

Projects & Development division

The Projects & Development division's area of activity includes the development and realisation of construction projects for third parties, for sale to third parties and for Allreal's own portfolio. The earnings produced from general contracting in the year under review amounted to CHF 84.0 million.

This result is 6.6% above that reported for the previous year and is characterised, especially, by the profits realised in 2016 from the sale of development real estate. The Guggach project in Zurich Unterstrass accounts for a large part of the earnings derived from sales amounting to CHF 34.6 million (2015: CHF 18.0 million).

The profitable execution of projects for third parties significantly contributed to this gratifying result.

Due to the low number of own projects implemented in the period under review, fees from construction activity of own projects in the form of capitalised internally generated performance were reported lower than the previous year, as expected.

Of the total earnings from general contracting, CHF 40.7 million or 48.5% is accounted for by own projects (2015: CHF 29.5 million/37.4%), and CHF 43.3 million or 51.5% by third-party projects (2015: CHF 49.3 million/62.6%). Due to the realisation of the Bülachguss own project, the share of third-party projects is expected to decline in the medium term.

Operating expenses in the year under review are reported as CHF 54.8 million, or 10.3% below that of the previous year (2015: CHF 61.1 million). The significant decrease in operating expenses is due mainly to the adjustment of the number of employees to the lower project volume.

Higher earnings and lower personnel expenditure resulted in earnings before interest and taxes (EBIT) for the Projects & Development division of CHF 34.4 million, or 59.3% above that of the previous year.

Net profit of the division for the year under review amounted to gratifying CHF 21.4 million (2015: CHF 13.6 million).

Project Development

In 2016, the Project Development department worked on own and third-party projects representing a consistently high order volume of several hundred million francs. The department's continuing successful development activity contributed to the Realisation department's capacity utilisation by means of profitable projects. It contributed to the growth of Allreal's own portfolio by means of properties that are profitable across the long term and by the cost-effective sale of development real estate to third parties.

The Bülachguss site development was transferred to the Realisation department in the period under review as it was ready for implementation. In cooperation with the local authorities, the department in 2012 began developing a concept for an urban quarter on a former industrial site in Bülach-Nord. The concept provides for some 490 apartments for rent and ownership as well as commercial space for offices and trade. At the end of 2016, all of the five

construction projects as well as the conversion and extension of an existing building were given planning permission of which a part has not yet come into force owing to appeals. Moreover, in the fourth quarter of 2016, purchase agreements for a large section of the project were signed with an institutional investor. This investor will take over three new construction projects comprising 343 rental apartments as well as all of the office, trade and retail areas. Allreal will transfer one of the projects comprising 76 rental apartments to its own portfolio and another project, with 73 apartments, is earmarked for sale as condominiums.

On a section of the Escher-Wyss-Areal in Zurich-West, Allreal plans to replace by a new building a commercial block no longer up-to-date in terms of structure and energy-related aspects. In the fourth quarter of 2016, an architectural study contract was launched among eight participating firms of architects to ensure high quality of the building to be developed in terms of economic, architectural and urban-planning aspects. Competition judging is scheduled for the first half of 2017. Allreal expects construction of the building to start in 2018.

The development of a residential complex with an investment volume of approximately CHF 55 million on a site secured in the year under review in Winterthur-Seen ZH has been initiated.

The following project developments were begun or significantly processed in the 2016 financial year:

Postareal/Bahnhofstrasse*	Office, trade	Baden AG
Neuwiesen-Areal*	Residential, commercial	Dielsdorf ZH
Bäuler	Office, trade	Rümlang ZH
Delta-Areal*	Residential	Solothurn
Poststrasse*	Commercial	Zurich City
Grünhof-Areal	Residential, office, trade	Zurich Aussersihl
Am Chatzenbach*	Residential	Zurich Seebach

* On behalf of third party

The following project developments were completed and transferred to the external client or to the Realisation department in the 2016 financial year:

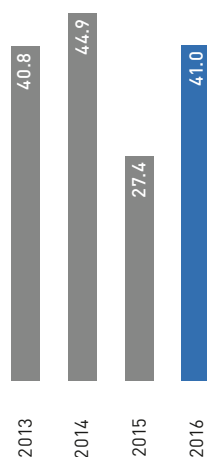
Kirschblütenweg	Residential condominium	Basel
Berglistrasse*	Residential	Bülach ZH

* On behalf of third party

Realisation

The project volume completed by the Realisation department in the 2016 financial year amounted to CHF 493.7 million. The 19.4% decline compared to the previous year is due mainly to Allreal's limitation to third-party projects with a calculable risk, realistic schedules and existing profit potential. In addition, a clearly lower number of own projects and development projects was executed in the period under review compared to previous years. An annual project volume of approximately 500 million francs geared to the proven

Operating margin
Projects & Development division
in percent



procedures and existing resources will secure profitability and the high level of execution quality.

The share of third-party projects in the completed project volume worked on in the year under review amounted to CHF 414.7 million or 84.0% (2015: CHF 467.0 million/76.2%), that of own projects to CHF 51.9 million or 10.5% (2015: CHF 75.4 million/12.3%) and that of development projects for sale to third parties to CHF 27.1 million or 5.5% (2015: CHF 70.5 million/11.5%).

Of the entire volume of about 80 projects completed by Allreal in the period under review, CHF 353.4 million or 71.6% applied to new construction projects (2015: CHF 414.3 million/67.6%) and CHF 140.3 million or 28.4% to renovation and conversion projects (2015: CHF 198.6 million/32.4%).

The order backlog as at 31 December 2016 secured by projects for third parties, own projects and development projects amounting to CHF 702 million corresponds to a capacity utilisation of over twelve months on average.

Projects completed in the 2016 financial year

On land formerly used as a duty-free warehouse in Zurich Albisrieden and measuring 70,500 square metres, Allreal completed for Zürcher Freilager AG a residential complex comprising 800 rental apartments, 200 rooms for student accommodation and space for office, trade and gastronomy purposes. The project with a construction volume of approximately CHF 350 million comprises ten six-to-twelve-storey buildings and the renovation and extension of two existing buildings. This is Allreal's largest third-party construction project to date. To ensure the required quality and meeting of deadlines, more than 20 construction supervisors and project supervisors were retained. The complex was awarded the certificate for 2000 watt complexes in September 2016. In the year under review, the project, which was begun in 2013, was transferred on schedule in several steps to the owners.

The following projects were completed in the period under review:

Refurbishment apartment buildings Fasanenstrasse	Basel
Construction residential complex Moosholzriesen	Egnach TG
Refurbishment residential complex Sonnenmatt	Gattikon ZH
Construction condominiums Pfruendmatt	Mettmenstetten ZH
Construction condominiums Stauffacher*	Steinen SZ
Construction apartment building Mitteldorf	Unterentfelden ZH
Refurbishment residential complex Grindelstrasse	Volketswil ZH
Construction residential complex LAC	Wädenswil ZH
Refurbishment residential complex Flurstrasse	Zurich Albisrieden
Refurbishment office building Zur Bastei	Zurich City
Extension and conversion university hospital Balgrist	Zurich Hottingen
Conversion residential and office building Am Kirchenweg	Zurich Riesbach
Construction condominiums Guggach*	Zurich Unterstrass
Refurbishment office building head office MAN*	Zurich-West
Construction residential and commercial building Schiffbaustrasse*	Zurich-West
Construction residential complex Am Oeschbrig	Zurich Witikon

* Own project

Current Projects

In Ebikon, Canton of Lucerne, Allreal constructed three Minergie-standard apartment buildings five to seven storeys high for EbiSquare AG. The complex comprises 191 rental apartments and a basement parking garage with 140 parking spaces. Construction of the residential complex designed as a perimeter-edge block at a cost of about CHF 50 million began in November 2015. Completion is planned for autumn 2017.

On four floors above street level, the Bodan residential and commercial building in Romanshorn, Canton of Thurgau, comprises 50 rental apartments, street-level retail and trade areas and a two-level parking garage with 135 parking spaces. The construction sum of the project started in mid-2015 amounts to approximately CHF 33 million. The design of the complex is based on the winning project in an architects' and investors' competition implemented by Allreal in 2012 on behalf of the town council of Romanshorn. Allreal sold the development project in 2015 to an institutional investor. Completion is scheduled for 2018.

Projects started in 2016

As a total contractor, Allreal is currently putting up four eight-storey apartment buildings for Piazza Immobilien AG near Wallisellen railway station comprising a total of 218 rental apartments, service and trade areas at street level and a basement parking garage with 213 parking spaces. The construction sum amounts to over CHF 80 million, and the project is scheduled for completion in June 2018.

Construction of the Fanglethenstrasse project in Bülach-Nord on behalf of Allreal's own portfolio was begun in October 2016. The four four-storey apartment buildings comprising 76 reasonably priced rental apartments represent the first of six projects of the Bülachguss site development. The arrangement of the ensemble of buildings on land measuring 11,230 square metres and bordering a forest guarantees high quality of living and leisure activities. The future yield-producing property will remain in the portfolio of investment real estate under construction until such time as construction will have been completed at the end of 2018.

Further projects taken up in the year under review include:

Construction residential and commercial building Am Bahnhofplatz	Aarau
Construction residential complex Mattenweg	Aarwangen BE
Construction condominiums Kirschblütenweg*	Basel
Construction residential complex Wohnenplus/Bergli	Bülach ZH
Construction residential complex Finkhubel	Burgdorf BE
Construction residential complex Brandriet	Effretikon ZH
Construction apartment buildings Würzenbachmatte	Luzern
Construction nursing home Im Spiegel	Rikon ZH
Refurbishment residential complex Dennlerstrasse	Zurich Albisrieden
Total restoration residential complex Kanzleistrasse	Zurich Aussersihl
Construction gymnastics hall Grütli	Zurich Enge
Construction apartment building Roswiesenstrasse	Zurich Schwamendingen

* Own project

Sale of development real estate

Owing to the over-supply of higher-end apartments and increasingly also of apartments in the medium-priced segment, the sale of residential ownership remained exceedingly demanding. Nevertheless, the development of sales in the period under review was gratifying.

In the 2016 financial year, Allreal sold 74 residential units for a total of CHF 232.1 million (2015: 86 units/126.3 million). The connected profit amounted to CHF 34.6 million (2015: 18.0 million), of which CHF 24.1 million is attributable to the Guggach project in Zurich Unterstrass.

All units in the three projects of Cholplatz in Bülach ZH, Pfruendmatt in Mettmenstetten ZH and Kirschblütenweg in Basel were sold by the cut-off date.

Moreover, in 2016 the last units of the completed projects Holengass in Meilen ZH and Escherhof in Wallisellen ZH were sold.

On the cut-off date, a total of 13 residential units remained unsold in three projects, namely Lerchenbergstrasse in Erlenbach ZH, Guggach in Zurich Unterstrass and Stauffacher in Steinen SZ, of which 13 were ready for occupation (31.12.2015: 87/28).

		Number of units	Of which sold by end 2016	Of which transferred by end 2016	Ready for occupancy
Lerchenbergsterasse	Erlenbach ZH	39	35	33	Q1 2014
Guggach	Zurich Unterstrass	197	189	174	Q1 2016
Pfruendmatt	Mettmenstetten ZH	35	35	28	Q2 2016
Stauffacher	Steinen SZ	18	17	16	Q1 2017
Kirschblütenweg	Basel	12	12	0	Q1 2018

In 2016, the Project & Development division reported net profit of CHF 21.4 million, representing a contribution toward Group net profit excluding revaluation gains of 18.6%.