Annual Report 2008

allreal holding

Key figures at a glance

		2008	2007	Change in %[1]
Group				
Total sales[2]	CHF million	588.9	607.3	–3.0
Operating profit (EBIT) incl. revaluation gains	CHF million	152.5	151.3	+0.8
Net profit incl. revaluation effect	CHF million	90.7	88.0	+3.1
Operating profit (EBIT) excl. revaluation gains	CHF million	135.3	125.5	+7.8
Net profit excl. revaluation effect	CHF million	78.4	70.3	+11.5
Cash flow	CHF million	46.5	117.1	–60.3
Return on equity incl. revaluation effect	%	7.2	8.3	–1.1
Return on equity excl. revaluation effect	%	6.1	7.1	–1.0
Equity ratio as at 31 December	%	43.7	46.9	–3.2
Net gearing as at 31 December[3]	%	102.8	92.0	+10.8
Market value real estate investments	CHF million	2 162.3	2 031.3	+6.4
Rental income from investment real estate	CHF million	123.4	112.9	+9.3
Sales Projects & Development division	CHF million	465.5	494.4	–5.8
Employees (number)	full-time equivalents	265	265	–
Allreal Holding AG				
Net profit	CHF million	31.6	58.5	–46.0
Share capital	CHF million	569.3	569.3	–
Share				
Earnings per share incl. revaluation effect	CHF	7.99	8.78	–9.0
Earnings per share excl. revaluation effect	CHF	6.91	7.02	–1.6
Dividend per share[4]	CHF	5.00	5.00	–
Net asset value (NAV) per share before deferred tax as at 31 December	CHF	117.30	116.80	+0.4
Net asset value (NAV) per share after deferred tax as at 31 December	CHF	110.25	110.40	–0.1
Share price as at 31 December	CHF	107.00	130.50	–18.0
Dividend yield[4]	%	4.7	3.8	+0.9
Operating key figures				
Net yield real estate investments[5]	%	5.2	5.2	–
Average interest rate on financial liabilities as at 31 December	%	2.79	2.81	–
Operating margin Projects & Development division[6]	%	42.2	41.6	+0.6
Valuation as at 31 December				
Market capitalisation[7]	CHF million	1 213.7	1 481.2	–18.1
Enterprise value[8]	CHF million	2 499.0	2 633.6	–5.1

[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] Finance liabilities minus cash and marketable securities as percentage of equity
[4] Board of directors proposal of CHF 5.00 per share for 2008 financial year
[5] Real estate profit as percentage of continued market value at 1 January
[6] EBIT excl. revaluation and restoration of value adjustments on projects as percentage of profit from business activity
[7] Stock price at balance sheet date multiplied by the number of outstanding shares
[8] Market capitalisation plus net debts

Allreal is listed on the Swiss Exchange SIX (symbol: ALLN, securities number 883 756).

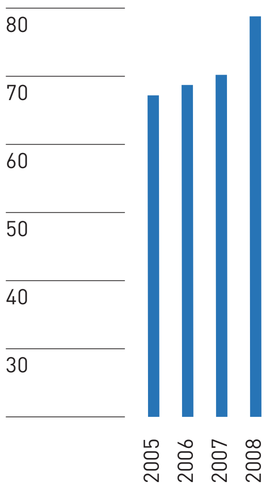
Real estate at a glance

		City of Zurich 2008	City of Zurich 2007	Remaining Canton of Zurich 2008	Remaining Canton of Zurich 2007	Other regions 2008	Other regions 2007	Total Real Estate 2008	Total Real Estate 2007
Portfolio									
Commercial real estate									
Number of properties		29	29	13	12	8	9	50	50
Useable floor space	'000 m²	259	255	93	80	37	40	389	375
Vacancy rate[1]	%	4.5	3.8	10.4	12.9	8.5	12.5	6.2	6.1
Rental income	CHF million	74.0	71.4	20.0	15.6	8.6	7.7	102.6	94.7
Real estate profit[2]	CHF million	63.6	64.4	17.5	13.1	7.3	6.2	89.0	83.7
Gross yield	%	6.0	6.0	5.8	5.1	6.1	5.6	6.0	5.8
Net yield[3]	%	5.2	5.4	5.0	4.3	4.7	4.5	5.2	5.1
Historical book value	CHF million	1 170.2	1 150.0	352.6	324.5	145.7	160.2	1 705.7	1 634.7
Market value	CHF million	1 288.2	1 216.7	358.9	337.3	136.2	146.0	1 783.3	1 700.0
Average market value[4]	CHF million	44.4	42.0	27.6	28.1	17.0	16.2	35.7	34.0
Change in market value[5]	CHF million	12.2	17.5	–3.1	9.4	0.8	–4.3	9.9	22.6
Land reserves									
Land	'000 m²	–	25	12	12	–	–	12	37
Estimated investment volume	CHF million	–	350.0	90.0	90.0	–	–	90.0	440.0
Market value	CHF million	–	30.0	8.4	8.4	–	–	8.4	38.4
Change in market value[5]	CHF million	–	0.0	0.0	0.0	–	–	0.0	0.0
Residential real estate									
Number of properties		4	3	16	15	3	3	23	21
Useable floor space	'000 m²	11	9	78	63	13	13	102	85
Vacancy rate[1]	%	1.7	3.9	1.6	1.9	4.2	3.7	2.0	3.0
Rental income	CHF million	2.9	2.4	14.6	12.3	3.2	3.0	20.7	17.7
Real estate profit[2]	CHF million	2.6	2.1	12.9	11.3	2.2	2.5	17.1	15.9
Gross yield	%	6.1	5.7	6.5	6.2	6.6	6.1	6.4	6.1
Net yield[3]	%	5.2	5.0	5.6	5.7	4.5	5.2	5.3	5.5
Historical book value	CHF million	48.8	38.4	250.0	189.9	49.5	49.6	348.3	277.9
Market value	CHF million	49.7	38.7	274.9	207.2	46.0	47.0	370.6	292.9
Average market value[4]	CHF million	12.4	12.9	17.2	13.8	15.3	15.7	16.1	13.9
Change in market value[5]	CHF million	0.6	0.7	7.6	4.3	–0.9	–1.8	7.3	3.2
Real estate for development									
Land reserves									
Land	'000 m²	6.6	12.2	137.9	260.7	21.9	22.4	166.4	295.3
Investment volume	CHF million	73.0	112.0	797.0	1 085.0	163.0	128.0	1 033.0	1 325.0
Book value	CHF million	16.0	31.8	151.1	221.9	29.5	5.8	196.6	259.5
Buildings under construction									
Estimated investment volume	CHF million	512.0	164.0	513.0	293.0	–	68.0	1 025.0	525.0
Book value	CHF million	107.0	46.4	209.3	138.5	–	32.1	316.3	217.0

[1] Percentage of target rental income, cumulated at cut-off date
[2] Rental income minus real estate expenses
[3] As percentage of continued market value at 1 January
[4] Per property
[5] Based on revaluation comparison of 31 December 2007 against 31 December 2008

Editorial

Net profit
excl. revaluation effect
CHF million



- **Significant net profit yet again**
- **Real-estate portfolio with gratifying earnings**
- **Sustained profitability in general contracting**
- **Large degree of independence through advantageous financing**

Allreal reports outstanding results for 2008, despite a year characterised by global financial meltdown. The operating result of CHF 78.4 million exceeded the previous year's record by CHF 8.1 million. The upward valuation of the portfolio by CHF 17.2 million resulted in a stable net profit including revaluation gains of CHF 90.7 million. Total sales amounted to CHF 588.9 million.

Following the bursting of the real-estate bubble in the USA, the 2008 real estate crisis developed from a local situation with limited scope to a global crisis with dramatic effects for national economies and consequently for real economies. Due to the resulting loss of investor confidence in the financial markets, stock prices plummeted worldwide. Although the Allreal share successfully asserted itself during the first three quarters of 2008 and clearly performed better than the market as a whole, the share price suffered during the fourth quarter. On the cut-off date, Allreal's share was worth CHF 107.00 or 18% less than the year-end price in 2007. Despite Allreal's outstanding performance record, the development of the share price resulted in a negative overall performance of 14.2%.

Due to the lower stock price, market capitalisation at 31 December 2008 was recorded as CHF 1213.7 million, representing a markdown of the company's net asset value by 2.9%.

Continuation of proven dividend policy
At the annual general meeting of shareholders in 2009, the board of directors will propose paying a dividend of CHF 5.00 per share, corresponding to a respectable 4.7% cash yield on the year-end stock price.

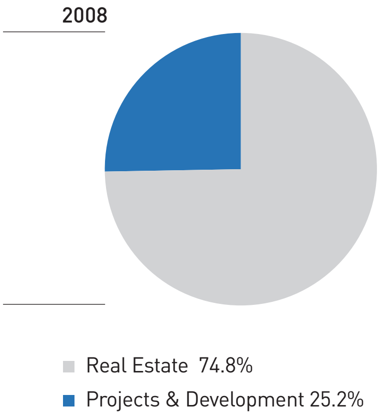
Stable development and earnings in the Real Estate division
During the period under review, the real estate portfolio consisting of commercial and residential buildings and land reserves was successfully expanded by the acquisition of a fully let portfolio and the inclusion into the portfolio of two in-house projects. The departures include four commercial buildings, one in Aarau and two in Zurich, and the reclassification of the Toni-Areal on Förrlibuckstrasse in Zurich from land reserve to development real estate.

The successful conclusion of long-term rental agreements in several buildings and the inclusion into the portfolio of a residential, a commercial and an industrial property resulted in a CHF 17.2 million growth in the valuation of the portfolio. The valuation gain corresponds to 0.8% of the market value of Allreal's entire investment real estate. Subsequently, on the balance sheet date, the 73 properties in the portfolio were valued at CHF 2154 million.

The portfolio expansion, which was implemented mainly during the first half-year of 2008, and the properties acquired the previous year, yet fully affecting net income for the first time in the year under review, resulted in a 9.3% increase in rental income to CHF 123.4 million.

When comparing the higher real estate expenses of 13.9% of the entire rental income reported the previous year, the net yield of 5.2% is considered very good.

The divisions' contribution toward operating profit



The cumulative vacancy rate in the residential and commercial buildings during the year under review amounted to a stable and low 5.5% of the target rental income. Thanks to the successful reletting of several properties, the vacancy rate on 31 December 2008 was 4.2%. Allreal expects the cumulated vacancy rate for 2009 to range between 4% and 5%.

Good profitability heralds continued success for the Projects & Development division

Delays in several construction projects, limitation to projects with good profit potential, and the noticeable decline in construction activity resulted in a 5.8% decrease to CHF 465.5 million in the volume of completed projects when compared to the previous year.

The Projects & Development division, active in an extremely demanding market, again proved its productive efficiency by reporting an outstanding CHF 81.8 million from business activity. The respectable profits resulting from successfully completed own projects, in particular, contributed toward the very good results: in 2008, Allreal sold 270 condominiums and single-family homes.

Earnings before interest and taxes (EBIT) of CHF 34.5 million were reported slightly above the previous year's record value. Consequently, the operating margin of the Projects & Development division in 2008 was recorded at a very pleasing 42.2%.

Thanks to an order backlog of about CHF 1.25 billion and the high inventory of development real estate, the Projects & Development division is exceptionally well positioned to continue on its successful course.

Considerable scope thanks to favourable financing conditions
In the period under review, the average interest rate on interest-bearing debt remained at a low 2.79%, as in the previous year. With a remaining average duration of 44 months Allreal's sound and favourable financing is well hedged.

The equity ratio on the balance sheet date was 43.7%. By maintaining the target values defined in the company's investment guidelines, Allreal therefore disposes of a potential investment volume of about CHF 700 million. These available short-term financial means guaranty considerable scope for action, a high degree of flexibility in acquiring real estate and financing projects, and safeguarding own projects under construction.

Cautiously confident outlook
For Allreal, the combination of a real estate portfolio with the activity of a general contractor is a tried and trusted business model. Thanks to the high inventory of development real estate and comfortable financing conditions, the company is in a favourable position to absorb economic fluctuations.

Despite the looming recession, Allreal is cautiously optimistic about the 2009 financial year. The Board of Directors and Group Management expect the course of business to remain stable and anticipate operating results to be slightly below those of the previous year, based on a lower number of expected project conclusions in the Project & Development division.

The Board of Directors and Group Management wish to take this opportunity to thank all staff members for their contribution to the very good financial results and our 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 activities of a general contractor (site and project development, realisation, 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 the two divisions, Real Estate and Projects & Development.

Since Allreal is active neither in the building trade nor the ancillary building trade, 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 and economic criteria.

The most important operating and financial goals have been defined as follows:

Return on equity excl. revaluation effect	6–7% p.a.
Return on equity incl. revaluation effect	7–10% p.a.
Share of residential properties of total rental income	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 and development properties	< 70%
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 or 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 main 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% to 30% of the portfolio. Allreal normally delegates the supervision of its properties to local and regional companies.

Projects & Development division
As a general contractor, Allreal's activity comprises regional development, property development and project development, and realising, buying and selling properties. Allreal develops projects in all segments of real estate for private and institutional investors and owners, and for its own portfolio. They are projects ready for construction providing a competitive yield and the best

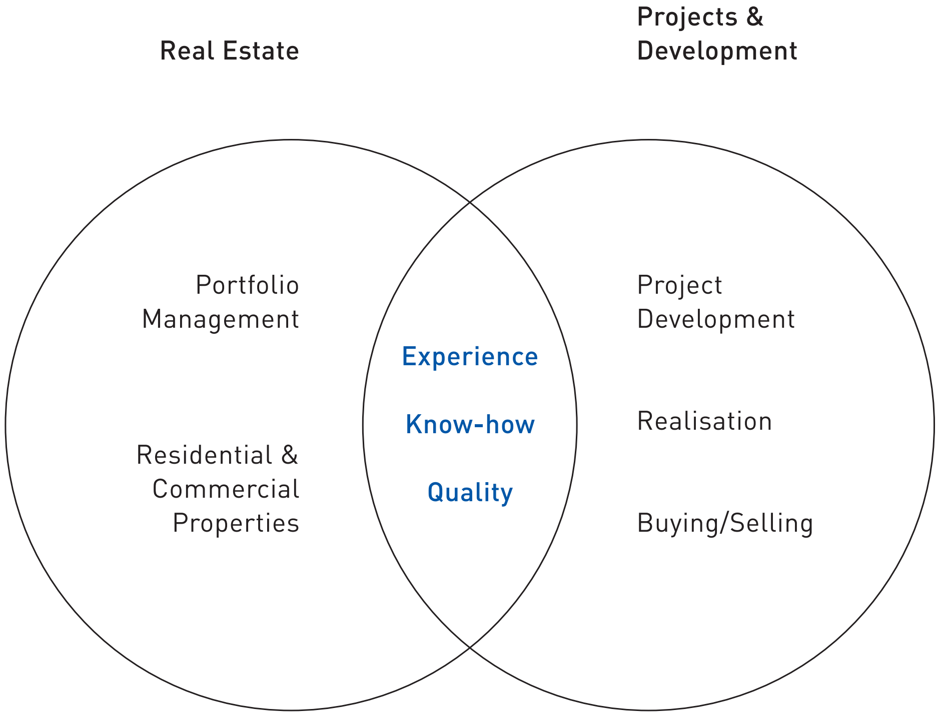
possible added value. Project Development is of strategic importance to Allreal due to the high level of synergy and added value.

Realisation comprises the calculation, planning and construction of new buildings, conversions and refurbishments of any size or complexity on time and in the quality demanded while remaining within budget and schedule.

As an investor and general contractor, Allreal supports the goals of the MINERGIE® Association, which include rational use of energy and wide use of renewable energy while improving living comfort and working comfort, ensuring marketability of projects and lowering pollution. Since the year 2000, Allreal has implemented numerous MINERGIE®, MINERGIE-ECO® and MINERGIE-P® projects, among them Switzerland's first zero heating energy residential complex comprising 132 units.

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

The aim is to position the Projects & Development division as one of the largest providers of real estate in Switzerland and market leader in the Greater Zurich Area.



Organisation

Board of Directors

Dr. Thomas Lustenberger
(*1951, Swiss)
Chairman, member since 1999

Dr. iur., LL.M.

Since 1980
Partner in Zurich law firm, Meyer Lustenberger

Member of the Board of Directors of Calida Holding AG, Oberkirch (Chairman); Micronas Semiconductor Holding AG, Zurich (Chairman); and other non-listed companies

Erich Walser
(*1947, Swiss)
Vice Chairman, member since 1999

lic. oec. HSG, lic. iur

Since 2003
Chairman of the Board of Helvetia Group

1994–2007
CEO Helvetia Group

1991–1993
CEO Helvetia Versicherungen

1979–1990
Various management functions with Helvetia

Huber + Suhner AG, Herisau (Vice Chairman), and other non-listed companies

Chairman of Swiss Insurance Association, Zurich

Dr. Rudolf W. Hug
(*1944, Swiss)
Member since 2003

Dr. iur., MBA INSEAD

Since 1997
Independent management consultant

1987–1997
Managing Director, International Division Credit Suisse/CSFB

1983–1986
Manager of Credit Suisse Bern branch

1977–1982
Manager of Credit Suisse North America department

1972–1976
International credit business Chase Manhattan Bank New York and Düsseldorf

Member of the Board of Panalpina World Transport (Holding) Ltd., Basel, Deutsche Bank (Switzerland) Ltd., Zurich; Micronas Semiconductor Holding AG, Zurich; Orell Füssli Holding AG, Zurich; Swiss Post, Bern

Member of the board of the Ernst Göhner Foundation

Dr. Jakob Baer
(*1944, Swiss)
Member since 2005

Dr. iur., attorney
Independent consultant since 2004

1994–2004
CEO KPMG Switzerland and member of KPMG's European and international management boards

1992–1994
Member of KPMG Switzerland's executive board

1975–1992
Various management positions with Fides Group

1971–1975
Legal service of Federal Finance Administration, Berne

Member of the Board of Adecco S.A., Chéserex; Rieter Holding AG, Winterthur; Swiss Re, Zurich

Member of the Board of Stäubli Holding AG, Pfäffikon SZ (Chairman) and other two non-listed companies

Albert Leiser
(*1957, Swiss)
Member since 2005

Certified real estate trustee

Board member and delegate SVIT Zurich

City of Zurich councillor

Since 2004
Executive general manager of City of Zurich and Canton Zurich Home Owners' Association

1999–2004
Head Real Estate and Mortgages division, Rentenanstalt/Swiss Life

1994–1998
Various management functions with Rentenanstalt/Swiss Life

1977–1994
Positions with various real estate companies

Board member of three non-listed companies

All members of the board of directors of Allreal Holding AG are non-executive in the company, 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 are appointed individually for a total of three years.

Group Management

Bruno Bettoni (*1949, Swiss)
Chief Executive Officer since 1999

1995–1999
Managing director of Oerlikon-Bührle Immobilien AG

1983–1995
Member of Group Management of Oerlikon-Bührle Immobilien AG

1973
Joined Oerlikon-Bührle Immobilien AG as project manager

Apprenticeship as architectural draughtsman

Additional apprenticeship as bricklayer

Various management-related courses

Hans Engel (*1955, Swiss)
Head of Real Estate and Member of Group Management since 1999

Holder of the Swiss federal diploma as 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 and the purchase, sale and development of real estate

1974–1980
Recording officer in two Zurich notaries' offices

Roger Herzog (*1972, Swiss)
Chief Financial Officer and Member of Group Management since 2004

Swiss certified auditor

2003
Joined Allreal Group as Head Accounting

1998–2003
PricewaterhouseCoopers, Manager Auditing and Consulting

1995–1998
Zurich Business School, degree in Business Administration

1988–1995
Credit Suisse, employee in foreign exchange and commercial credit divisions

Commercial apprenticeship

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 AG, Zurich

External independent real estate evaluator

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

Consolidated income statement

The Allreal Group reports operating net profit (net profit excluding revaluation effect) for the 2008 financial year of CHF 78.4 million, corresponding to a 11.5% increase over the previous year. During the year under review, higher rental income in the Real Estate division and the outstanding results of the Projects & Development division contributed to the higher results, compensating for rising staff expenses.

In the Real Estate division, rental income compared to the previous year grew by about 9% to CHF 123.4 million due to the portfolio expansion. Rental income for the full year on commercial and residential properties in the portfolio grew slightly by 0.7% and 3.1% respectively (like-for-like rental growth). At 13.9% of rental income, real estate expenses have reached a standardised value. The cumulative vacancy rate in the 2008 financial year amounted to 5.5%; owing to successful re-letting, this value will decrease significantly in 2009.

Valuation by an external real estate valuer resulted in a positive value correction of CHF 17.2 million, representing 0.8% of the entire portfolio's asset value. The first-time inclusion of the Eichwiesen residential and commercial building in Fällanden and the reappraisal of capitalised future payment flows of several commercial buildings (first-time letting and re-letting of properties with construction right) contributed to the higher value. Average discount and capitalisation interest rates remained unchanged across the entire portfolio when compared to the previous year. Deferred taxes on the entire revaluation amounted to CHF 4.9 million, corresponding to a positive revaluation effect in the income statement of CHF 12.3 million.

The sale of three commercial buildings during the first half of the year resulted in a profit before tax of CHF 2.1 million, corresponding to a positive difference to their market value of 7.9% as shown in the balance sheet as of 31 December 2007.

The Projects & Development division once again contributed substantial additional earnings to the income statement. The division reported record results, despite a slightly lower project volume, due to the completion of several projects that generated additional profits. Compared to the previous year, fee income and earnings from construction activity fell by 3.0%, while revenues from project development and the sale of development properties reported a significant increase of 55.7%. The fact that no value adjustments arose on completed buildings had a positive effect on the income statement (2007: CHF 1.6 million). Although staff expenses increased in the period under review, the high operating margin of 42.2% remained practically unchanged when compared to the previous year (2007: 41.6%). Consolidated income from general contracting amounted to CHF 81.8 million (2007: CHF 78.8 million).

The acquisition of a real-estate company in Zurich resulted in a goodwill of CHF 0.5 million following inclusion in the consolidated financial statements, which in the period under review was shown as a non-recurring contribution to net income.

Despite the growth in investment and development real estate, net finance expenses compared to the previous year slightly increased by CHF 0.4 million to CHF 34.6 million due to non-recurring earnings of CHF 2.0 million from trading with and the partial redemption of convertible bonds. Accumulation effects not affecting liquidity of CHF 2.9 million from the amortisation of the convertible bonds were charged to finance expenses.

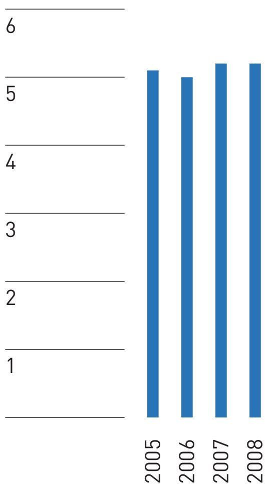
While tax expenses of CHF 27.2 million were lower than for the previous year and correspond to 23.1% on earnings before tax, they nearly match the group tax rate of 22%. When excluding deferred tax effects resulting from the revaluation of investment properties, the resulting tax amounts to CHF 22.3 million, of which CHF 5.3 million accounted for deferred taxes from timing differences and CHF 17.0 million for ongoing taxes. The high profits resulting from completed own projects in the Projects & Development division triggered considerable payments for capital gains taxes, which represented about 30% of the total tax expenditure.

Consolidated balance sheet/statement of changes in equity

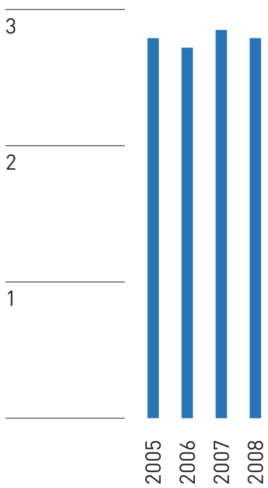
The market value of investment real estate as at 31 December 2008 amounted to CHF 2162.3 million, of which CHF 2153.9 million is allotted to yield-producing real estate and CHF 8.4 million to land reserves, additions and disposals (CHF 70.2 million), value-increasing investments and reductions on the costs of acquisition of existing yield-producing properties (CHF 43.2 million), reclassification of development properties (CHF 0.4 million) and appreciation of yield-producing properties (CHF 17.2 million) all contributed to the higher valuation of the real estate portfolio, which grew by CHF 131 million.

The portfolio of development real estate achieved yet another peak value of CHF 528.8 million (2007: CHF 491.5 million). The increase was expected and is connected significantly with own projects for the real estate portfolio, namely Toni-Areal in Zurich-West and MITTIM development in Wallisellen, both of which will tie up considerable means in years to come. The share of

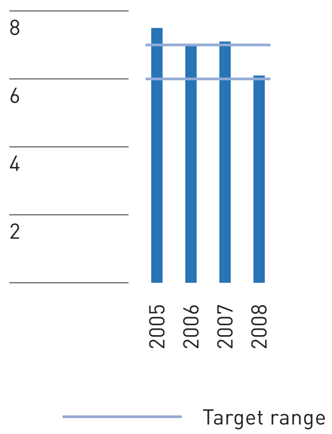
Net yield on portfolio
in percent



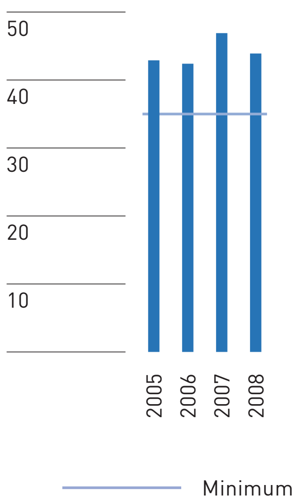
Average interest charges at 31 December 2008 in percent



Return on equity excl. revaluation
in percent



Equity ratio
in percent



development real estate currently under construction as a proportion of the entire balance-sheet item amounted to 60%, compared to 44% the previous year. The sale of properties that had been completed in previous years was gratifying, and they now represent only about 3% of all development properties, or CHF 15.9 million.

On account of the portfolio increase in investment and development real estate, interest-bearing debt rose by CHF 133 million to CHF 1304 million. Owing to the revaluation of the real-estate portfolio and the earning differences between the consolidated financial statements and the closing of individual accounts, provisions for deferred taxes continued to increase and at the end of the reporting period amounted to CHF 105.8 million.

Consolidated net assets as at 31 December 2008 amounting to CHF 1250.7 million remained more or less constant when compared to the previous year. Net income of CHF 90.7 million was faced with dividend payment (CHF –56.8 million), the acquisition of own shares (CHF –1.2 million) and the high replacement cost for derivative instruments (CHF –35.0 million). The latter is the result of the clearly lower general level of interest rates reflected in the interest-rate swaps.

The net asset value (NAV) per Allreal share after deferred taxes declined by CHF 0.15 to CHF 110.25.

Consolidated cash flow statement

In the period under review, continuing positive business development has led to an increase in operating cash flow before changes in net working capital of CHF 115.9 million (2007: CHF 115.2 million). Liabilities due to accounts receivable mainly in the Projects & Development division decreased faster when compared to the previous year owing to slightly lower construction activity, making a significant contribution toward the growth in net working capital. When taking into consideration the total changes in net working capital of CHF –23.1 million, the cash flow is reported as CHF 92.8 million. The amounts of CHF 35.4 million and CHF 10.9 million respectively were paid for financial expenses and tax on current income and on profit from the sale of property. The result was a cash flow of CHF 46.5 million (2007: CHF 117.1 million).

Investment activity in 2008 was characterised by the acquisition of a real-estate company in Zurich, for which CHF 61.7 million was paid (purchasing price plus transaction costs, without liquid assets), and by the increase in development property amounting to net CHF 30.3 million, mainly due to the acquisition of the Toni-Areal and construction progress in several projects. The result was a cash flow from investment activity of CHF 88.9 million.

On the financing side, investments led to an increase of CHF 118.7 million in bank liability. Including the dividend payment and the purchase of own shares, net additions from financing activity amounted to CHF 42.0 million.

Financial situation

Despite the financial crisis, the capital increase implemented in the fourth quarter of 2007 and the connected increase in the equity ratio made a significant contribution toward securing financing for investments as planned in the 2008 financial year.

In the second half-year of 2008, Allreal experienced neither a credit crunch on the side of the lending banks and insurances nor a tightening of their conditions. Allreal's investment guidelines define the maximum borrowing level in terms of four financial ratios, which were reported as follows for the entire period under review and as of 31 December 2008: equity ratio 43.7% (at least 35%), net gearing 102.8% (maximum 150%), interest coverage ratio 4.0 (at least 2.0) and the borrowing level for investment and development properties 48.5% (maximum 70%). There is also a possibility of adding a further CHF 700 million to current assets and fixed assets before introducing additional shareholders' funds.

At the end of the financial year, the average interest on financial liabilities amounted to 2.79% (31.12.2007: 2.81%) at an average duration of 44 months (31.12.2007: 48 months). The unchanged average interest is due to the interest swap carried out during the second half-year of 2008. Interest-bearing borrowings as at 31 December 2008 are effectively secured against rising interest rates by means of interest-rate swaps, fixed-date mortgage loans and convertible bonds. Owing to the vast reduction in the base rate initiated by the Swiss National Bank toward the end of the 2008 financial year, interest rate levels on money and capital markets have dropped significantly. Allreal will benefit from these low interest rates in subsequent years, as financing of new investments will be possible short term and at very favourable conditions.

The payout ratio representing 72% of net income is below the maximum value of 75% as defined by the company.

Consolidated income statement

CHF million	2008	2007
Income from renting investment real estate	123.4	112.9
Direct expenses for rented investment real estate	–17.2	–13.0
Earnings from renting investment real estate	**106.2**	**99.9**
Earnings from sale of investment real estate	**2.1**	**0.6**
Higher valuation of investment real estate	36.7	44.1
Lower valuation of investment real estate	–19.5	–18.3
Earnings from revaluation of investment real estate	**17.2**	**25.8**
Completed project volume by Projects & Development division	465.5	494.4
Direct expenses for completed project volume by Projects & Development division	–422.8	–440.4
Earnings from project development and sale of development real estate	19.0	12.2
Capitalised company-produced assets	19.4	12.0
Diverse income	0.7	0.6
Earnings from Projects & Development division	**81.8**	**78.8**
Personnel expenses	–41.8	–40.2
Other operating expense	–11.5	–13.2
EBITDA	**154.0**	**151.7**
Value adjustment/release negative goodwill	–0.5	0.4
Depreciation other property, plant and equipment	–1.0	–0.8
Operating profit (EBIT)	**152.5**	**151.3**
Finance income	2.7	1.1
Finance expense	–37.3	–35.3
Net profit before tax	**117.9**	**117.1**
Tax expenses	–27.2	–29.1
Net profit	**90.7**	**88.0**

Total sales	588.9	607.3
EBITDA excl. earnings from revaluation	136.8	125.9
EBIT excl. earnings from revaluation	135.3	125.5
Net profit excl. revaluation effect	**78.4**	**70.3**
Net profit per share in CHF		
— incl. revaluation effect	7.99	8.78
— excl. revaluation effect	6.91	7.02
Diluted earnings per share in CHF		
— incl. revaluation effect	7.51	8.27
— excl. revaluation effect	6.53	6.70

Consolidated balance sheet as at 31 December

CHF million	2008	2007
Real estate investments	2 128.3	2 031.3
Real estate for development	512.9	476.5
Other property, plant and equipment	1.6	1.2
Financial assets	10.7	30.2
Deferred tax assets	26.0	17.7
Fixed assets	**2 679.5**	**2 556.9**
Trade receivables	108.2	73.2
Other receivables	3.9	5.7
Short-term tax credits	0.0	1.0
Cash	19.1	19.5
Subtotal	131.2	99.4
Investment properties designated for sale	34.0	0.0
Development properties designated for sale	15.9	15.0
Current assets	**181.1**	**114.4**
Total assets	**2 860.6**	**2 671.3**
Share capital	569.3	569.3
Capital reserves	382.8	382.8
Treasury shares	–5.1	–4.7
Retained earnings	303.7	305.7
Total equity	**1 250.7**	**1 253.1**
Long-term borrowings	179.6	284.1
Deferred tax liabilities	105.8	90.2
Long-term provisions	5.7	6.0
Other long-term liabilities	31.4	0.0
Long-term liabilities	**322.5**	**380.3**
Trade payables	85.3	111.0
Current tax liabilities	6.4	0.0
Other current liabilities	69.2	37.0
Short-term provisions	1.7	2.1
Short-term borrowings	1 124.8	887.8
Short-term liabilities	**1 287.4**	**1 037.9**
Total liabilities	**1 609.9**	**1 418.2**
Total equity and liabilities	**2 860.6**	**2 671.3**
Equity (NAV) per share in CHF		
— before deferred tax	117.30	116.80
— after deferred tax	110.25	110.40

Consolidated statement of changes in shareholders' equity

CHF million	Share capital	Capital reserves	Treasury shares	Retained earnings: Hedging reserves	Retained earnings: Revaluation reserves	Retained earnings: Other retained earnings	Total
As at 1 January 2006	**487.9**	**283.1**	**–0.2**	**–15.0**	**22.4**	**195.6**	**973.8**
Net profit						80.1	80.1
Valuation of financial instruments				17.1			17.1
Total profit and loss shown				17.1		80.1	97.2
Purchase treasury shares			–38.1				–38.1
Sale treasury shares			37.2			0.3	37.5
Dividend payment						–46.8	–46.8
Convertible bond						5.1	5.1
Reclassification					8.8	8.8	0.0
As at 31 December 2006	**487.9**	**283.1**	**–1.1**	**2.1**	**31.2**	**225.5**	**1 028.7**
Net profit						88.0	88.0
Valuation of financial instruments				7.9			7.9
Total profit and loss shown				7.9		88.0	95.9
Capital increase 2007	81.3	99.4					180.7
Purchase treasury shares			–54.5				–54.5
Sale treasury shares			50.9			–0.2	50.7
Dividend payment						–48.8	–48.8
Creation of shares resulting from convertible bond	0.1	0.3					0.4
Reclassification					24.1	–24.1	0.0
As at 31 December 2007	**569.3**	**382.8**	**–4.7**	**10.0**	**55.3**	**240.4**	**1 253.1**
Net profit						90.7	90.7
Valuation of financial instruments				–35.0			–35.0
Total profit and loss shown				–35.0		90.7	55.7
Purchase treasury shares			–64.3				–64.3
Sale treasury shares			63.9			–0.8	63.1
Dividend payment						–56.8	–56.8
Reclassification / rounding					15.0	–15.1	–0.1
As at 31 December 2008	**569.3**	**382.8**	**–5.1**	**–25.0**	**70.3**	**258.4**	**1 250.7**

Consolidated cash flow statement

CHF million	2008	2007
Earnings before tax	117.9	117.1
Net financial expense	34.6	34.2
Earnings from revaluation of investment real estate	–17.2	–25.8
Value adjustment development real estate	0.0	1.6
Depreciation other tangible fixed assets	1.0	0.8
Value adjustment / (release negative) goodwill	0.5	–0.4
Change in proceeds from sale of real estate	–2.1	–0.6
Capitalisation of company produced assets	–19.4	–12.0
Other items	0.6	0.3
Decrease/increase securities	0.0	1.0
Change in trade receivables	–34.5	70.5
Change in other receivables	3.8	–2.9
Change in provisions	–0.7	0.2
Change in trade payables	–25.7	–10.8
Change in other current liabilities	34.0	–3.9
Cost of finance paid	–36.0	–37.6
Financial income received	0.6	1.0
Income taxes paid	–10.9	–15.6
Cash flow from operations	**46.5**	**117.1**
Purchase of real estate investments	–43.1	–55.7
Disposal of real estate investments	28.8	4.8
Investment real estate for development	–242.2	–372.5
Disposal of real estate for development	226.3	180.8
Investment other property, plant and equipment	–1.4	–0.3
Purchase of companies (purchasing price minus cash)	–61.7	–9.4
Increase financial assets	0.0	–5.0
Decrease in financial assets	4.4	0.4
Cash flow from investing activities	**–88.9**	**–256.9**
Increase in borrowings	306.5	356.3
Decrease in borrowings	–187.8	–338.5
Capital increase	0.0	180.7
Repurchase convertible bond	–19.5	0.0
Purchase treasury shares	–64.3	–54.5
Sale treasury shares	63.9	50.8
Dividend payment	–56.8	–48.8
Cash flow from financing activities	**42.0**	**146.0**
Change in cash	**–0.4**	**6.2**
Cash at 1 January	19.5	13.3
Cash at 31 December	**19.1**	**19.5**

Segment Information
Year ended 31 December 2008

CHF million	Real Estate	Projects & Development	Holding functions	Eliminations/ not assigned	Total
Income statement					
Profit from operations[1]	108.3	81.8	0.0	0.0	190.1
Value adjustment assets	0.0	0.0	0.0	0.0	0.0
Profit from intercompany services	–3.7	4.4	–0.7	0.0	0.0
Revaluation on real estate investments	17.2	0.0	0.0	0.0	17.2
Expenses for staff, other	–1.6	–50.7	–1.0	0.0	–53.3
EBITDA	**120.2**	**35.5**	**–1.7**	**0.0**	**154.0**
Depreciation and value adjustment	–0.5	–1.0	0.0	0.0	–1.5
EBIT	**119.7**	**34.5**	**–1.7**	**0.0**	**152.5**
Net finance expense					–34.6
Taxes					–27.2
Net profit					**90.7**
EBITDA excl. revaluation gains	103.0	35.5	–2.7	0.0	136.8
EBIT excl. revaluation gains	102.5	34.5	–1.7	0.0	135.3
Net profit excl. revaluation effect					**78.4**
Operating margin[2]	94.6	42.2	–	–	71.2
Operating net cash flow[3]	99.4	34.4	–1.7	–	132.1
Total third party sales	123.4	465.5	0.0	0.0	588.9
Total sales from intergroup services	0.0	34.5	0.0	–34.5	0.0
Balance sheet as at 31 December 2008					
Fixed assets	2 128.5	514.3	0.0		2 642.8
Current assets	38.4	122.5	0.1		161.0
Total segment assets	**2 166.9**	**636.8**	**0.1**		**2 803.8**
Non-assigned assets				56.8	56.8
Total assets					**2 860.6**
Provisions	1.2	6.2	0.0		7.4
Other debt capital (excl. financing taxes)	38.5	108.0	0.5		147.0
Total segment liabilities	**39.7**	**114.2**	**0.5**		**154.4**
Financial liabilities (incl. deferred interest)				1 343.3	1 343.3
Tax liabilities				112.2	112.2
Total debt					**1 609.9**
Total assigned equity[4]	**985.1**	**262.4**	**3.2**		**1 250.7**
Cost of acquisition of other tangible assets and intangible assets	0.8	3.6	0.0	–	4.4
Investments in tangible assets	44.8	261.1	0.0	–	305.9

[1] Profit from letting and selling investment real estate (Real Estate division), and profit from general contracting operations (Projects & Development division) without value adjustment of development real estate
[2] EBIT less revaluation gains in percent of profit from operations inclusive value adjustment assets
[3] EBITDA less revaluation gains, value increasing investments and buying/selling other fixed assets
[4] Assignment of equity to individual segments corresponds to internal financial reporting guidelines requiring an equity ratio of 40% for the Projects & Development division

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

Segment Information
Year ended 31 December 2007

CHF million	Real Estate	Projects & Development	Holding functions	Eliminations/ not assigned	Total
Income statement					
Income from operations[1]	100.5	80.4	0.0	0.0	180.9
Value adjustment assets	0.0	–1.6	0.0	0.0	–1.6
Income from intercompany services	–3.7	4.4	–0.7	0.0	0.0
Revaluation on real estate investments	25.8	0.0	0.0	0.0	25.8
Expenses for staff, other	–2.8	–49.6	–1.0	0.0	–53.4
EBITDA	**119.8**	**33.6**	**–1.7**	**0.0**	**151.7**
Depreciation and value adjustment	0.4	–0.8	0.0	0.0	–0.4
EBIT	**120.2**	**32.8**	**–1.7**	**0.0**	**151.3**
Net finance expense					–34.2
Taxes					–29.1
Net profit					**88.0**
EBITDA excl. revaluation gains	94.0	33.6	–1.7	0.0	125.9
EBIT excl. revaluation gains	94.4	32.8	–1.7	0.0	125.5
Net profit excl. revaluation effect					**70.3**
Operating margin[2]	93.9	41.6	–	–	70.0
Operating net cash flow[3]	90.5	33.3	–1.7	–	121.9
Total third party sales	112.9	494.4	0.0	0.0	607.3
Total sales from intergroup services	0.0	38.2	0.0	–38.2	0.0
Balance sheet as at 31 December 2007					
Fixed assets	2 031.4	477.6	0.0		2 509.0
Current assets	4.2	90.5	0.1		94.8
Total segment assets	**2 035.6**	**568.1**	**0.1**		**2 603.8**
Non-assigned assets				67.5	67.5
Total assets					**2 671.3**
Provisions	1.2	6.9	0.0		8.1
Other debt capital (excl. financing taxes)	10.2	120.5	0.1		130.8
Total segment liabilities	**11.4**	**127.4**	**0.1**		**138.9**
Financial liabilities (incl. deferred interest)				1 189.1	1 189.1
Tax liabilities				90.2	90.2
Total debt					**1 418.2**
Total assigned equity[4]	**1 014.5**	**236.3**	**2.3**		**1 253.1**
Cost of acquisition of other tangible assets and intangible assets	0.2	4.3	0.0	–	4.5
Investments in tangible assets	64.3	389.8	0.0	–	454.1

[1] Profit from letting and selling investment real estate (Real Estate division), and profit from general contracting operations (Projects & Development division) without value adjustment of development real estate
[2] EBIT less revaluation gains in percent of profit from operations inclusive value adjustment assets
[3] EBITDA less revaluation gains, value increasing investments and buying/selling other fixed assets
[4] Assignment of equity to individual segments corresponds to internal financial reporting guidelines requiring an equity ratio of 40% for the Projects & Development division

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

Organisation, contacts, schedule

Organisation chart

Allreal Group
Bruno Bettoni

Finance & Controlling
Roger Herzog

Communication
Matthias Meier

Human Resources
Maria Gaugler

Real Estate
Hans Engel

Projects & Development
Bruno Bettoni

Portfolio Management
Dieter Kräuchi

Acquisition/Project Development
Thomas Stauber

Realisation
Patrick Krähenmann

Buying/Selling
Eugen Bentele

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Allreal Home AG

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Allreal Office AG
Allreal Toni AG
Allreal Vulkan AG
Allreal West AG
Apalux AG

Eggbühlstrasse 15
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Allreal Generalunternehmung AG
Allreal Markthalle AG

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Matthias Meier Chief Communication Officer	T 044 319 12 67 F 044 319 15 35 matthias.meier@allreal.ch

Schedule

Annual general meeting 2009	27 March 2009, 16.00 h Kaufleutensaal Pelikanplatz 8001 Zurich
Half-year results 2009	27 August 2009
Annual results 2009	25 February 2010
Annual general meeting 2010	26 March 2010

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