Annual Report 2006

allreal holding

Key figures at a glance

		2006	2005	Change in %[1]
Group				
Total sales[2]	CHF million	724.7	568.7	+27.4
Operating profit (EBIT) incl. revaluation gains	CHF million	131.2	107.1	+22.5
Net profit incl. revaluation gains	CHF million	80.1	70.0	+15.9
Operating profit (EBIT) excl. revaluation gains	CHF million	115.2	103.1	+11.7
Net profit excl. revaluation gains	CHF million	68.2	67.2	+1.5
Cash flow	CHF million	95.0	90.8	+4.6
Return on equity incl. revaluation effect	%	8.2	7.9	+0.3
Return on equity excl. revaluation effect	%	7.0	7.5	–0.5
Equity ratio as at 31 December	%	42.4	42.9	–0.5
Net gearing as at 31 December[3]	%	110.7	109.1	+1.6
Market value real estate investments	CHF million	1 898.0	1 834.3	+3.5
Sales Projects & Development Division	CHF million	617.1	469.3	+31.5
Employees (number)	full-time equivalents	244	238	+2.5
Allreal Holding AG				
Net profit	CHF million	26.4	28.4	–7.0
Share capital	CHF million	487.9	487.9	–
Share				
Earnings per share incl. revaluation gains	CHF	8.22	7.55	+8.9
Earnings per share excl. revaluation gains	CHF	7.00	7.25	–3.4
Dividend per share[4]	CHF	5.00	4.80	+4.2
Net asset value (NAV) per share before deferred tax as at 31 December	CHF	111.20	104.20	+6.7
Net asset value (NAV) per share after deferred tax as at 31 December	CHF	105.50	99.80	+5.7
Share price as at 31 December	CHF	135.50	116.00	+16.8
Dividend yield[4]	%	3.7	4.1	–0.4
Operating key figures				
Net yield real estate investments[5]	%	5.0	5.1	–0.1
Average interest rate on financial liabilities as at 31 December	%	2.72	2.79	–0.1
Operating margin Projects & Development Division[6]	%	37.0	42.2	–5.2
Valuation as at 31 December				
Market capitalisation[7]	CHF million	1 321.0	1 131.6	+16.7
Enterprise value[8]	CHF million	2 459.6	2 193.7	+12.1

[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 2006 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 SWX (symbol: ALLN, securities number 883 756).

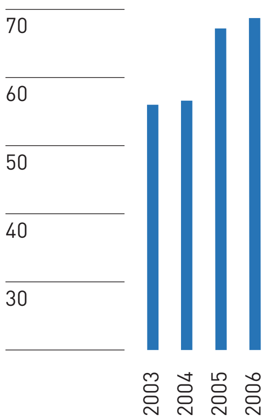
Real estate at a glance

		City of Zurich 2006	City of Zurich 2005	Remaining Canton of Zurich 2006	Remaining Canton of Zurich 2005	Other Regions 2006	Other Regions 2005	Total Real Estate 2006	Total Real Estate 2005
Portfolio									
Commercial real estate									
Number of properties		29	28	11	10	7	7	47	45
Useable floor space	’000 m²	255	254	66	64	31	31	352	349
Vacancy rate[1]	%	2.9	5.9	4.9	5.1	16.7	11.3	4.5	6.2
Rental income	CHF million	67.7	58.2	16.0	15.8	6.9	7.4	90.6	81.4
Real estate profit[2]	CHF million	55.6	47.3	14.2	14.0	5.7	6.0	75.5	67.3
Gross yield	%	5.9	6.1	6.3	6.5	5.4	5.8	5.9	6.2
Net yield[3]	%	5.4	5.1	5.6	5.8	4.3	4.7	5.0	5.2
Historical book value	CHF million	1 151.5	1 112.0	259.0	234.7	135.4	135.3	1 545.9	1 482.0
Market value	CHF million	1 199.2	1 135.6	257.2	242.7	125.4	126.9	1 581.8	1 505.2
Average market value[4]	CHF million	41.4	40.6	23.4	24.3	17.9	18.1	33.7	33.4
Change in market value[5]	CHF million	27.5	1.6	–9.8	0.2	–1.5	0.3	16.2	2.1
Land reserves									
Land	’000 m²	8	15	12	12	–	–	20	27
Estimated investment volume	CHF million	37.0	37.0	90.0	90.0	–	–	127.0	127.0
Market value	CHF million	17.0	22.2	12.1	12.1	–	–	29.1	34.3
Change in market value[5]	CHF million	0.0	0.0	0.0	–2.0	–	–	0.0	–2.0
Residential real estate									
Number of properties		4	5	14	15	3	1	21	21
Useable floor space	’000 m²	10	13	61	67	13	4	84	84
Vacancy rate[1]	%	4.2	3.9	1.6	2.6	5.3	1.9	3.8	2.9
Rental income	CHF million	3.1	3.8	12.0	13.2	1.6	1.0	16.7	18.0
Real estate profit[2]	CHF million	2.6	3.2	11.1	10.0	1.4	0.8	15.1	14.0
Gross yield	%	5.3	6.1	6.2	6.2	6.0	6.3	6.0	6.2
Net yield[3]	%	4.5	5.2	5.7	4.7	5.0	4.7	5.0	4.8
Historical book value	CHF million	42.5	61.9	181.7	200.9	49.6	15.6	273.8	278.4
Market value	CHF million	41.9	61.3	196.4	217.0	48.8	16.5	287.1	294.8
Average market value[4]	CHF million	10.5	12.3	14.0	14.5	16.3	16.5	13.7	14.0
Change in market value[5]	CHF million	0.8	–0.3	0.7	3.6	–1.7	0.6	–0.2	3.9
Real estate for development									
Land reserves									
Land	’000 m²	4.5	4.5	179.1	151.3	16.4	32.7	200.0	188.5
Investment volume	CHF million	27.0	27.0	603.0	524.0	110.0	70.0	740.0	621.0
Book value	CHF million	6.0	6.0	83.1	40.9	3.2	6.0	92.3	52.9
Buildings under construction									
Estimated investment volume	CHF million	127.0	134.5	228.0	324.0	85.0	99.0	440.0	557.5
Book value	CHF million	58.8	75.5	125.2	99.3	40.7	46.1	224.7	220.9

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 as compared to previous year

Editorial

Net profit
excl. revaluation effect
CHF million



- **Continued growth of sales and earnings**
- **Balanced portfolio with a low vacancy rate**
- **Significant growth of completed project volumes**
- **Well hedged financing**
- **Board of directors proposes higher dividends**

In 2006, Allreal again achieved a convincing result with its real estate and general contracting activities, and significantly higher total sales. Net profit including revaluation gains of CHF 80.1 million was a considerable 15.9% above the very good result reported the previous year. The outstanding result confirms the continued high competitiveness of both divisions. Operating net profit of CHF 68.2 million is even marginally higher than the previous year's result which was characterised by the completion of several large projects in the Projects & Development division. Total sales grew by 27.4% – a very satisfactory result auguring positive growth in the future.

Thanks to the CHF 175 million convertible loan placed successfully in the second quarter of 2006, Allreal has at its disposal sufficient means to finance an expansion of its real estate portfolio. As a result of the high price level of income-producing properties, Allreal will mainly finance own projects, either for integration into its portfolio or for sale at a profit.

With a price increase of 16.8% and an overall performance of 20.9%, Allreal continued to be a safe investment on the stock exchange too. At 31 December 2006 the share closed at CHF 135.50, a respectable CHF 19.50 above the year-end price recorded in 2005. Thanks to this price development, which was also favourable compared to the market as a whole, Allreal's market capitalisation at 31 December 2006 of CHF 1 321.0 million was clearly above the previous year's value.

Based on the good result and the optimistic assessment of future prospects, the Board of Directors will propose to the shareholders of Allreal Holding Ltd. a dividend increase of CHF 0.20 to CHF 5.00 per share corresponding to a cash yield of 3.7% on the year-end share price.

Real Estate and Projects & Development on a consistently high level

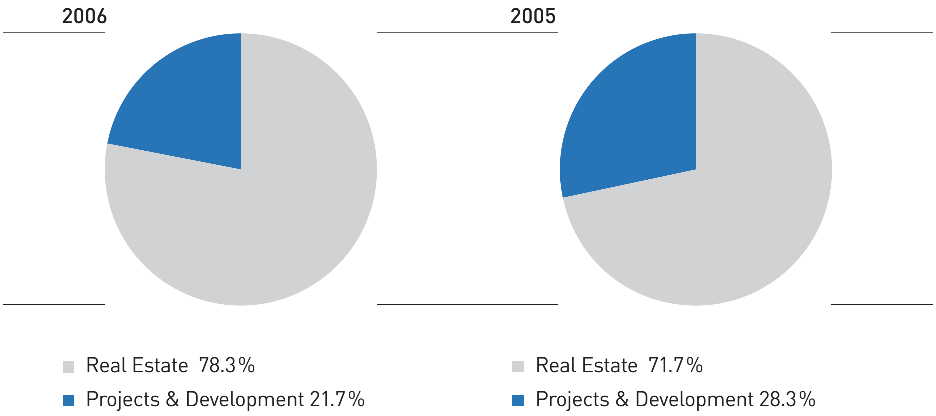
In the year under review, Allreal acquired three new properties, integrated into its own portfolio a property previously held under leasehold as well as an own project in Zurich, and profitably disinvested two residential properties and an office building. When taking into consideration the revaluation by CHF 16.0 million (before tax), the portfolio on the cut-off date included 68 income-producing buildings at a market value of CHF 1.9 billion, representing a 3.5% growth over 2006.

During the period under review, rental income grew by 8.2% to CHF 107.6 million. This is mainly due to the fact that the two commercial buildings at Vulkanstrasse and Bändliweg, incorporated into the portfolio in 2005 for the first time, had a full impact on net income. In the 2006 financial year the average net yield was reported at 5.0%, which is satisfactory when compared to the market in general and the industry in particular. The good result confirms the quality of the income-producing properties in terms of usage and tenant structure.

Despite the continuing high oversupply of office space, Allreal was able to fully let at competitive rents its newly constructed office building "Lightcube" in Opfikon with 12 000 square metres usable floor space, and two larger commercial buildings in Zurich with a total of 13 400 square metres usable floor space. As a result, the cumulative vacancy rate of the whole portfolio decreased to a pleasing 4.3%, therefore again below the industry average.

With a project volume again significantly higher than the previous year of CHF 617.1 million and a stable overall performance of CHF 68.6 million, the Project & Development division continued with the good results shown in 2005. The cycles typical for the industry and the project duration resulted in an operating profit CHF 25.3 million below that of the previous year.

The divisions' contribution toward operating profit



The high operating margin of 37% is proof of the Projects & Development division's competitiveness in an increasingly competitive market. Thanks to its proven capability to develop projects, sites and larger areas up to building stage to be sold after completion to third parties or included in the own portfolio, the Projects & Development division enjoys the best preconditions to assert itself in a highly competitive market, and to even further consolidate its strong position in the future.

Totally sound financing

Allreal is financed favourably and very soundly with a low average interest rate of 2.72% on interest-bearing debt and a constant average interest-rate pegging of 47 months. The rising interest rates experienced in 2006, therefore, had no influence on the consolidated earnings statements.

Owing to a higher operating result compared to the previous year, cash flow from operating activity rose to CHF 54.8 million.

With a net gearing of 110.7% and an interest coverage of 3.9 on the balance-sheet date, two values of high significance for sound financing remained well within the range defined by the company.

Allreal's equity ratio of 42.2% was clearly above the minimum of 35% as defined by the company. Together with the funds generated through the convertible loan, Allreal disposes of an investment volume clearly above CHF 350 million, representing considerable financial flexibility.

Good prospects for the future

Although the market conditions are demanding for both the Real Estate and the Projects & Development divisions, Allreal looks to the future with optimism. This optimism is based on the possibilities and opportunities offered by the combination of a stable-income real estate portfolio with the activities of a general contractor. In addition, the company enjoys extremely sound financing, considerable scope for manoeuvre and an order backlog of about 18 months.

In 2007, therefore, Allreal anticipates a continuation of the dividend policy repeatedly confirmed by shareholders and which is comparable to the yield expected from a direct investment in real estate.

The board of directors and group management wish to take this opportunity to thank all members of staff for their contribution to the very 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 activities of a general contractor (site and project development, project management, buying and selling properties).

Alreal'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 project management 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 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	< 70%
Dividend policy	< 75% of net profit (excl. revaluation effect)

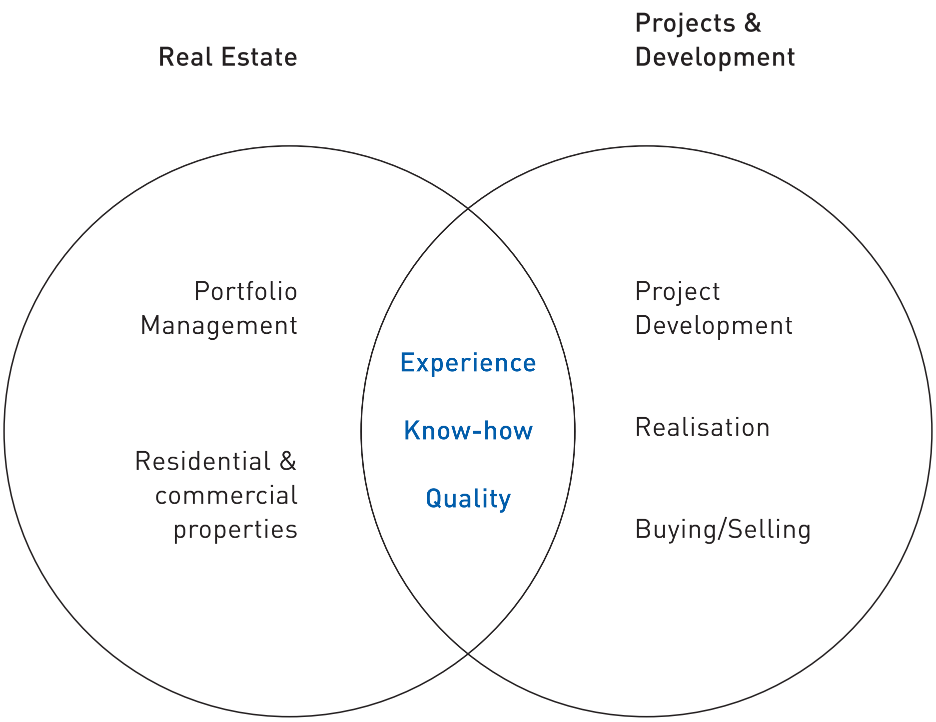
Real Estate division

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%–30% of the portfolio. Allreal consistently 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 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. 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, evaluation, drawing up agreements and consulting for sale transactions. The aim is to position the Projects & Development division as one of the three 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); Micronas Semiconductor Holding AG, Zurich (Chairman); SEZ Holding AG, Zurich, 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 and CEO of Helvetia Group

1994–2003
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

Vice 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 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

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; and 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

1990–1994
General Manager, Lips Immobilien AG

1977–1990
Positions with various real estate companies

Board member of two 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 were appointed individually for a total of three years.

Group Management

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

Member of the Board of Directors
of Eurogate AG (in liquidation)

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 net profit for the 2006 financial year of CHF 68.2 million, representing a 1.5% increase over the previous year's excellent result. Higher rental income, earnings from real estate sales and a significant contribution from general contracting compensated for higher financial and tax expenses.

Owing to the portfolio expansion experienced in 2005, rental income generated by the Real Estate division grew by 8.2% to CHF 107.6 million compared to the previous year. Rental income from continuously held commercial and residential properties remained practically unchanged (like-for-like rental growth) showing changes of 0.8% and 0.5% respectively. Net yield generated by the whole portfolio amounted to 5.0%, which is high when compared to the competition. This is due mainly to the low vacancy rate of 4.3% and stable real estate expenses amounting to 15.7% of rental income. The sale of two investment properties located on Dufourstrasse in Zurich and Heiselstrasse in Niederhasli and the part disposal of the residential property at Bäulistrasse in Zurich generated profits before tax of CHF 6.7 million.

The valuation by an external real estate valuer resulted in a positive value correction of CHF 16.0 million representing 0.9% of the portfolio's asset value. This revaluation is due to the successful re-letting of several commercial properties and to a moderate reduction of the discounting and capitalisation rates for individual properties. Deferred taxes on the whole revaluation amounted to CHF 4.1 million corresponding to a revaluation gain in the income statement of CHF 11.9 million (2005: CHF 2.8 million).

Owing to the continuing high level of incoming orders for the Projects & Development division, the completed project volume for the year under review increased significantly by 31.5% to CHF 617.1 million. As a result, income from fees and earnings from building activity grew by 6.9% compared to the previous year. By contrast, profit resulting from project development and the sale of development property is shown as CHF 5.0 million lower than in 2005 due to the fact that several own projects are still under construction and earnings are shown in the income statement only once the project has been completed. A high operating margin of 37% was reported despite higher personnel expenses. Consolidated income from general contracting amounted to CHF 68.6 million.

Owing to a higher financing requirement for the expansion of investment real estate and development real estate, net financial expenses increased by CHF 5.5 million to CHF 29.5 million. The financial expenses include the compounding effect resulting from amortising the convertible loan of CHF 1.6 million.

While tax expenses of CHF 21.6 million were higher than for the previous year and correspond to 21.2% of earnings before tax, they approximately match the applicable group tax rate of 22%. The tax increase is due to deferred tax effects resulting from the revaluation of investment properties and profits from the sale of investment properties.

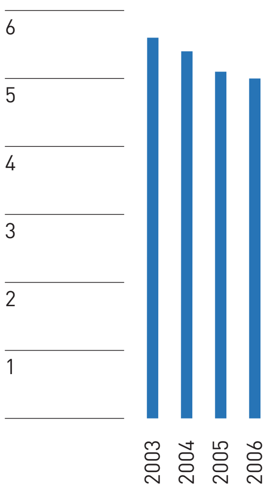
Consolidated balance sheet / statement of changes in equity
The market value of investment real estate increased by CHF 64 million to CHF 1 898 million. In total, the additions, investments in existing income-producing properties, the completion of a building under construction and the positive value correction due to revaluation all contributed toward the higher value of the real estate portfolio, which grew by CHF 115.5 million. During the period under review, three investment properties were sold for a total of CHF 51.7 million.

As expected, the portfolio of development real estate grew considerably compared to the previous year. With a balance sheet value of CHF 334.7 million at 31 December 2006, development real estate increased by CHF 55 million. Despite a demanding market environment, Allreal was able to purchase additional land for about CHF 49 million. This land represents a precondition for generating profits in the following years from project development, realisation and sales.

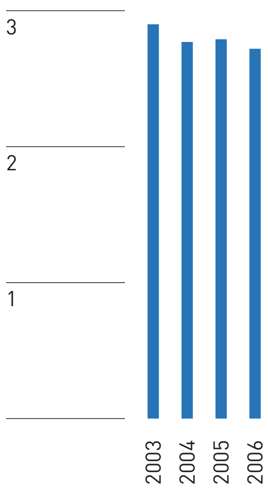
Compared to 31 December 2005, accounts receivable for sales and services grew by CHF 31 million to a total of CHF 143 million. This growth is due to the 38% growth in the volume of completed projects for third parties in the General Contracting unit.

Owing to the higher inventory of investment and development real estate, interest-bearing debt rose by CHF 73.6 million to CHF 1 152 million. As a result of increased construction activity in the Projects & Development division, short-term liabilities grew to CHF 166 million (31.12.2005: CHF 138 million).

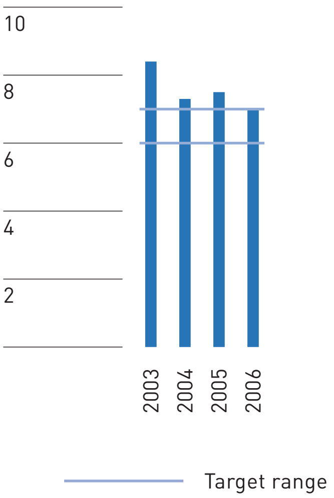
Net yield on portfolio
in percent



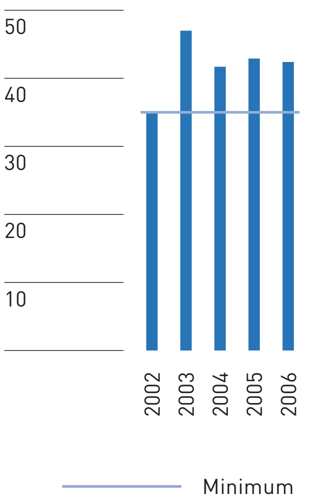
Average interest charges at 31 December 2006 in percent



Return on equity excl. revaluation
in percent



Equity ratio
in percent



Compared to the previous year, consolidated equity rose by CHF 54.9 million to CHF 1 028.7 million, thereby for the first time exceeding the one-billion-francs limit. A positive contribution was made by net profit (CHF 80.1 million), the significant advance being provided by the replacement value of derivative financial instruments (CHF 17.1 million) and a proportionate assignment of the convertible loan to equity (CHF 5.1 million). These additions to consolidated equity are contrasted with dividend payments of CHF 46.8 million and the purchase of own shares amounting to CHF 0.6 million.

The net asset value (NAV) per Allreal share grew by CHF 5.70 to CHF 105.50.

Consolidated cash flow statement

Owing to the continuing positive course of business, the operating cash flow before changes in net working capital grew significantly to CHF 95.0 million (2005: 90.8 million). When taking into consideration the reduction in net working capital by CHF 9.8 million, the cash flow amounted to CHF 104.8 million and was used to pay cost of finance (CHF 29.3 million) and tax on current income and on earnings from selling real estate (CHF 20.7 million). The result was a net inflow of liquid assets from operating activity of CHF 54.8 million.

On the investment side, the Real Estate division and the Projects & Development division tied up amounts of new capital, namely CHF 27.9 million and CHF 61.8 million respectively.

The financial means provided by the convertible bond of net CHF 171.2 million were used to finance investments and to partly repay short-term bank borrowings, which on balance decreased by CHF 91.6 million. Including the dividend payment and the purchase of own shares, net additions from financing activity amounted to CHF 32.0 million.

Financial situation

Allreal in 2006 made its first appearance as a borrower on the bond market. The 1.875 % convertible bond with a four-year term was successfully placed predominantly with institutional investors. The financial means provided by the convertible bond allow Allreal to continue with its growth strategy. The investment guidelines effective since 1 October 2006 define the maximum borrowing level on the balance sheet date in terms of four financial ratios, which at 31 December 2006 were reported as follows: equity ratio 42.4 % (at least 35 %), net gearing 110.7 % (maximum 150 %), interest coverage ratio 3.9 (at least 2.0) and borrowing level for investment and development properties 44.2 % (maximum 70 %). When taking into consideration these defined limits, a further growth of the fixed assets by CHF 350 million is possible.

In 2006, Allreal clearly surpassed the strategic return on equity (ROE) target value excluding revaluation gains by 7% (range 6%–7%). Return on equity including revaluation gains is reported at 8.2% (range 7%–10%), thus exceeding expectations.

At the end of the financial year average interest on financial liabilities amounted to 2.72% (2005: 2.79%) at an average duration of 47 months (2005: 50 months). Compared to the previous year, and despite the generally rising level of interest rates, the values continued to improve mainly due to the convertible bond's low interest coupon. 92% of the interest-bearing borrowings are effectively secured against rising interest rates by means of interest-rate swaps, fixed-date mortgage loans and a convertible bond. Should the general level of interest rates rise by one percentage point, the financial expenditure for the existing mortgage portfolio would rise by merely CHF 0.9 million. A further rise in CHF interest rates during 2007 would, therefore, not have a significant influence on Allreal's finances.

Holding report

Allreal Holding AG's profit for the 2006 financial year is reported at CHF 26.4 million (2005: CHF 28.4 million). While income from investments of CHF 22.0 million was higher than for the previous year (2005: CHF 17.0 million), the net financial result is reported at a lower CHF 6.6 million (2005: CHF 13.9 million). The financial expenses included one-time costs of CHF 3.8 million for the convertible bond issued in May 2006. The other expenses and taxes of CHF 2.2 million remained within the previous year's range.

Total assets increased by CHF 155.5 million, essentially the result of the CHF 175.0 million convertible bond. The additional funds obtained from the convertible bond were used toward financing subsidiaries in the form of group loans.

Equity at 31 December 2006 amounted to CHF 874.5 million (31.12.2005: CHF 894.9 million). This decline is the result of the dividend payment of CHF 46.8 million, as compared to the annual profit of CHF 26.4 million.

Consolidated financial statements of Allreal Group

Consolidated income statement

CHF million	2006	2005
Income from renting investment real estate	107.6	99.4
Direct expenses for rented investment real estate	–16.9	–18.1
Earnings from renting investment real estate	**90.7**	**81.3**
Earnings from sale of investment real estate	**6.7**	**0.0**
Higher valuation of investment real estate	39.9	38.2
Lower valuation of investment real estate	–23.9	–34.2
Earnings from revaluation of investment real estate	**16.0**	**4.0**
Completed project volume by Projects & Development division	617.1	469.3
Direct expenses for completed project volume by Projects & Development division	–574.4	–428.4
Earnings from project development and sale of development real estate	11.8	16.8
Capitalised company produced assets	13.3	11.5
Diverse income	0.8	1.1
Earnings from Projects & Development division	**68.6**	**70.3**
Personnel expenses	–37.7	–36.1
Other operating expense	–12.5	–11.8
EBITDA	**131.8**	**107.7**
Depreciation plant and equipment	–0.6	–0.6
Operating profit (EBIT)	**131.2**	**107.1**
Finance income	0.8	0.7
Finance expense	–30.3	–24.7
Net profit before tax	**101.7**	**83.1**
Tax expenses	–21.6	–13.1
Net profit	**80.1**	**70.0**
Total sales	724.7	568.7
EBITDA excl. earnings from revaluation	115.8	103.7
EBIT excl. earnings from revaluation	115.2	103.1
Net profit excl. revaluation effect	**68.2**	**67.2**
Net profit per share in CHF		
— incl. revaluation effect	8.22	7.55
— excl. revaluation effect	7.00	7.25
Diluted earnings per share in CHF		
— incl. revaluation effect	7.94	7.55
— excl. revaluation effect	6.80	7.25

Consolidated balance sheet as at 31 December

CHF million	2006	2005
Real estate investments	1 894.1	1 788.3
Real estate for development	317.0	273.8
Other property, plant and equipment	1.7	0.4
Financial assets	14.5	8.4
Deferred tax assets	15.6	17.6
Fixed assets	**2 242.9**	**2 088.5**
Trade receivables	143.2	112.3
Other receivables	2.8	2.6
Cash	13.3	16.2
Subtotal	159.3	131.1
Investment properties designated for sale	3.9	46.0
Development properties designated for sale	17.7	5.5
Current assets	**180.9**	**182.6**
Total assets	**2 423.8**	**2 271.1**
Share capital	487.9	487.9
Capital reserves	283.1	283.1
Treasury shares	–1.1	–0.2
Retained earnings	258.8	203.0
Total equity	**1 028.7**	**973.8**
Long-term borrowings	277.0	176.7
Deferred tax liabilities	71.1	60.2
Long-term provisions	5.7	4.4
Other long-term liabilities	0.0	16.9
Long-term liabilities	**353.8**	**258.2**
Trade payables	121.8	92.7
Current tax liabilities	1.0	9.6
Other current liabilities	41.4	33.6
Short-term borrowings	2.2	1.6
Short-term provisions	874.9	901.6
Short-term liabilities	**1 041.3**	**1 039.1**
Total liabilities	**1 395.1**	**1 297.3**
Total equity and liabilities	**2 423.8**	**2 271.1**
Equity (NAV) per share in CHF		
— before deferred tax	111.20	104.20
— after deferred tax	105.50	99.80

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 31 December 2003	**406.6**	**210.3**	**–2.1**	**–7.1**	**34.1**	**137.0**	**778.8**
Net profit						49.5	49.5
Valuation of financial instruments				–11.3			–11.3
Total profit and loss shown							38.2
Sale treasury shares		0.3	1.5				1.8
Dividend payment						–36.5	–36.5
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**
Net profit						70.0	70.0
Valuation of financial instruments				3.4			3.4
Total profit and loss shown							73.4
Capital increase 2005	81.3	72.8					154.1
Sale treasury shares			0.4				0.4
Dividend payment						–36.5	–36.5
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**
Net profit						80.1	80.1
Valuation of financial instruments				17.1			17.1
Total profit and loss shown							97.2
Purchase treasury shares			–0.9			0.3	–0.6
Dividend payment						–46.8	–46.8
Convertible bond						5.1	5.1
Reclassification					8.8	–8.8	0
As at 31 December 2006	**487.9**	**283.1**	**–1.1**	**2.1**	**31.2**	**225.5**	**1 028.7**

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

Consolidated cash flow statement

CHF million	2006	2005
Earnings before tax	101.7	83.1
Net financial expense	29.5	24.0
Revaluation real estate investments	–16.0	–4.0
Depreciation other tangible fixed assets	0.6	0.6
Change in proceeds from sale of real estate	–6.7	0.0
Capitalisation of company produced assets	–13.3	–11.5
Other items	–0.8	–1.4
Operating cash flow before change in net current assets (cash flow)	**95.0**	**90.8**
Change in trade receivables	–30.9	–36.5
Change in other receivables	–0.2	–0.9
Change in provisions	1.8	–8.4
Change in trade payables	29.1	24.5
Change in other current liabilities	10.0	5.9
Operating cash flow after changes in net current assets	**104.8**	**75.4**
Cost of finance paid	–30.3	–25.0
Financial income received	1.0	0.5
Income taxes paid	–20.7	–12.2
Cash flow from operations	**54.8**	**38.7**
Purchase of real estate investments	–86.7	–235.5
Disposal of real estate investments	58.8	0.0
Investment real estate for development	–119.1	–132.4
Disposal of real estate for development	62.4	18.1
Investment other property, plant and equipment	–1.9	–0.4
Increase financial assets	–3.6	–1.5
Decrease in financial assets	0.4	3.8
Cash flow from investing activities	**–89.7**	**–347.9**
Increase in borrowings	201.4	391.5
Decrease in borrowings	–292.9	–214.2
Capital increase	0.0	154.1
Issue convertible loan	171.2	0.0
Purchase treasury shares	–38.1	–25.9
Sale treasury shares	37.2	26.3
Dividend payment	–46.8	–36.5
Cash flow from financing activities	**32.0**	**295.3**
Cash at 1 January	16.2	30.1
Cash at 31 December	13.3	16.2
Change in cash	**–2.9**	**–13.9**

Segment Information
Year ended 31 December 2006

CHF million	Real Estate	Projects & Development	Holding functions	Eliminations/ not assigned	Total
Income statement					
Profit from operations[1]	97.3	68.7	0.0	0.0	166.0
Profit from intercompany services	–4.1	4.9	–0.7	–0.1	0.0
Revaluation on real estate investments	16.0	0.0	0.0	0.0	16.0
Expenses for staff, other	–1.6	–47.7	–0.9	0.0	–50.2
EBITDA	**107.6**	**25.9**	**–1.6**	**–0.1**	**131.8**
Depreciation and amortisation	0.0	–0.6	0.0	0.0	–0.6
EBIT	**107.6**	**25.3**	**–1.6**	**–0.1**	**131.2**
Net finance expense					–29.5
Taxes					–21.6
Net profit					**80.1**
EBITDA excl. revaluation gains	91.6	25.9	–1.6	–0.1	115.8
EBIT excl. revaluation gains	91.6	25.3	–1.6	–0.1	115.2
Net profit excl. revaluation effect					**68.2**
Operating margin[2]	94.1	37.0	–	–	69.4
Operating net cash flow[3]	81.8	24.0	–1.6	–0.1	104.1
Total third party sales	107.6	617.1	0.0	0.0	724.7
Total sales from intergroup services	0.0	7.9	0.0	–7.9	0.0
Balance sheet as at 31 December 2006					
Fixed assets	1 895.3	329.2	0.0		2 224.5
Current assets	10.1	157.3	0.1		167.5
Total segment assets	**1 905.4**	**486.5**	**0.1**		**2 392.0**
Non-assigned assets				31.8	31.8
Total assets					**2 423.8**
Provisions	0.1	7.8	0.0		7.9
Other debt capital (excl. financing taxes)	12.7	138.2	0.4		151.3
Total segment liabilities	**12.8**	**146.0**	**0.4**		**159.2**
Financial liabilities (incl. deferred interest)				1 163.8	1 163.8
Tax liabilities				72.1	72.1
Total debt					**1 395.1**
Total assigned equity[4]	**837.6**	**190.5**	**0.6**		**1 028.7**
Cost of acquisition of other tangible assets and intangible assets	0.1	4.1	0.0	–	4.2
Investments in tangible assets	86.7	121.0	0.0	–	207.7

[1] Profit from letting and selling investment real estate (Real Estate division), and profit from general contracting operations (Projects & Development division)
[2] EBIT less revaluation gains in percent of profit from operations
[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. Therefore, no geographical break-down is provided.

Segment Information
Year ended 31 December 2005

CHF million	Real Estate	Projects & Development	Holding functions	Eliminations/ not assigned	Total
Income statement					
Income from operations[1]	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[2]	92.6	42.2	–	–	68.0
Operating net cash flow[3]	70.7	29.9	–1.7	–0.2	98.7
Total third party sales	99.4	469.3	0.0	0.0	568.7
Total sales from intergroup services	0.0	49.2	0.0	–49.2	0.0
Balance sheet as at 31 December 2006					
Fixed assets	1 789.6	281.3	0.0		2 070.9
Current assets	51.2	115.1	0.1		166.4
Total segment assets	**1 840.8**	**396.4**	**0.1**		**2 237.3**
Non-assigned assets				33.8	33.8
Total assets					**2 271.1**
Provisions	0.2	5.8	0.0		6.0
Other debt capital (excl. financing taxes)	28.7	101.9	0.4		131.0
Total segment liabilities	**28.9**	**107.7**	**0.4**		**137.0**
Financial liabilities (incl. deferred interest)				1 090.5	1 090.5
Tax liabilities				69.8	69.8
Total debt					**1 297.3**
Total assigned equity[4]	**811.4**	**161.8**	**0.6**		**973.8**
Cost of acquisition of other tangible assets and intangible assets	0.1	2.2	0.0	–	2.3
Investments in tangible assets	237.5	145.3	0.0	–	382.8

[1] Profit from letting and selling investment real estate (Real Estate division), and profit from general contracting operations (Projects & Development division)
[2] EBIT less revaluation gains in percent of profit from operations
[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.

Key figures in Euro

Euro million	2006	2005
Consolidated income statement		
Total income	460.6	367.3
EBITDA	83.8	69.6
Operating profit (EBIT)	83.4	69.2
Net profit	43.3	45.2
EBIT excl. revaluation gains	73.2	66.6
Net profit excl. revaluation gains	50.9	43.4
Net profit per share incl. revaluation gains	5.22	4.88
Net profit per share excl. revaluation gains	4.45	4.68
Consolidated balance sheet as at 31 December		
Real estate investments	1 179.6	1 177.0
Other assets	326.8	280.2
Total assets	1 506.4	1 457.2
Equity	639.3	624.8
Borrowings	715.9	691.9
Other liabilities	151.2	140.5
Net Asset Value (NAV) per share	65.57	64.04
Consolidated cash flow statement		
Cash flow before change in net current assets	60.4	58.6
Cash flow from operations	34.8	25.0
Cash flow from investing activities	–57.0	–224.7
Cash flow from financing activities	20.3	190.7
Company valuations		
Market capitalisation	821.0	726.1
Enterprise value	1 528.7	1 407.6
Exchange rates EUR/CHF		
Average rate for income statement/cash flow statement	1.5735	1.5485
Year-end rate for balance sheet/valuations	1.6090	1.5585

Organisation, contacts, schedule

Organisation chart

Allreal Group
Bruno Bettoni

Finance & Controlling
Roger Herzog

Communication
Matthias Meier

Human Resources
Barbara Glättli

Real Estate
Hans Engel

Projects & Development
Bruno Bettoni

Portfolio Management
Dieter Kräuchi

Acquisition/Project Development
Thomas Stauber

Realisation
Patrick Krähenmann

Buying/Selling
Eugen Bentele

Structure and addresses

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Allreal Finance AG

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Allreal Home AG

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Allreal Office AG
Allreal Vulkan AG
Allreal West AG

Eggbühlstrasse 15
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T 044 319 11 11

Allreal Generalunternehmung AG
Allreal Markthalle AG

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Matthias Meier Chief Communication Officer	T 044 319 12 67 F 044 319 15 30 matthias.meier@allreal.ch

Schedule

Annual general meeting 2007	30 March 2007, 16.00 h Kaufleutensaal Pelikanplatz 8001 Zurich
Half-year results 2007	30 August 2007
Annual results 2007	21 February 2008
Annual general meeting 2008	28 March 2008

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