Annual Report 2010

allreal holding

Key figures at a glance

		2010 31.12.2010*	2009 31.12.2009*	Change in %[1]
Group				
Total sales[2]	CHF million	674.2	557.8	+20.9
Operating profit (EBIT) incl. revaluation gains	CHF million	185.0	149.5	+23.7
Net profit incl. revaluation effect	CHF million	116.4	88.6	+31.4
Operating profit (EBIT) excl. revaluation gains	CHF million	171.5	143.0	+19.9
Net profit excl. revaluation effect	CHF million	106.1	83.1	+27.7
Cash flow	CHF million	36.5	79.0	–53.8
Return on equity incl. revaluation effect	%	8.2	7.1	+1.1
Return on equity excl. revaluation effect	%	7.9	6.7	+1.2
Equity ratio on cut-off date	%	48.7	41.5	+7.2
Net gearing on cut-off date[3]	%	84.2	115.2	–31.0
Average interest rate on financial liabilities on cut-off date	%	2.59	2.56	+0.03
Average time to maturity of financial liability	months	46	36	+10
Sales Projects & Development division	CHF million	587.0	491.2	+19.5
Operating margin Projects & Development division[4]	%	54.7	40.5	+14.2
Employees	full-time equivalents	261	263	–2
Allreal Holding AG				
Net profit	CHF million	61.4	59.7	+2.8
Share capital	CHF million	683.2	569.3	+20.0
Share				
Earnings per share incl. revaluation effect	CHF	8.80	7.61	+15.6
Earnings per share excl. revaluation effect	CHF	8.02	7.14	+12.3
Net asset value (NAV) per share before deferred tax on cut-off date	CHF	120.85	119.70	+1.0
Net asset value (NAV) per share after deferred tax on cut-off date	CHF	114.70	112.65	+1.8
Profit distribution per share[5]	CHF	5.50	5.00	+10.0
Share price on cut-off date	CHF	136.20	123.00	+10.7
Dividend/Profit distribution yield[5]	%	4.0	4.1	–0.1
Valuation on cut-off date				
Market capitalisation[6]	CHF million	1 859.6	1 394.8	+33.3
Enterprise value[7]	CHF million	3 177.7	2 866.0	+10.9

* Should no further particulars be given, values referring to the income statement concern the full year and balance sheet value the cut-off dates 31.12.2010 resp. 31.12.2009

[1] Changes in quantum and percentage values shown as absolute difference
[2] Income resulting from rental of investment real estate plus completed net project volume by Projects & Development division
[3] Finance liabilities minus cash and marketable securities as percentage of equity
[4] EBIT excl. revaluation and restoration of value adjustments on projects as percentage of profit from business activity
[5] Board of directors proposal of CHF 5.50 per share for the 2010 financial year by means of repayment of reserves from capital invested
[6] Stock price at balance sheet date multiplied by the number of outstanding shares
[7] Market capitalisation plus net debts

Real estate at a glance

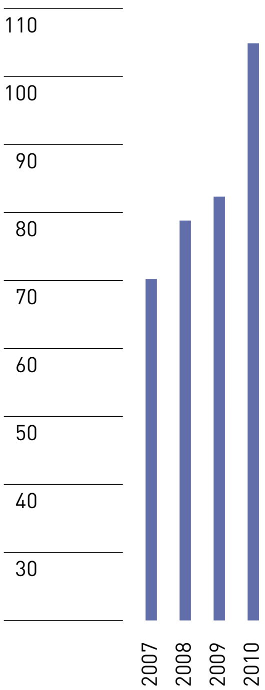
		2010 31.12.2010*	2009 31.12.2009*	Change in %[1]
Yield-producing properties				
Commercial real estate	Quantum	46	47	–1
Residential real estate	Quantum	19	23	–4
Market value on cut-off date	CHF million	2 373.3	2 207.1	+7.5
Average market value by object	CHF million	36.5	31.5	+15.9
Rental income from investment real estate	CHF million	139.1	132.9	+4.7
Vacancy rate[2]	%	4.8	3.7	+1.1
Real estate expenses	CHF million	20.7	19.7	+5.1
Real estate expenses	in % of rental income	14.9	14.8	+0.1
Gross yield[3]	%	5.9	6.1	–0.2
Net yield[4]	%	5.1	5.2	–0.1
Investment real estate under construction				
Buildings	(number)	2	4	–2
Market value on cut-off date	CHF million	246.0	312.0	–21.2
Investment volume	CHF million	564.0	690.0	–18.3
Development real estate				
Cost value land reserves on cut-off date	CHF million	111.8	165.4	–32.4
Estimated investment volume land reserves	CHF million	733.0	1 184.0	–38.1
Cost value buildings under construction on cut-off date	CHF million	307.5	224.8	+36.8
Estimated investment volume buildings under construction	CHF million	824.0	560.0	+47.1
Cost value completed buildings on cut-off date	CHF million	36.7	4.2	–

* Should no further particulars be given, values referring to the income statement concern the full year and balance sheet value the cut-off dates 31.12.2010 resp. 31.12.2009

[1] Changes in quantum and percentage values are shown as absolute difference
[2] In percent of targeted rental income, cumulated at cut-off date
[3] Rental income from investment real estate in percent of continued market value as at 1 January
[4] Rental profit from investment real estate in percent of continued market value as at 1 January

Editorial

Net profit
excl. revaluation effect
CHF million



- **Outstanding company results**
- **Constantly expanding stable-income portfolio**
- **Projects & Development division with substantial contribution to profit**
- **Well-hedged financing permits further growth**
- **Positive assessment of business development**
- **Board of directors proposes tax-exempt dividend payment**

Allreal looks back on an exceptionally successful financial year. The company reports the highest result since its foundation for 2010 with a rise in net profit excluding revaluation gains of 27.7% to CHF 106.1 million. The main contribution toward the outstanding result was made especially by cyclical gains from completed projects in the Projects & Development division. In addition, rental income from investment real estate continued to grow.

Net profit including revaluation gains amounted to CHF 116.4 million. The distinct growth over the previous year reflects the combination of very good operating results with a moderate revaluation gain in the portfolio of investment real estate.

Total sales also grew significantly, namely by 20.9% to CHF 674.2 million, due on the one hand to higher rental income in the Real Estate division and on the other to a higher volume of completed projects in the Projects & Development division.

On the balance sheet date, the Allreal share closed at CHF 136.20, or 10.7% above the comparable value the previous year. The price hike plus dividend plus subscription rights from the capital increase resulted in an overall performance of a respectable 17.1%. The Allreal share therefore closed clearly above the total market.

In the first half of 2010, Allreal successfully implemented a capital increase with subscription rights amounting to approximately CHF 225 million. The additional means will allow advantageous financing of Allreal's ongoing projects and a continuation of the company's course of expansion.

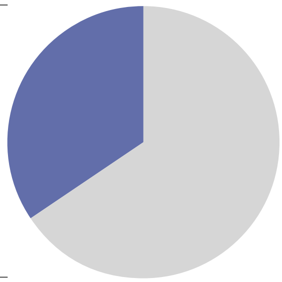
Continuation of shareholder-friendly payout policy
At the annual meeting of shareholders in 2011 and based on the outstanding results and the positive expectations of the future business development of the two divisions, the Board of Directors will propose paying a profit distribution of CHF 5.50 per share, corresponding to a shareholder-friendly cash yield on the year-end share price of 4.0%. In the interest of its shareholders, Allreal is one of the first listed companies to take advantage of the corporate tax reform that became effective on 1 January 2011. As a result, the profit distribution will be paid out without the deduction of withholding tax and, for the first time, tax free for private shareholders.

Stable results for the Real Estate division

The portfolio of income-producing properties continued to grow in the year under review. The additions include three office buildings and a combined commercial and residential building. A total of seven older residential and commercial buildings in leasehold has been sold at a profit. The optimised portfolio on the cut-off date amounted to 65 income-producing properties, of which 46 commercial and 19 residential buildings.

The divisions' contribution toward operating profit

2010



- Real Estate 65.8%
- Projects & Development 34.2%

The valuation of the income-producing real estate and investment real estate under construction in total resulted in a moderate valuation gain of CHF 13.5 million before tax corresponding to 0.5% of the market value of the complete portfolio of investment real estate. Additions and departures as well as the upward valuation of the total portfolio resulted in an increase gain of CHF 100.2 million to CHF 2.62 billion. The share of income-producing real estate was 2.37 billion and that of investment real estate under construction CHF 246 million.

Due to the portfolio expansion and low revenue loss, rental income grew as expected by 4.7% to CHF 139.1 million.

The vacancy rate during the period under review increased slightly to 4.8% of the target rental income. Real estate expenses of 14.9% of the net rental income in 2010 remained at approximately the same level as the previous year.

Despite a slightly higher vacancy rate and higher real estate expenses, net yield achieved from renting income-producing buildings amounted to a very gratifying 5.1%.

Projects & Development division: strong competitiveness and high earnings power

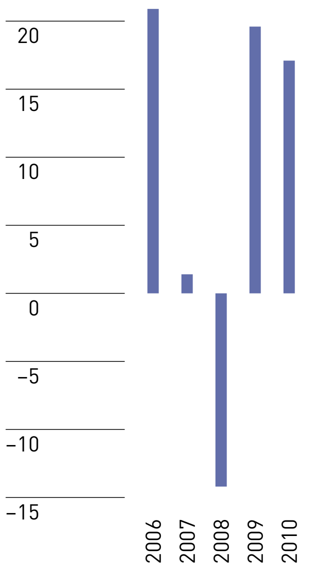
In 2010, completed project volume grew by 19.5% over 2009 to CHF 587 million. As expected, commencement of construction of numerous own projects with practically unchanged staff capacity resulted in a lower share of third-party projects, which on the balance sheet date amounted to 59.3%.

The Projects & Development division realised earnings of CHF 108.2 million from its business activity during the year under review, and for the first time in excess of CHF 100 million. Cyclical profits from completed projects, especially, as well as considerable revenue resulting from awarding of contracts to sub-contractors as well as the continuing successful sale of residential property from own development and realisation have contributed to this outstanding result.

As a result of nearly stable costs, the operating result grew by 77.8% to a respectable CHF 59.2 million.

Order backlog compared to the previous year rose by CHF 300 million to CHF 2.0 billion, thus securing utilisation of available capacity for clearly more than two years.

Overview of share performance



Overall performance:
Price change plus profit distribution plus subscription rights resulting from capital increase in percent of share price as on 1 January

Sound financing permits continuation of growth course

On 31 December 2010, the average interest rate on interest-bearing debt amounted to a low 2.59% with an average duration of comfortable 46 months. Thanks to the successfully implemented capital increase in 2010, the equity ratio temporarily grew to 48.7%.

As a result of the financial means obtained within the parameters of the capital increase and the sound refinancing of existing liabilities, Allreal enjoys considerable investment scope which will also be used to finance own projects under construction and planned own projects.

Optimistic assessment of future business activity

Assuming stable economic conditions, Allreal's Board of Directors and Group Management expect the company to continue developing successfully. Thanks to yet another outstanding result and a well functioning business model, Allreal is suitably equipped to meet the challenges of 2011 with confidence. Moreover, the good preconditions will permit continuation of the chosen growth path.

The positive assessment of future business activity is based mainly on Allreal's sound financing, the expected growth of the real estate portfolio and of rental income, the high order backlog of the Projects & Development division and the positive evaluation of the potential inherent in Allreal's own projects.

Despite a lower number of project completions, Allreal expects operating income for the 2011 financial year to be only slightly below the previous year's record result.

The Board of Directors and Group Management wish to take this opportunity to thank all staff members for their contribution to the outstanding financial result 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 and yield-producing properties	≥ 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%
Payout policy	< 75% of net profit (excl. revaluation effect)

Entrepreneurial responsibility

Allreal is aware of and fulfils its responsibility towards the environment and society. The company's high level of competence in all areas of activity permits it to focus on high-quality and long-term value-driven solutions.

As a pioneer, Allreal acts as a forerunner in the development, planning and realisation of ecologically exemplary projects. Allreal has implemented numerous MINERGIE®, MINERGIE-ECO® and MINERGIE-P® buildings since the year 2000, among them Eulachhof in Winterthur, Switzerland's first zero heating-energy residential complex comprising 132 units. Moreover, Allreal's Richti Wallisellen project is currently Switzerland's first building complex that will meet the vision of the 2000-watt society.

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.

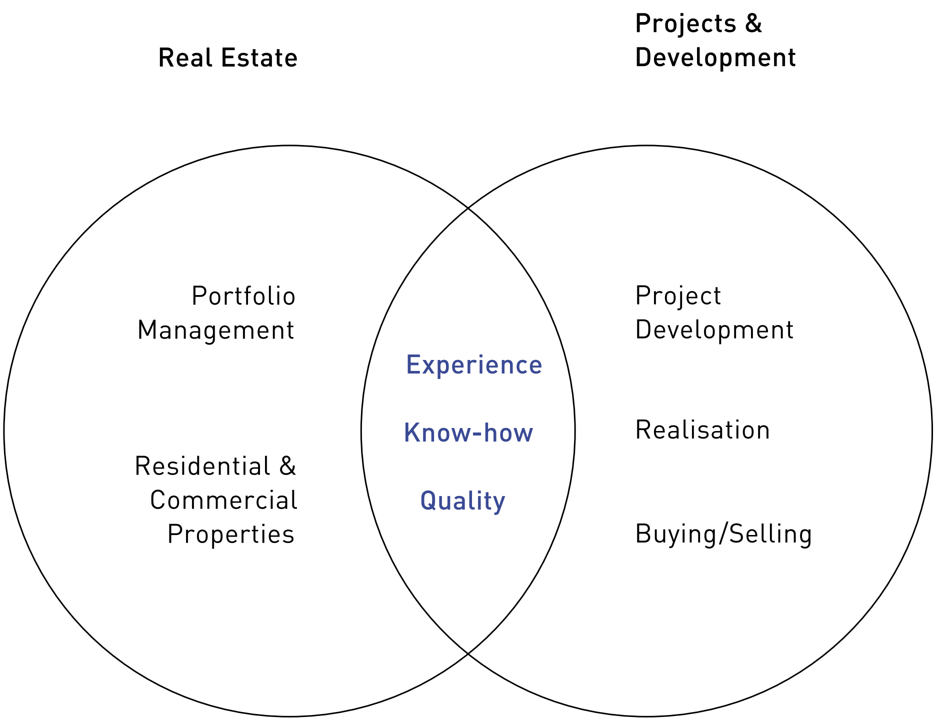
Projects & Development division

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.

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 as 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); 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; Orell Füssli Holding AG, Zurich

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; Barry Callebaut AG, Zurich; Rieter Holding AG, Winterthur; Swiss Re, Zurich

Member of the Board of Stäubli Holding AG, Pfäffikon SZ (Chairman) and another non-listed company

Albert Leiser
(*1957, Swiss)
Member since 2005

Certified real estate trustee

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

Board member and delegate SVIT Zurich

City of Zurich councillor

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

Patrick Krähenmann (*1969, CH)
Head of Projects & Development Member of Group Management since 2011

Graduate in civil engineering

2007
Head Realisation department

2002–2006
Head Renovation & Conversion unit, member of Division Management

2000
Joined Allreal Generalunternehmung AG as assistant to the general management and quality manager

Real Estate Economics, post-graduate

MBA GSBA/State University of New York

Vice-president Swiss Association of General Contractors VSGU

Town councillor and deputy mayor of Wängi, Canton Thurgau (until 31.05.2011)

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

Swiss certified auditor

2003
Joined Allreal Generalunternehmung AG 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

With the exception of serving on Allreal's Board of Directors, the members of Group Management hold no other comparable posts and, with the exception of the disclosed mandates, execute no public functions and hold no political office.

Signatory authority
Members of the Board of Directors and of Group Management have joint signatory authority for the company.

Auditors

KPMG AG, Zurich

External independent real estate evaluator

Sal. Oppenheim jr. & Cie., Corporate Finance (Schweiz) AG, Zurich; trading as Jones Lang LaSalle AG with effect from 01 February 2011

Consolidated financial statement

Allreal's operating net profit of CHF 106.1 million for the 2010 financial year exceeded the very good result of the previous year by 27.7%. Higher rental income in the period under review offset lower profits generated by the sale of investment real estate in the Real Estate division. The outstanding segment result posted by the Projects & Development division with the completion of several large projects is characterised by high profits from the sale of development real estate and a continuing good profitability from ongoing construction activity.

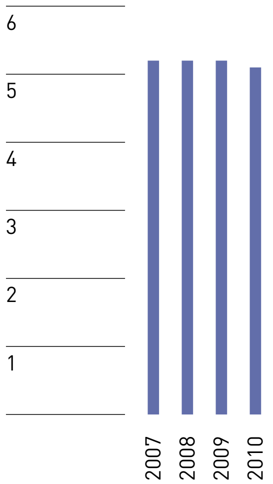
Rental income of CHF 139.1 million in the Real Estate division exceeded the previous year's result by 4.7% following an expansion of the portfolio. Rental income from continuously leased commercial and residential properties changed by 0.6% and 3.4% respectively (like-for-like rental growth). Real estate expenses of 14.9% of rental income remained at the previous year's level. The cumulative vacancy rate for the 2010 financial year amounted to 4.8%, and it is not expected to rise in 2011. Based on the target rental income, the largest vacancies are represented by the commercial properties Zentrumsüberbauung in Wallisellen, In der Luberzen in Urdorf and Grindelstrasse in Bassersdorf; these three properties together stand for 48% of the cumulated vacancy rate.

The valuation of investment real estate by an external real estate valuer resulted in a gain of CHF 13.5 million, or 0.5% of the entire portfolio's asset value. The correction includes a valuation gain for commercial real estate (CHF 2.4 million), residential real estate (CHF 4.0 million) and investment real estate under construction (CHF 7.1 million). The higher valuation for residential real estate is due to the continuing pressure on yields as a consequence of the unchanged high demand on the real estate market. A positive value correction resulted for investment real estate under construction due to the determination of market value by means of the discounted cash flow method (DCF). Based on this method, future income moves forward on the time axis in line with project progress. It is expected that this effect will continue in the coming years. On 31 December 2010, the average discount and capitalisation rates for the entire portfolio were lowered slightly by 2 base points.

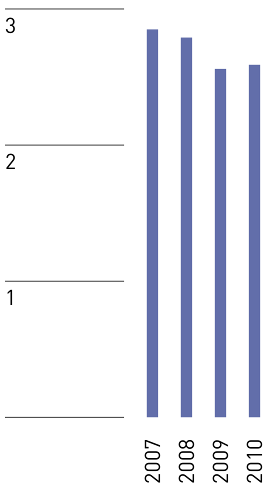
The sale of seven investment properties in the Zurich Metropolitan Area resulted in a profit before tax of CHF 2.2 million. The prices were about 4% above the market values as shown on the balance sheet on 31 December 2009.

With a growing project volume, the operating result of the Projects & Development division was influenced strongly by the completion of several projects recorded in the consolidated financial statement and accrued cyclically. The Projects & Development division reached yet another peak by reporting consolidated earnings from business activity of CHF 108.2 million (2009: CHF 82.2 million). Compared to the previous year, earnings from project development and the sale of development real estate rose by CHF 21.0 million and fee income and earnings from construction activity by CHF 4.0 million. Personnel and other expenses remained constant at CHF 52.9 million (2009: CHF 52.7 million).

Net yield on portfolio
in percent



Average interest charges at 31 December 2010 in percent



As net financial debt at a constant refinancing rate over the course of the year was lower than the previous year, financial expenses declined moderately by CHF 0.2 million, mainly due to the higher accrued-interest effect resulting from the amortisation of the convertible bonds of CHF 3.9 million (2009: CHF 3.2 million).

At CHF 31.4 million, operating tax expenditure was clearly higher than the previous year, representing 22.8% of net profit before tax and therefore above the group tax rate of 22%. Of this amount, CHF 30.5 million was allotted to current taxes and CHF 0.9 million to deferred taxes. The increased tax burden is due mainly to the payment of taxes on real estate profits resulting from project completions in the Projects & Development division. Deferred taxes resulting from the revaluation of investment real estate amounted to CHF 3.2 million.

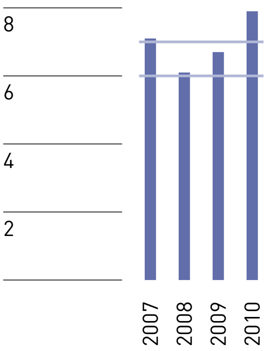
Consolidated balance sheet and consolidated equity

On the balance sheet date, the market value of investment real estate amounted to CHF 2 619.3 million. The market value is comprised of commercial real estate (CHF 2 003.1 million), residential real estate (CHF 370.2 million) and investment real estate under construction (CHF 246.0 million). The value of the real estate portfolio therefore increased through acquisitions (CHF 46.7 million), value-increasing investments (CHF 68.1 million), reclassification of other balance sheet items (CHF 28.8 million) and valuation gains (CHF 13.5 million). Seven commercial and residential buildings in leasehold were sold at a price of CHF 59.2 million effective 1 October 2010. A residential project currently held as investment real estate, Moos-/Grütstrasse in Adliswil, with 139 rental units at an investment volume of CHF 64 million will be transferred to income-providing real estate on 1 June 2011.

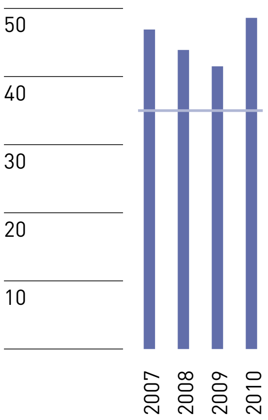
Compared to the 2009 balance sheet date, the book value of development real estate grew by CHF 61.6 million to CHF 456.0 million. The share of development real estate under construction of the entire portfolio of development real estate increased to 67% from 57% the previous year. The increase is connected with the construction start of several part-projects on the Richti Areal which will be transferred to their users in stages from the year 2013 onward. All buildings under construction shown on the balance sheet at acquisition cost enjoy attractive profit potential which is not yet reflected in the consolidated financial statement. The completed buildings (CHF 36.7 million) include a 50% joint ownership of Bauarena in Volketswil to be sold in the first half of 2011.

Based on the high cash inflow arising from business activity and the capital increase, net financial debt fell by CHF 153 million to CHF 1 318.1 million. Deferred tax liabilities on the balance sheet date amounted to net CHF 83.5 million (31.12.2009: CHF 79.7 million). The higher deferred tax liabilities were brought about mainly by the valuation gains of investment real estate and the delay between the consolidated financial statement and the closing of accounts of group companies. Despite the higher construction volume in the Projects & Development division, short-term liabilities decreased to CHF 110.5 million (31.12.2009: CHF 122.2 million).

Return on equity excl. revaluation
in percent



Equity ratio
in percent



In the period under review, consolidated equity at 31 December 2010 grew by CHF 288.8 million to CHF 1 566.3 million. Net proceeds of CHF 225.1 million resulted from the capital increase after deduction of flotation cost (including taxes) amounting to CHF 7.1 million or 3.1% of gross proceeds. Net income (CHF 116.4 million) and the sale of treasury shares (CHF 4.9 Mio.) were faced with a dividend payment (CHF –56.9 Mio.) and a slight rise in the negative replacement cost of derivative financial instruments (CHF –0.7 Mio.).

Consequently, net asset value (NAV after deferred taxes) per share rose by CHF 2.05 to CHF 114.70.

Consolidated cash flow statement

In the period under review, the continuing positive business developments compared to the previous year have lead to a clearly higher operating cash flow before changes in working capital of CHF 151.7 million (2009: CHF 114.0 million). When taking into account the increase in net working capital of CHF 46.6 million, operating cash flow amounted to CHF 105.1 million. The amounts of CHF 38.8 million and CHF 29.9 million, respectively, were paid for financial expenses and taxes. The result was a cash flow from operating activity of CHF 36.5 million (2009: CHF 79.0 million).

As in previous years, investment activity continued in 2010. While the sale of seven income-producing buildings at a total of CHF 59.2 million exceeded the acquisition of the commercial building at Eggbühlstrasse 21 and 23 in Zurich-Oerlikon (CHF 46.7 million) and value-increasing investments (CHF 1.3 million), the ongoing project progress in investment real estate under construction resulted in cash-out investments of CHF 60.1 million. Changes in the remaining fixed assets and financial investments amounted to CHF 3.5 million. The result was a cash flow from investment activity of CHF 52.4 million (2009: CHF 216.1 million).

On the financing side, the net proceeds from the capital increase of CHF 225.1 million were used to pay back the 1.875% convertible bond 2006–2010 (CHF 152.9 million). When including the dividend payment and the sale of treasury shares, net additions from financing activity amounted to CHF 21.2 million (2009: CHF 146.6 million).

Financial situation

Allreal's investment guidelines and the maximum borrowing level outlined by the credit agreements with the banks define four decisive financial ratios, which were reported as follows for the entire period under review and as at 31 December 2010: consolidated equity ratio amounted to 48.7% (minimum 35%), net gearing 84.2% (maximum 150%), interest coverage ratio 5.1 (minimum 2.0) and the borrowing level for investment and development properties 44.0% (maximum 70%).

At the end of the financial year, average interest on financial liabilities amounted to an unchanged low 2.59% (31.12.2009: 2.56%), at a significantly higher duration of 46 months (31.12.2009: 36 months). Of the interest-bearing borrowings at 31 December 2010, 99% was effectively secured against changing interest rates by means of interest-rate swaps, fixed-date mortgage loans and convertible bonds. During the period under review, new interest-rate swaps for contract values amounting to CHF 250 million were concluded. The weighted time to maturity of these interest-rate swaps amounted to 7.4 years at a very low average interest rate of 1.55%.

In 2011, about CHF 109 million of the existing financial debt will benefit from floating interest rates as interest swaps and fixed-rate mortgages expire. Together with the planned new borrowings for current investments, this will open interesting opportunities to benefit from the continuing low level of interest rates. On the balance sheet date, the immediately available bank borrowing limits amounted to CHF 381 million, which can be increased depending on the construction progress of individual projects.

Allreal enjoys comfortable financing owing to the long time to maturity of its financial liability, its low cost of refinancing and high equity ratio of 48.7%.

Despite a higher level of outstanding capital stock compared to the previous year, the payout ratio of 70.9% of net income is below the maximum value of 75% as specified by the company.

Annual accounts of Allreal Holding AG

The annual profit of CHF 61.4 million remained at the previous year's level (2009: CHF 59.7 million). In 2010, income from investments in group companies grew to CHF 58.0 million. By contrast, owing to one-time expenses amounting to CHF 7.1 million in connection with the capital increase, net financial income decreased to CHF 5.4 million (2009: CHF 11.2 million).

The remaining expenses and taxes of CHF 2.0 million were slightly lower than for the previous year.

Compared to the previous year, total assets rose to CHF 1481.6 million as a result of the capital increase implemented in may 2010. The added means were used to refinance the 1.875% convertible bond 2006–2010 and a higher investment share in group companies.

As at 31 December 2010, reserves from capital contributions, which within the parameters of the corporate tax reform can now be paid out tax free to private shareholders, amounted to CHF 501.2 million; on the balance sheet day, CHF 1.3 million of this amount was reserved for treasury shares. Since the foundation of Allreal Holding AG, several capital increases with subscription rights offering have been implemented at an issuing price of the new shares above the par value of the registered share. The differential amounts were allocated to the reserves from capital contributions.

As at 31 December 2010, shareholders' equity amounted to CHF 1279.9 million (31.12.2009: CHF 1043.1 million). The increase of about CHF 237 million resulted from the difference between the gross proceeds of the capital increase of CHF 232.3 million and the annual profit for 2010 of CHF 61.4 million and the dividend payment in April 2010 of CHF 56.9 million.

Consolidated income statement

CHF million	2010	2009
Income from renting investment real estate	139.1	132.9
Direct expenses for rented investment real estate	–20.7	–19.7
Earnings from renting investment real estate	**118.4**	**113.2**
Earnings from sale of investment real estate	**2.2**	**6.5**
Higher valuation of yield-producing properties	23.3	43.0
Lower valuation of yield-producing properties	–16.9	–28.7
Higher valuation of investment real estate under construction	7.1	5.7
Lower valuation of investment real estate under construction	0.0	–13.5
Earnings from revaluation of investment real estate	**13.5**	**6.5**
Completed net project volume by Projects & Development division	535.1	424.9
Direct expenses for completed project volume by Projects & Development division	–476.3	–371.9
Earnings from project development and sale of development real estate	26.7	5.7
Capitalised company-produced assets	19.9	21.7
Diverse income	2.8	1.8
Earnings from Projects & Development division	**108.2**	**82.2**
Personnel expenses	–44.8	–43.5
Other operating expense	–11.7	–14.7
EBITDA	**185.8**	**150.2**
Depreciation other property, plant and equipment	–0.8	–0.7
Operating profit (EBIT)	**185.0**	**149.5**
Finance income	0.2	0.7
Finance expense	–34.2	–35.0
Net profit before tax	**151.0**	**115.2**
Tax expenses	–34.6	–26.6
Net profit	**116.4**	**88.6**
Valuation financial instruments	–0.9	–16.2
Deferred taxes from valuation of financial instruments	0.2	3.6
Other earnings	**–0.7**	**–12.6**
Total earnings	**115.7**	**76.0**
Total sales	674.2	557.8
EBITDA excl. earnings from revaluation	172.3	143.7
EBIT excl. earnings from revaluation	171.5	143.0
Net profit excl. revaluation effect	**106.1**	**83.1**
Net profit per share in CHF		
— incl. revaluation effect	8.80	7.61
— excl. revaluation effect	8.02	7.14
Diluted earnings per share in CHF		
— incl. revaluation effect	8.22	7.20
— excl. revaluation effect	7.53	6.78

Consolidated balance sheet

CHF million	31.12.2010	31.12.2009
Yield-producing properties	2 373.3	2 207.1
Investment real estate under construction	246.0	312.0
Other property, plant and equipment	2.3	1.3
Financial assets	8.7	5.4
Deferred tax assets	34.1	33.0
Fixed assets	**2 664.4**	**2 558.8**
Development real estate	456.0	394.4
Trade receivables	60.5	91.9
Other receivables	4.1	3.5
Cash	33.9	28.6
Current assets	**554.5**	**518.4**
Total assets	**3 218.9**	**3 077.2**
Share capital	683.2	569.3
Capital reserves	494.0	382.8
Treasury shares	–1.3	–5.7
Retained earnings	390.4	331.1
Total equity	**1 566.3**	**1 277.5**
Long-term borrowings	204.5	192.8
Deferred tax liabilities	117.6	112.7
Long-term provisions	4.9	5.2
Other long-term liabilities	48.9	44.8
Long-term liabilities	**375.9**	**355.5**
Trade payables	71.4	84.9
Current tax liabilities	18.7	15.0
Other current liabilities	36.8	36.0
Short-term provisions	2.3	1.3
Short-term borrowings	1 147.5	1 307.0
Short-term liabilities	**1 276.7**	**1 444.2**
Total liabilities	**1 652.6**	**1 799.7**
Total equity and liabilities	**3 218.9**	**3 077.2**
Equity (NAV) per share in CHF		
— before deferred tax	120.85	119.70
— after deferred tax	114.70	112.65

Consolidated statement of changes in shareholders' equity

				Retained earnings			
CHF million	Share capital	Capital reserves	Treasury shares	Hedging reserves	Revaluation reserves	Other retained earnings	Total
As at 31 December 2008	**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 earnings				–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**
Net profit						88.6	88.6
Valuation of financial instruments				–12.6			–12.6
Total earnings				–12.6		88.6	76.0
Convertible bond						8.0	8.0
Purchase treasury shares			–33.8				–33.8
Sale treasury shares			33.2			0.1	33.3
Dividend payment						–56.7	–56.7
Reclassification					0.6	–0.6	0.0
As at 31 December 2009	**569.3**	**382.8**	**–5.7**	**–37.6**	**70.9**	**297.8**	**1 277.5**
Net profit						116.4	116.4
Valuation of financial instruments				–0.7			–0.7
Total earnings				–0.7		116.4	115.7
Capital increase	113.9	111.2					225.1
Purchase treasury shares			–34.8				–34.8
Sale treasury shares			39.2			0.5	39.7
Dividend payment						–56.9	–56.9
Reclassification					13.6	–13.6	0.0
As at 31 December 2010	**683.2**	**494.0**	**–1.3**	**–38.3**	**84.5**	**344.2**	**1 566.3**

Consolidated cash flow statement

CHF million	2010	2009
Earnings before tax	151.0	115.2
Net financial expense	34.0	34.3
Earnings from revaluation of investment real estate	–13.5	–6.5
Depreciation other tangible fixed assets	0.8	0.7
Change in proceeds from sale of real estate	–2.2	–6.5
Capitalisation of company produced assets	–19.9	–21.7
Other items	1.5	–1.5
Change in development real estate	–72.2	–1.6
Change in trade receivables	31.4	16.9
Change in other receivables	0.9	1.9
Change in provisions	0.6	–0.4
Change in trade payables	–13.4	–0.4
Change in other current liabilities	6.1	–2.4
Cost of finance paid	–39.0	–31.4
Financial income received	0.2	0.7
Income taxes paid	–29.8	–18.3
Cash flow from operations	**36.5**	**79.0**
Purchase of real estate investments	–48.0	–109.4
Disposal of real estate investments	59.2	44.0
Investment in investment real estate under construction	–60.1	–157.1
Divestment of investment real estate under construction	0.0	0.0
Investment other property, plant and equipment	–1.8	–0.4
Increase financial assets	–2.0	0.0
Decrease in financial assets	0.3	6.8
Cash flow from investing activities	**–52.4**	**–216.1**
Increase in borrowings	455.3	251.0
Decrease in borrowings	–454.3	–242.4
Capital increase	225.1	0.0
Issue convertible bond	0.0	195.3
Repayment convertible bond	–152.9	0.0
Purchase treasury shares	–34.8	–33.8
Sale treasury shares	39.7	33.2
Dividend payment	–56.9	–56.7
Cash flow from financing activities	**21.2**	**146.6**
Change in cash	**5.3**	**9.5**
Cash at 1 January	28.6	19.1
Cash at 31 December	**33.9**	**28.6**

Segment Information
Year ended 31 December 2010

CHF million	Real Estate	Projects & Development	Total Segments	Holding/ Eliminations	Total
Income statement					
Profit from operations[1]	120.6	108.2	228.8	0.0	228.8
Profit from intercompany services	–4.0	4.6	0.6	–0.6	0.0
Profit from revaluation on investment real estate	13.5	0.0	13.5	0.0	13.5
Expenses for staff, other	–2.6	–52.9	–55.5	–1.0	–56.5
EBITDA	**127.5**	**59.9**	**187.4**	**–1.6**	**185.8**
Depreciation and amortisation	–0.1	–0.7	–0.8	0.0	–0.8
Operating profit (EBIT)	**127.4**	**59.2**	**186.6**	**–1.6**	**185.0**
Net finance expense	–29.9	–4.1	–34.0	0.0	–34.0
Taxes	–17.4	–15.5	–32.9	–1.7	–34.6
Net profit	**80.1**	**39.6**	**119.7**	**–3.3**	**116.4**
EBITDA excl. revaluation gains	114.0	59.9	173.9	–1.6	172.3
EBIT excl. revaluation gains	113.9	59.2	173.1	–1.6	171.5
Net profit excl. revaluation effect	**69.8**	**39.6**	**109.4**	**–3.3**	**106.1**
Operating margin[2]	94.4	54.7	75.7	–	75.0
Total third-party sales	139.1	535.1	674.2	0.0	674.2
Total sales from intergroup services	0.0	51.9	51.9	–51.9	0.0
Balance sheet as at 31 December 2010					
Fixed assets	2 657.4	7.0	2 664.4	0.0	2 664.4
Current assets	8.6	536.6	545.2	9.3	554.5
Total assets	**2 666.0**	**543.6**	**3 209.6**	**9.3**	**3 218.9**
Provisions	1.2	6.0	7.2	0.0	7.2
Other debt capital (excl. financing taxes)	73.3	83.8	157.1	0.0	157.1
Financial liabilities	1 126.5	225.5	1 352.0	0.0	1 352.0
Tax liabilities	117.3	10.9	128.2	8.1	136.3
Total debt	**1 318.3**	**326.2**	**1 644.5**	**8.1**	**1 652.6**
Total assigned equity[3]	**1 347.7**	**217.4**	**1 565.1**	**1.2**	**1 566.3**

[1] Profit from letting and selling investment real estate (Real Estate division), and profit from general contracting operations (Projects & Development division) excluding value adjustments on development real estate
[2] EBIT less revaluation gains in percent of profit from operations including value adjustments on fixed assets
[3] Assignment of equity to individual segments corresponds to internal financial reporting guidelines requiring an equity ratio of 40% for the Projects & Development division. Financial and tax liabilities will be assigned accordingly.

Allreal operates in Switzerland only. A break-down per sales and fixed assets is therefore not required.

Segment Information
Year ended 31 December 2009

CHF million	Real Estate	Projects & Development	Total Segments	Holding/ Eliminations	Total
Income statement					
Profit from operations[1]	119.7	82.2	201.9	0.0	201.9
Profit from intercompany services	–3.8	4.4	0.6	–0.6	0.0
Profit from revaluation on investment real estate	6.5	0.0	6.5	0.0	6.5
Expenses for staff, other	–4.2	–52.7	–56.9	–1.3	–58.2
EBITDA	**118.2**	**33.9**	**152.1**	**–1.9**	**150.2**
Depreciation and amortisation	–0.1	–0.6	–0.7	0.0	–0.7
Operating profit (EBIT)	**118.1**	**33.3**	**151.4**	**–1.9**	**149.5**
Net finance expense	–30.7	–3.6	–34.3	0.0	–34.3
Taxes	–13.5	–8.8	–22.3	–4.3	–26.6
Net profit	**73.9**	**20.9**	**94.8**	**–6.2**	**88.6**
EBITDA excl. revaluation gains	111.7	33.9	145.6	–1.9	143.7
EBIT excl. revaluation gains	111.6	33.3	144.9	–1.9	143.0
Net profit excl. revaluation effect	**68.4**	**20.9**	**89.3**	**–6.2**	**83.1**
Operating margin[2]	93.2	40.5	71.8	–	70.8
Total third-party sales	132.9	424.9	557.8	0.0	557.8
Total sales from intergroup services	0.0	66.3	66.3	–66.3	0.0
Balance sheet as at 31 December 2009					
Fixed assets	2 554.0	4.8	2 558.8	0.0	2 558.8
Current assets	9.3	500.5	509.8	8.6	518.4
Total assets	**2 563.3**	**505.3**	**3 068.6**	**8.6**	**3 077.2**
Provisions	1.2	5.3	6.5	0.0	6.5
Other debt capital (excl. financing taxes)	70.9	94.7	165.6	0.1	165.7
Financial liabilities	1 320.5	179.3	1 499.8	0.0	1 499.8
Tax liabilities	95.9	23.9	119.8	7.9	127.7
Total debt	**1 488.5**	**303.2**	**1 791.7**	**8.0**	**1 799.7**
Total assigned equity[3]	**1 074.8**	**202.1**	**1 276.9**	**0.6**	**1 277.5**

[1] Profit from letting and selling investment real estate (Real Estate division), and profit from general contracting operations (Projects & Development division) excluding value adjustments on development real estate
[2] EBIT less revaluation gains in percent of profit from operations including value adjustments on fixed assets
[3] Assignment of equity to individual segments corresponds to internal financial reporting guidelines requiring an equity ratio of 40% for the Projects & Development division. Financial and tax liabilities will be assigned accordingly.

Allreal operates in Switzerland only. A break-down per sales and fixed assets 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
Patrick Krähenmann

Portfolio Management
Alain Paratte

Project Development
Thomas Stauber

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Patrick Krähenmann

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Eugen Bentele

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Schedule

Annual general meeting 2011	25 March 2011, 16.00 h Kaufleutensaal Pelikanplatz 8001 Zurich
Half-year results 2011	25 August 2011
Annual results 2011	23 February 2012
Annual general meeting 2012	30 March 2012

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building value