Consolidated statement of comprehensive income

Rental income in the Real Estate division decreased by 0.9% to CHF 173.3 million despite a decline in vacancies owing to property sales. Like-for-like rental growth came to –0.85%. The cumulative vacancy rate was reduced by 2.4 percentage points to 5.1% of target rental income. Combined with lower real estate expenses, the net yield rose to 4.4%.

The sale of four yield-producing properties for CHF 100.4 million resulted in a book gain totalling CHF 5.6 million, which is 6% more than the market values as at 31 December 2015.

The valuation of investment real estate led to a strong upward revaluation of CHF 85.0 million, with all real estate categories achieving positive results. Persisting pressure on yields led to a further sharp decrease in discount and capitalisation rates by an average of 31 basis points and was the main driver behind the revaluations result.

With a completed project volume of CHF 493.7 million, the Projects & Development division reported income from business activity of CHF 84.0 million. As a result of the 19.4% fall in the completed project volume, fee income and earnings from construction activity decreased to CHF 48.8 million. The sale of development real estate generated a profit before tax of CHF 34.6 million. In terms of the sales prices achieved, this resulted in a gross margin of 14.9%.

Operating expenses decreased year-on-year by 10.4% to CHF 62.2 million, which is largely attributable to the lower headcount.

As in the previous year, net financial expense (CHF 37.7 million) was additionally impacted by negative interest problems, namely negative interest of CHF 5.2 million and an ineffective portion of the change in the market value of interest rate swaps amounting to CHF 4.2 million. The early termination of all interest rate swaps in December 2016 means that all related expenses in the following years are plannable since the hedging reserves in equity can be released to the income statement over the next four years.

Operating tax expense of CHF 30.7 million represented 21.5% of net profit before revaluation and tax. Of this amount, CHF 23.1 million was attributable to current taxes and CHF 7.6 million to deferred taxes. CHF 23.6 million in deferred taxes was charged to the income statement from the revaluation of investment real estate, corresponding to approximately 28% of the revaluation effect.

Consolidated balance sheet

As against the previous year's balance sheet cut-off date, total assets were down by CHF 143.1 million to CHF 3992.9 million, which was essentially due to the significant decline in development real estate balance sheet positions and trade receivables. At the same time, interest-bearing financial liabilities were also lower.
As at 31 December 2016, the market value of the investment real estate amounted to CHF 3574.5 million. The 1.4% increase in the value of the real estate portfolio was attributable to revaluation (2.4 percentage points) and changes in inventory (–1.0 percentage point).

As at the balance sheet cut-off date, the book value of the development real estate amounted to CHF 165.7 million. The reason for the sharp year-on-year decline is the large number of properties whose ownership was transferred to third parties in the year under review (CHF –232.1 million).

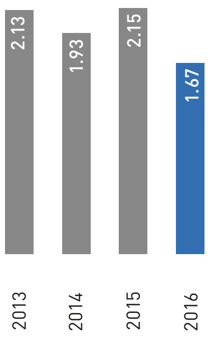
Interest-bearing financial assets (prefinanced tenant fit-outs) decreased by CHF 6.6 million to CHF 136.8 million, 91% of which was attributable to the canton of Zurich as the largest debtor.

As at the balance sheet cut-off date, deferred taxes amounted to CHF 157.9 million net, representing a year-on-year increase of CHF 36.7 million, due mainly to the upward valuation of investment real estate and the associated tax effects.

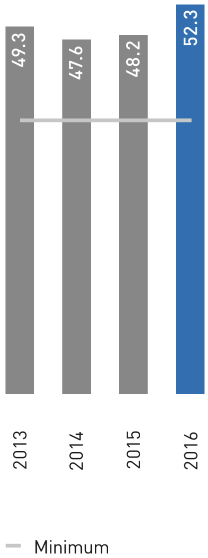
During the period under review, equity increased by CHF 92.7 million to CHF 2.09 billion. Consequently, net asset value (NAV) per share after deferred tax rose by CHF 5.65 to CHF 131.00.

Net yield
investment real estate
in percent

Average interest costs
as at 31 December in percent



Equity ratio
as at 31 December in percent



Consolidated cash flow statement

Owing to a significantly higher cash flow from operating activities of CHF 174.4 million and a massive CHF 347.7 million reduction in net working capital, the exceptionally high net financing costs (CHF –97.7 million) and current taxes (CHF –25.4 million) could be defrayed. This resulted in a cash flow from operating activities of CHF 246.7 million.

Investments in investment properties stood at CHF 50.0 million, as against divestments of CHF 98.8 million in this investment category. A purchase price of CHF 39.3 million was paid for the acquisition of 100% of the shares of Bülachguss AG, CHF 4.1 million of which was cash and cash equivalents. Taking into account the remaining investments (CHF 3.6 million), this resulted in a total cash flow from investing activities of CHF 17.2 million.

Borrowings decreased by CHF 177.1 million. Factoring in the payout of reserves from capital contributions (CHF –91.6 million) and the decrease in treasury shares (CHF 2.8 million) produced a net cash outflow from financing activities of CHF –265.9 million.

The decrease in cash between the two balance sheet cut-off dates amounted to CHF 2.0 million.

Financial situation

The investment and financing guidelines and the borrowing level stipulated by the credit agreements with the banks were complied with for the entire period under review. As at 31 December 2016, the consolidated equity ratio amounted to 52.3% (minimum 35%), net gearing 75.7% (maximum 150%), the interest coverage ratio 4.8 (minimum 2.0) and the borrowing level against investment and development real estate 42.8% (maximum 70%).

As at the balance sheet cut-off date, average interest on financial liabilities was 1.67%, with a slightly shorter interest lock-in period of 36 months owing to the termination of interest rate swaps. During the period under review, net financial debt decreased significantly as a result of the repayment of financial liabilities in an amount of around CHF 177 million.

In the first half of 2016, the low interest rate environment was leveraged to issue a 0.625% bond with the same par value as the 2.50% CHF 150 million bond issue due in May 2016.

The financing strategy envisages refinancing roughly half of all financial liabilities via the capital market in future. As at the balance sheet cut-off date, there were five bond issues outstanding totalling CHF 645 million, corresponding to 40.3% of all financial liabilities.