 2005, and the return on equity including the revaluation effect of 7.9% (7%–10% range) fulfilled expectations.

Following the expansion of our portfolio, rental income grew by 16.9% to CHF 99.4 million. Rental income on continuously held commercial and residential buildings decreased by 3.6% compared to 2004, or by 2.2% (like-for-like rental growth). Compared to the previous year, more maintenance and repair work was required, resulting in increased real estate expenses of CHF 18.1 million. Nevertheless, the reported net yield of 5.1% is high when compared to the competition. No investment buildings were sold in the year under review. As a result of the weak demand for office space, the vacancy rate in the Real Estate division rose from 4.0% to 5.6%.

The valuation by an external appraiser resulted in a positive value correction of CHF 4.0 million, corresponding to 0.2% of the investment value of the whole portfolio. The commercial building at Vulkanstrasse (IBM headquarters) was included in the income-producing properties with a profit from initial evaluation. The deferred taxes on the whole revaluation amounted to CHF 1.2 million, resulting in a positive revaluation effect for 2005 of CHF 2.8 million in the income statement.

Due to completion of several buildings and a larger project volume, the Projects & Development division reported consolidated income of CHF 60.6 million. Of the revenue, 60.6% results from third-party projects, 72.1% from the construction of condominiums on own account and 29.2% from construction activity for the portfolio of the Real Estate division. Due to the fact that personnel and operating expenses grew at a slower pace than overall performance, the operating margin increased to 42.2%.

Owing to the higher need for financing the expansion of investment and development real estate, net expenditure grew by 18.2% to CHF 24.0 million compared to the previous year. The average rate of interest on financial liability remained constant.

As expected, tax expenditure increased to CHF 13.1 million, which corresponds to a tax rate of 15.8% on net profit before tax. In the previous year, with the introduction of a linear tax rate in canton Zurich and a change in the tax treatment of companies buying and selling real estate, the group tax rate was lowered from 25% to 22%, resulting in a non-recurring effect in the 2004 income statement.

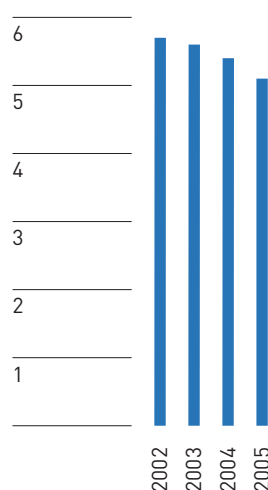
In order to further increase transparency and the comparison with competitors, the presentation of the income statement was revised and shown in conformity with the format recommended for real estate companies by EPRA (European Public Real Estate Association). The previous year's results were adjusted accordingly and not affecting the operating result.

Consolidated balance sheet / shareholders' equity

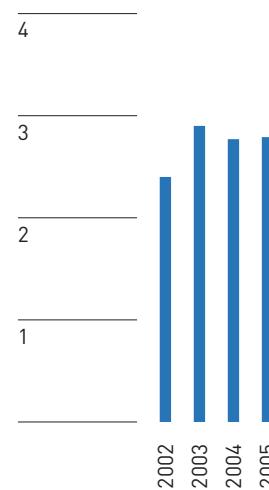
As a result of the acquisition of "Center Eleven", a residential and commercial building in Zurich-Oerlikon, and the year-end purchase of "Bändliweg", a commercial building in Zurich-Altstetten, in addition to the completion of the IBM headquarters in Zurich-Altstetten, the market value of investment real estate was adjusted by 29.7% to CHF 1 834 million.

Managing investment real estate is of great significance to ensure long-term business for general contracting. The real estate for development amounted up to CHF 279.3 million as at 31 December 2005 and created the preconditions for profits from project development, management and sales in the years to follow. Development real estate currently under construction as a share of the total balance sheet item amounted to 79.1% as compared to 73.4% the previous year, evidencing the higher number of projects currently under construction.

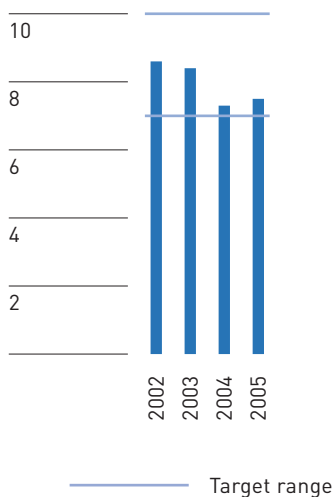
Net yield on portfolio
in percent



Average interest charges at 31 December 2005 in percent



**Return on equity
excl. revaluation**
in percent



Short-term accounts receivables of CHF 115 million represented the largest contribution toward current assets. The development of this balance sheet item was accompanied by an increase in the Projects & Development division's completed project volume for third parties.

As a result of a larger real estate portfolio, interest-bearing debt grew by CHF 177 million to CHF 1 078 million. On the cut-off date, net finance debt amounted to CHF 1 062 million. Thanks mainly to growing construction activity in the Projects & Development division, short-term liabilities grew by CHF 138 million.

In 2005, consolidated equity increased by CHF 191.4 million to CHF 973.8 million. The capital increase successfully completed during the first half year of 2005 resulted in net revenue of CHF 154.1 million after deduction of the relatively low underwriting costs (incl. taxes) of CHF 3.6 million. Equity continued to grow with net profit of CHF 70 million and an improvement in negative costs of replacement of derivative financial instruments of CHF 3.4 million, although dividend distributions (CHF 36.5 million) and the purchase of treasury stocks (CHF 0.4 million) resulted in a reduction of equity.

The equity per share (NAV) increased by CHF 3.50 to CHF 99.80.

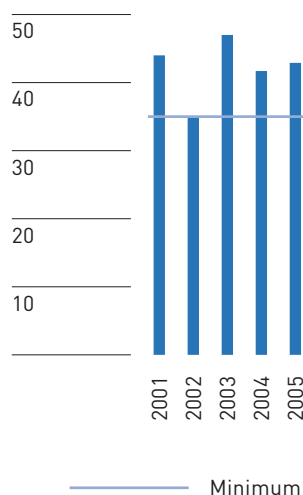
Consolidated cash flow statement

Compared to the previous year, Allreal's positive performance in 2005 is reflected in the impressive increase of cash flow by 18.2% to CHF 90.8 million. When taking into consideration the reduction of net current assets by CHF 15.4 million, the cash flow amounts to CHF 75.4 million which was used to pay financial expenses (CHF 24.5 million) and taxes on income and profits from selling property (CHF 12.2 million). On balance, this resulted in an addition of cash from operating activity of CHF 38.7 million.

Investment activity in 2005 was characterised by a portfolio increase in high-quality investment properties in the Real Estate division amounting to CHF 235.5 million, and by the significant growth of development properties owing to intensive construction activity in the Projects & Development division of CHF 114.3 million.

On the financing side, the capital increase of net CHF 154.1 million and the rise in bank debt of CHF 177.3 million meant that investments grew significantly and could be financed. Together with the dividend payment and the purchase of treasury stock, cash flow from financial activities amounted to CHF 295.3 million.

Equity ratio
in percent



Financial situation

During the second half year of 2005, the funds derived from the capital increase in May 2005 and accrued to equity of CHF 154.1 million have been successfully invested in both the Real Estate and Projects & Development divisions. As a result of broadening the equity base, a further growth in property investment of approximately CHF 300 million is possible. The investment guidelines define the maximum debt limit on the cut-off date across three relevant financial key figures, which were observed as follows at 31 December 2005: the equity ratio amounts to 42.9% (minimum 35.0%), net gearing to 109.1% (maximum 150.0%) and interest cover to 4.3 (minimum 2.0).

At the end of the financial year, average interest on financial debt amounted to 2.79% (2004: 2.77%) at an average duration of 50 months (2004: 47 months). Compared to the previous year, the values changed only marginally and reflect the intention to fix as high a share of financial debt for as long a period as possible in terms of interest payments. More than 89% of interest bearing debt is hedged against rising interest rates by means of interest swaps and fixed-rate mortgages. The cost of a 1% increase in interest rates in Switzerland in 2006 would therefore be limited to approximately CHF 1.2 million.

Holding report

Allreal Holdings AG reports a profit for 2005 of CHF 28.4 million (2004: CHF 71.7 million). Compared to the previous year, on the income side the dividend payments by group companies fell considerably to CHF 17.0 million (2004: 63.2 million), while financial income from loans rose to CHF 13.8 million (2004: CHF 11.1 million). Total expenditure amounted to CHF 2.5 million and essentially remained on the previous year's level (2004: CHF 2.8 million).

By taking into consideration dividend payments in 2004, the capital increase and the 2005 annual profit, equity at 31 December 2005 amounted to CHF 894.9 million (2004: CHF 748.9 million).

Consolidated financial statements of Allreal Group

Consolidated income statement

CHF million	2005	2004
Income from renting investment real estate	99.4	85.0
Direct expenses for rented investment real estate	-18.1	-12.0
Earnings from renting investment real estate	81.3	73.0
Earnings from sale of investment real estate	0.0	0.2
Higher valuation of investment real estate	38.2	12.0
Lower valuation of investment real estate	-34.2	-20.2
Earnings from revaluation of investment real estate	4.0	-8.2
Completed project volume by Projects & Development division	469.3	407.7
Direct expenses for completed project volume by Projects & Development division	-428.4	-367.4
Earnings from project development and sale of development real estate	16.8	9.1
Capitalised company produced assets	11.5	9.6
Diverse income	1.1	1.6
Earnings from Projects & Development division	70.3	60.6
Personnel expenses	-36.1	-34.8
Other operating expense	-11.8	-12.4
EBITDA	107.7	78.4
Depreciation of fixed assets	-0.6	-0.5
Amortisation of goodwill	0.0	-0.2
Operating profit (EBIT)	107.1	77.7
Finance income	0.7	0.5
Finance expense	-24.7	-20.8
Net profit before tax	83.1	57.4
Tax expenses	-13.1	-7.9
Net profit	70.0	49.5
Total sales	568.7	492.7
Total income excl. earnings from revaluation	169.7	145.8
EBITDA excl. earnings from revaluation	103.7	86.6
EBIT excl. earnings from revaluation	103.1	85.9
Net profit excl. revaluation effect	67.2	56.6
Net profit per share in CHF		
— incl. revaluation effect	7.55	5.96
— excl. revaluation effect	7.25	6.82
Diluted earnings per share in CHF		
— incl. revaluation effect	7.55	5.96
— excl. revaluation effect	7.25	6.82

Consolidated balance sheet

CHF million	2005	2004
Real estate investments	1 788.3	1 413.9
Real estate for development	273.8	333.7
Other property, plant and equipment	0.4	0.5
Financial assets	8.4	8.9
Deferred tax assets	17.6	10.7
Fixed assets	2 088.5	1 767.7
Trade receivables	112.3	75.8
Other receivables	2.6	1.7
Cash	16.2	30.1
Subtotal	131.1	107.6
Investment properties designated for sale	46.0	0.0
Development properties designated for sale	5.5	0.0
Total current assets	182.6	107.6
Total assets	2 271.1	1 875.3
Share capital	487.9	406.6
Capital reserves	283.1	210.6
Treasury shares	-0.2	-0.6
Retained earnings	203.0	165.8
Total equity	973.8	782.4
Long-term borrowings	176.7	179.5
Deferred tax liabilities	60.2	55.3
Long-term provisions	4.4	5.6
Other long-term liabilities	16.9	18.4
Long-term liabilities	258.2	258.8
Trade payables	92.7	68.2
Current tax liabilities	9.6	9.0
Other current liabilities	33.6	25.4
Short-term borrowings	1.6	10.0
Short-term provisions	901.6	721.5
Short-term liabilities	1 039.1	834.1
Total liabilities	1 297.3	1 092.9
Total equity and liabilities	2 271.1	1 875.3
Equity (NAV) per share in CHF		
— before deferred tax	104.20	102.00
— after deferred tax	99.80	96.30

Consolidated statement of changes in shareholders' equity

CHF million	Share capital	Capital reserves	Treasury shares	Retained earnings			Total
				Hedging reserves	Revaluation reserves	Other retained earnings	
As at 1 January 2003	325.2	175.8	-24.6	-12.3	57.3	89.9	611.3
Capital increase 2003	81.4	34.5					115.9
Dividend payment						-28.8	-28.8
Valuation of financial instruments				5.2			5.2
Purchase treasury shares			22.5				22.5
Net profit						52.7	52.7
Reclassification					-23.2	23.2	0
As at 31 December 2003	406.6	210.3	-2.1	-7.1	34.1	137.0	778.8
Dividend payment						-36.5	-36.5
Valuation of financial instruments				-11.3			-11.3
Sale treasury shares		0.3	1.5				1.8
Net profit						49.5	49.5
Reclassification / Rounding difference					-8.8	8.9	0.1
As at 31 December 2004	406.6	210.6	-0.6	-18.4	25.3	158.9	782.4
Dividend payment						-36.5	-36.5
Capital increase 2005	81.3	72.8					154.1
Valuation of financial instruments				3.4			3.4
Sale treasury shares			0.4				0.4
Net profit						70.0	70.0
Reclassification		-0.3			-2.9	3.2	0
As at 31 December 2005	487.9	283.1	-0.2	-15.0	22.4	195.6	973.8

Capital reserves represent the premium on capital stock and, therefore, cannot be paid out as a dividend.

Consolidated cash flow statement

CHF million	2005	2004
Earnings before tax	83.1	57.4
Net financial expense	24.0	20.3
Revaluation real estate investments	-4.0	8.2
Depreciation of tangible fixed assets	0.6	0.5
Amortisation of goodwill	0.0	0.2
Change in proceeds from sale of real estate	0.0	-0.2
Capitalisation of company produced assets	-11.5	-9.6
Other items	-1.4	0.0
Operating cash flow before change in net current assets (cash flow)	90.8	76.8
Change in trade receivables	-36.5	-30.9
Change in other receivables	-0.9	27.2
Change in provisions	-8.4	-0.7
Change in trade payables	24.5	20.4
Change in other current liabilities	5.9	3.9
Operating cash flow after changes in net current assets	75.4	96.7
Cost of finance paid	-25.0	-20.2
Financial income received	0.5	0.5
Income taxes paid	-12.2	-15.7
Cash flow from operations	38.7	61.3
Purchase of real estate investments	-235.5	-127.2
Disposal of real estate investments	0.0	11.4
Investment real estate for development	-132.4	-124.3
Disposal of real estate for development	18.1	42.9
Investment other property, plant and equipment	-0.4	0.0
Increase financial assets	-1.5	0.0
Decrease in financial assets	3.8	0.1
Cash flow from investing activities	-347.9	-197.1
Change in prepayments received on development real estate	0.0	-3.7
Increase in borrowings	391.5	413.4
Decrease in borrowings	-214.2	-215.7
Capital increase	154.1	0.0
Purchase treasury shares	-25.9	-26.5
Sale treasury shares	26.3	28.3
Dividend payment	-36.5	-36.5
Cash flow from financing activities	295.3	159.3
Change in cash	-13.9	23.5
Cash at 1 January	30.1	6.6
Cash at 31 December	16.2	30.1

Segment Information

Year ended 31 December 2005

CHF million	Real Estate	Projects & Development	Holding functions	Eliminations	Total
Income statement					
Income from operations	81.3	70.3	0.0	0.0	151.6
Income from intercompany services	-3.8	4.7	-0.7	-0.2	0.0
Revaluation on real estate investments	4.0	0.0	0.0	0.0	4.0
Expenses for staff, other	-2.2	-44.7	-1.0	0.0	-47.9
EBITDA	79.3	30.3	-1.7	-0.2	107.7
Depreciation and amortisation	0.0	-0.6	0.0	0.0	-0.6
EBIT	79.3	29.7	-1.7	-0.2	107.1
Net finance expense					-24.0
Taxes					-13.1
Net profit					70.0
EBITDA excl. revaluation gains	75.3	30.3	-1.7	-0.2	103.7
EBIT excl. revaluation gains	75.3	29.7	-1.7	-0.2	103.1
Net profit excl. revaluation effect					67.2
Operating margin ¹	92.6	42.2	-	-	68.0
Operating net cash flow ²	70.7	29.9	-1.7	-0.2	98.7
Total Sales	99.4	469.3	0.0	0.0	568.7
Of which with other segments	0.0	49.2	0.0	0.0	49.2
Balance sheet as at 31 December 2005³					
Non-current assets	1 807.2	281.3	0.0	-	2 088.5
Current assets	56.0	123.3	3.3	-	182.6
Total assets	1 863.2	404.6	3.3	-	2 271.1
Provisions	0.2	5.8	0.0	-	6.0
Non-financial liabilities	96.7	113.6	2.7	-	213.0
Liabilities	954.9	123.4	0.0	-	1 078.3
Borrowings	1 051.8	242.8	2.7	-	1 297.3
Equity⁴	811.4	161.8	0.6	-	973.8
Cash flow statement³					
Operational cash flow before change in net current assets	75.1	17.6	-1.9	-	90.8
Cash flow from operations	52.0	-11.3	-2.0	-	38.7
Cash flow from investing activities	-236.7	-111.2	0.0	-	-347.9
Cash flow from financing activities	100.4	76.9	118.0	-	295.3
Historical cost of tangible and intangible assets	0.1	2.2	0.0	0.0	2.3
Investments in tangible assets and real estate	0.1	0.3	0.0	0.0	0.4

¹ EBIT less revaluation gains in percent of profit from operations

² EBITDA less revaluation gains, reversal of project write-downs, capital expenditures and purchase/sale of property, plant and equipment

³ The segment figures of the balance sheet and cash flow statement are shown consolidated.

⁴ An equity ratio of 40% was determined for the Projects & Development segment, analogous to internal financial reporting.

Total liabilities from financing activity were assigned accordingly.

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

Segment Information

Year ended 31 December 2004

CHF million	Real Estate	Projects & Development	Holding functions	Eliminations	Total
Income statement					
Profit from operations	73.7	60.1	0.0	0.0	133.8
Profit from intercompany services	-2.5	4.5	-0.2	-1.8	0.0
Revaluation on real estate investments	-8.2	0.0	0.0	0.0	-8.2
Expenses for staff, other	-2.7	-42.5	-2.0	0.0	-47.2
EBITDA	60.3	22.1	-2.2	-1.8	78.4
Depreciation and amortisation	0.0	-0.5	-0.2	0.0	-0.7
EBIT	60.3	21.6	-2.4	-1.8	77.7
Net finance expense					-20.3
Taxes					-7.9
Net profit					49.5
EBITDA excl. revaluation gains	68.5	22.1	-2.2	-1.8	86.6
EBIT excl. revaluation gains	68.5	21.6	-2.4	-1.8	85.9
Net profit excl. revaluation effect					56.6
Operating margin ¹	92.9	33.4	-	-	64.2
Operating net cash flow ²	64.7	22.1	-2.2	-1.8	82.8
Total Sales	85.0	407.7	0.0	0.0	492.7
Of which with other segments	0.0	58.1	0.0	0.0	0.0
Balance sheet as at 31 December 2005³					
Non-current assets	1 424.6	338.5	0.0	-	1 763.1
Current assets	31.7	79.1	1.4	-	112.2
Total assets	1 456.3	417.6	1.4	-	1 875.3
Provisions	0.2	15.4	0.0	-	15.6
Non-financial liabilities	91.0	84.6	0.7	-	176.3
Liabilities	750.4	150.6	0.0	-	901.0
Borrowings	841.6	250.6	0.7	-	1 092.9
Equity⁴	614.7	167.0	0.7	-	782.4
Cash flow statement³					
Operational cash flow before change in net current assets	68.2	12.7	-4.0	-	76.8
Cash flow from operations	48.9	19.8	-7.4	-	61.3
Cash flow from investing activities	-115.8	-81.3	0.0	-	-197.1
Cash flow from financing activities	152.1	41.9	34.7	-	159.3
Historical cost of tangible and intangible assets	0.0	1.9	17.7	0.0	19.6
Investments in tangible assets and real estate	0.0	0.0	0.0	0.0	0.0

¹ EBIT less revaluation gains in percent of profit from operations

² EBITDA less revaluation gains, reversal of project write-downs, capital expenditures, and purchase/sale of property, plant and equipment

³ Balance sheet and cash flow segment information is shown consolidated

⁴ An equity ratio of 40% was allocated to the Projects & Development segment in accordance with internal financial reporting. Accounts payable from financing activity were assigned accordingly

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

Key figures in Euro

Euro million	2005	2004
Consolidated income statement		
Total income	367.3	319.2
EBITDA	69.6	50.8
Operating profit (EBIT)	69.2	50.3
Net profit	45.2	32.1
Total income excl. revaluation gains	109.6	94.5
EBIT excl. revaluation gains	66.6	55.7
Net profit excl. revaluation gains	43.4	36.7
Net profit per share incl. revaluation gains	4.88	3.86
Net profit per share excl. revaluation gains	4.68	4.42
Consolidated balance sheet as at 31 December		
Real estate investments	1 177.0	915.7
Other assets	280.2	298.9
Total assets	1 457.2	1 214.6
Equity	624.8	506.7
Borrowings	691.9	583.5
Other liabilities	140.5	124.4
Net Asset Value (NAV) per share	64.04	62.37
Consolidated cash flow statement		
Cash flow before change in net current assets	58.6	49.8
Cash flow from operations	25.0	39.7
Cash flow from investing activities	-224.7	-127.7
Cash flow from financing activities	190.7	103.2
Company valuations		
Market capitalisation	726.1	581.0
Enterprise value	1 407.6	1 145.1
Exchange rates		
Average rate for income statement/cash flow statement	1.5485	1.5435
Year-end rate for balance sheet/valuations	1.5585	1.5440

Organisation, contacts, schedule

Organisation chart

	Allreal Group Bruno Bettoni			
	Finance & Controlling Roger Herzog	Communication Matthias Meier	Human Resources Barbara Glättli-Sprecher	
Real Estate Hans Engel	Projects & Development Bruno Bettoni			
Portfolio Management Helmut Merkle	Acquisition Thomas Stauber	Project Development Thomas Rufener	Project Management Bruno Bettoni	Buying/Selling Eugen Bentele

Structure and addresses

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Schedule

Annual general meeting
2006
31 March 2006, 16.00 h
Kaufleutensaal,
Nüscherstrasse 15
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Half-year results 2006
24 August 2006

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building value