Consolidated financial statements of Allreal Group

Consolidated statement of comprehensive income

CHF million	Note	2016	2015
Income from renting investment real estate	3.1	173.3	174.9
Income from real estate management services	3.3	4.7	6.1
Income from realisation Projects & Development	3.5	414.7	467.0
Income from sales Development	3.5	232.1	126.3
Diverse income	3.5	0.6	0.9
Operating income		**825.4**	**775.2**
Direct expenses for rented investment real estate	3.2	–24.4	–31.8
Direct expenses from realisation Projects & Development	3.5	–372.0	–418.6
Direct expenses from sales Development	3.5	–197.5	–108.3
Direct operating expenses		**–593.9**	**–558.7**
Personnel expenses	3.6, 3.11	–49.4	–55.5
Other operating expenses	3.7	–12.8	–13.9
Operating expenses		**–62.2**	**–69.4**
Capitalised company-produced assets	3.5	**6.1**	**11.5**
Earnings from sale of investment real estate	3.4	**5.6**	**21.1**
Higher valuation of yield-producing properties	4.1	108.4	54.0
Lower valuation of yield-producing properties	4.1	–30.1	–52.0
Higher valuation of investment real estate under construction	4.1	8.6	13.8
Lower valuation of investment real estate under construction	4.1	–1.9	0.0
Earnings from revaluation of investment real estate		**85.0**	**15.8**
EBITDA		**266.0**	**195.5**
Depreciation other property, plant and equipment	4.3	–0.4	–0.4
Depreciation intangible assets	4.6	0.0	–1.9
Operating profit (EBIT)		**265.6**	**193.2**
Financial income	3.8	1.8	1.8
Financial expenses	3.9	–39.5	–43.6
Earnings before tax		**227.9**	**151.4**
Tax expenses	5.1	–54.3	–29.5
Net profit		**173.6**	**121.9**
Items subsequently restated in profit or loss statement:			
Valuation of financial instruments	5.4.3	17.9	1.5
Deferred taxes resulting from valuation of financial instruments	5.4.3	–3.9	–0.3
Items not subsequently restated in profit or loss statement:			
Changes in employee benefits	3.11	–7.9	11.4
Deferred taxes from changes in employee benefits	3.11	1.7	–2.5
Other comprehensive income		**7.8**	**10.1**
Total comprehensive income		**181.4**	**132.0**
Earnings per share in CHF	3.10	10.90	7.66
Diluted earnings per share in CHF	3.10	10.90	7.65[1]

[1] figure restated following change in calculation of diluted earnings per share; see 1.3

Consolidated balance sheet

CHF million	Note	31.12.2016	31.12.2015
Yield-producing properties	4.1	3 505.0	3 475.3
Investment real estate under construction	4.1	69.5	49.9
Other property, plant and equipment	4.3	1.1	1.6
Financial assets	4.4	136.8	143.4
Intangible assets	4.6	0.2	0.0
Deferred tax assets	5.1	34.6	42.2
Non-current assets		**3 747.2**	**3 712.4**
Development real estate	4.2	165.7	295.5
Trade receivables	4.7	55.3	96.4
Other receivables	4.8	3.3	8.3
Cash	4.9	21.4	23.4
Current assets		**245.7**	**423.6**
Assets		**3 992.9**	**4 136.0**
Share capital	4.10	797.1	797.1
Capital reserves		141.1	232.7
Treasury shares	4.10	–1.7	–4.4
Retained earnings		1 150.3	968.7
Equity		**2 086.8**	**1 994.1**
Long-term borrowings	4.11	917.7	774.1
Deferred tax liabilities	5.1	192.5	163.4
Long-term provisions	4.12	15.2	7.2
Other long-term liabilities	4.13	0.0	71.8
Long-term liabilities		**1 125.4**	**1 016.5**
Trade payables	4.14	55.5	62.7
Prepayments for development real estate	4.15	6.8	24.1
Current tax liabilities	5.1	7.4	9.1
Other current liabilities	4.16	22.2	21.9
Short-term provisions	4.12	5.8	4.1
Short-term borrowings	4.11	683.0	1 003.5
Short-term liabilities		**780.7**	**1 125.4**
Liabilities		**1 906.1**	**2 141.9**
Equity and liabilities		**3 992.9**	**4 136.0**

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 2014	**797.1**	**320.2**	**–0.1**	**–50.6**	**85.1**	**802.3**	**1 954.0**
Net profit						121.9	121.9
Valuation of financial instruments				1.2			1.2
Changes in employee benefits						8.9	8.9
Total comprehensive income				1.2		130.8	132.0
Purchase treasury shares			–27.6				–27.6
Sale treasury shares			23.1			–0.1	23.0
Payout of reserves from capital contributions		–87.5					–87.5
Share-based reimbursement			0.2				0.2
Reclassification					31.3	–31.3	0.0
As at 31 December 2015	**797.1**	**232.7**	**–4.4**	**–49.4**	**116.4**	**901.7**	**1 994.1**
Net profit						173.6	173.6
Valuation of financial instruments				14.0			14.0
Changes in employee benefits						–6.2	–6.2
Total comprehensive income				14.0		167.4	181.4
Purchase treasury shares			–18.3				–18.3
Sale treasury shares			20.9			0.2	21.1
Payout of reserves from capital contributions		–91.6					–91.6
Share-based reimbursement			0.1				0.1
Reclassification					76.5	–76.5	0.0
As at 31 December 2016	**797.1**	**141.1**	**–1.7**	**–35.4**	**192.9**	**992.8**	**2 086.8**

Capital reserves represent the amount (premium) earned by shareholders over and above the nominal value on subscription of share capital of Allreal Holding AG after deduction of the corresponding issue costs.

For further comments on the treatment of hedging reserves and revaluation reserves see 2.2 and 2.9.

Consolidated cash flow statement

CHF million	Note	**2016**	2015
Net profit before tax		227.9	151.4
Net financial expenses	3.8, 3.9	37.7	41.8
Earnings from revaluation of investment real estate	4.1	–85.0	–15.8
Depreciation other property, plant and equipment	4.3	0.4	0.4
Depreciation intangible assets	4.6	0.0	1.9
Earnings from sale of investment real estate	3.4	–5.6	–21.1
Capitalisation of company produced assets in development real estate	3.5	–2.5	–10.2
Share-based reimbursement	3.12	0.1	0.2
Change in pension fund obligations affecting net income	3.11	0.7	1.5
Other items		0.7	2.2
Change in development real estate		163.8	13.5
Change in trade receivables		41.1	–20.6
Change in other receivables		5.0	–0.4
Change in provisions		9.7	–2.5
Change in trade payables		–7.2	–16.8
Change in down payments for development real estate		–17.3	–2.7
Change in other current liabilities		0.3	–24.1
Cost of finance paid		–99.5	–38.0
Financial income received		1.8	1.7
Income tax paid		–25.4	–28.7
Cash flow from operating activities		**246.7**	**33.7**
Investment in yield-producing properties	4.1	–18.2	–73.4
Proceeds from sale of yield-producing properties	4.1	98.8	115.3
Investment in investment real estate under construction	4.1	–31.8	–16.7
Divestment of investment real estate under construction	4.1	0.0	0.0
Acquisition of other property, plant and equipment	4.3	–0.1	–0.4
Divestment of other property, plant and equipment	4.3	0.0	0.0
Investment in intangible assets	4.6	–0.2	0.0
Divestment of intangible assets	4.6	0.0	0.0
Purchase of companies (purchase price minus cash)	4.5	–35.2	0.0
Increase financial assets	4.4	–4.5	–11.2
Decrease in financial assets	4.4	8.4	9.1
Cash flow from investing activities		**17.2**	**22.7**
Increase in borrowings		205.0	159.0
Decrease in borrowings		–381.5	–353.2
Issue of bond loan	4.11	149.4	221.1
Repayment bond loan	4.11	–150.0	0.0
Purchase treasury shares		–18.3	–27.6
Sale treasury shares		21.1	23.3
Payout of reserves from capital contributions		–91.6	–87.5
Cash flow from financing activities		**–265.9**	**–64.9**
Change in cash		**–2.0**	**–8.5**
Cash at 1 January	4.9	23.4	31.9
Cash at 31 December	4.9	**21.4**	**23.4**

Segment information for the year ended 31 December 2016

CHF million	Real estate	Projects & Development	Total segments	Holding/ eliminations	Total
Income statement					
Operating income	178.0	647.4	825.4	0.0	825.4
Profit from intercompany services	–5.0	5.6	0.6	–0.6	0.0
Direct operating expenses	–24.4	–569.5	–593.9	0.0	–593.9
Operating expenses	–6.2	–54.8	–61.0	–1.2	–62.2
Capitalised company-produced assets	0.0	6.1	6.1	0.0	6.1
Earnings from sale of investment real estate	5.6	0.0	5.6	0.0	5.6
Earnings from revaluation of investment real estate	85.0	0.0	85.0	0.0	85.0
EBITDA	**233.0**	**34.8**	**267.8**	**–1.8**	**266.0**
Depreciation and amortisation	0.0	–0.4	–0.4	0.0	–0.4
Operating profit (EBIT)	**233.0**	**34.4**	**267.4**	**–1.8**	**265.6**
Financial income	1.8	0.0	1.8	0.0	1.8
Financial expenses	–37.3	–2.2	–39.5	0.0	–39.5
Tax expenses	–42.6	–10.8	–53.4	–0.9	–54.3
Net profit	**154.9**	**21.4**	**176.3**	**–2.7**	**173.6**
EBITDA excl. revaluation gains	148.0	34.8	182.8	–1.8	181.0
Operating profit (EBIT) excl. revaluation gains	148.0	34.4	182.4	–1.8	180.6
Net profit excl. revaluation effect	**93.5**	**21.4**	**114.9**	**–2.7**	**112.2**
Operating margin in percent[1]	93.0	41.0	75.0	0.0	74.3
Rental income and income from real estate management	178.0	0.0	178.0	0.0	178.0
Completed project volume third-party projects	0.0	414.7	414.7	0.0	414.7
Completed project volume own projects	0.0	79.0	79.0	0.0	79.0
Total sales (according to internal reporting)	178.0	493.7	671.7	0.0	671.7
less sales from intercompany services	0.0	–51.8	–51.8	0.0	–51.8
Total sales to third parties (according to internal reporting)	0.0	441.9	441.9	0.0	441.9
plus reconciliation item external reporting[2]	0.0	204.9	204.9	0.0	204.9
Diverse income	0.0	0.6	0.6	0.0	0.6
Operating income	178.0	647.4	825.4	0.0	825.4
Balance sheet as at 31.12.2016					
Non-current assets	3 743.0	4.2	3 747.2	0.0	3747.2
Current assets	11.0	232.3	243.3	2.4	245.7
Total assets	**3 754.0**	**236.5**	**3 990.5**	**2.4**	**3 992.9**
Provisions	0.0	21.0	21.0	0.0	21.0
Other debt (excl. financing and taxes)	12.9	71.6	84.5	0.0	84.5
Financial liabilities	1 561.4	39.3	1 600.7	0.0	1 600.7
Tax liabilities	189.8	10.0	199.8	0.1	199.9
Total debt	**1 764.1**	**141.9**	**1 906.0**	**0.1**	**1 906.1**
Total assigned equity[3]	**1 989.9**	**94.6**	**2 084.5**	**2.3**	**2 086.8**
Investment in non-current assets	54.5	0.3	54.8	0.0	54.8

[1] EBIT less revaluation gains in percent of income from business activity (balance of operating income, direct operating expenses, capitalised company-produced assets and earnings from sale of investment real estate)
[2] See 2.7 for an explanation of the reconciliation item
[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 Group operates in Switzerland only. A geographical breakdown of sales and non-current assets is therefore not required.

Segment information for the year ended 31 December 2015

CHF million	Real estate	Projects & Development	Total segments	Holding/ eliminations	Total
Income statement					
Operating income	181.0	594.2	775.2	0.0	775.2
Profit from intercompany services	–4.8	5.4	0.6	–0.6	0.0
Direct operating expenses	–31.8	–526.9	–558.7	0.0	–558.7
Operating expenses	–7.4	–61.1	–68.5	–0.9	–69.4
Capitalised company-produced assets	0.0	11.5	11.5	0.0	11.5
Earnings from sale of investment real estate	21.1	0.0	21.1	0.0	21.1
Earnings from revaluation of investment real estate	15.8	0.0	15.8	0.0	15.8
EBITDA	**173.9**	**23.1**	**197.0**	**–1.5**	**195.5**
Depreciation and amortisation	–0.8	–1.5	–2.3	0.0	–2.3
Operating profit (EBIT)	**173.1**	**21.6**	**194.7**	**–1.5**	**193.2**
Financial income	1.8	0.0	1.8	0.0	1.8
Financial expenses	–40.2	–3.4	–43.6	0.0	–43.6
Tax expenses	–26.9	–4.6	–31.5	2.0	–29.5
Net profit	**107.8**	**13.6**	**121.4**	**0.5**	**121.9**
EBITDA excl. revaluation gains	158.1	23.1	181.2	–1.5	179.7
Operating profit (EBIT) excl. revaluation gains	157.3	21.6	178.9	–1.5	177.4
Net profit excl. revaluation effect	**95.6**	**13.6**	**109.2**	**0.5**	**109.7**
Operating margin in percent[1]	92.4	27.4	71.8	0.0	71.2
Rental income and income from real estate management	181.0	0.0	181.0	0.0	181.0
Completed project volume third-party projects	0.0	467.0	467.0	0.0	467.0
Completed project volume own projects	0.0	145.9	145.9	0.0	145.9
Total sales (according to internal reporting)	181.0	612.9	793.9	0.0	793.9
less sales from intercompany services	0.0	–75.7	–75.7	0.0	–75.7
Total sales to third parties (according to internal reporting)	0.0	537.2	537.2	0.0	537.2
plus reconciliation item external reporting[2]	0.0	56.1	56.1	0.0	56.1
Diverse income	0.0	0.9	0.9	0.0	0.9
Operating income	181.0	594.2	775.2	0.0	775.2
Balance sheet as at 31.12.2015					
Non-current assets	3 709.9	2.5	3 712.4	0.0	3 712.4
Current assets	8.2	411.8	420.0	3.6	423.6
Total assets	**3 718.1**	**414.3**	**4 132.4**	**3.6**	**4 136.0**
Provisions	0.0	11.3	11.3	0.0	11.3
Other debt (excl. financing and taxes)	88.9	91.6	180.5	0.0	180.5
Financial liabilities	1 638.7	138.9	1 777.6	0.0	1 777.6
Tax liabilities	164.6	6.8	171.4	1.1	172.5
Total debt	**1 892.2**	**248.6**	**2 140.8**	**1.1**	**2 141.9**
Total assigned equity[3]	**1 825.9**	**165.7**	**1 991.6**	**2.5**	**1 994.1**
Investment in non-current assets	101.3	0.4	101.7	0.0	101.7

[1] EBIT less revaluation gains in percent of income from business activity (balance of operating income, direct operating expenses, capitalised company-produced assets and earnings from sale of investment real estate)
[2] See 2.7 for an explanation of the reconciliation item
[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 Group operates in Switzerland only. A geographical breakdown of sales and non-current assets is therefore not required.

Notes to the consolidated financial statements

1 Basic principles

1.1 Business activities

Allreal Group is a real estate company which operates exclusively in Switzerland with the main focus on the Zurich business region. It is involved in the development and management of its portfolio of residential and commercial real estate and engages in management activities both for its own yield-producing properties and on behalf of third parties (Real Estate division). The general contractor activities encompass project development and the realisation, purchase and sale of properties (Projects & Development division).

Allreal Holding AG (parent company) has its registered office in Baar, Switzerland, and is listed on SIX Swiss Exchange.

On 7 February 2017, the Board of Directors of Allreal Holding AG approved the consolidated financial statements for publication. They are also subject to the approval of the annual general meeting of Allreal Holding AG of 21 April 2017.

1.2 Presentation of accounts

The consolidated annual accounts are based on the individual company accounts, which were prepared in accordance with uniform Group accounting standards as at 31 December. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and conform to the Listing Rules as well as Article 17 of the Financial Reporting Directive (DFR) of SIX Swiss Exchange and with Swiss law.

With the exception of the change described under note 1.3, the same principles of accounting apply as for the 2015 consolidated financial statements. See 2.29 in connection with the valuation uncertainties.

Following the acquisition of Bülachguss AG, Bülach, as at 28 July 2016, the scope of consolidation increased by the acquired company from the date of acquisition; see 4.5. Changes also arose as a result of intra-Group mergers; see 1.5.

In the 2016 consolidated financial statements, Allreal applied the following new IFRS standards and interpretations for the first time:

Standard/Interpretation	Description	Entry into force	Application from financial year
IAS 1 (Amendment)	Disclosure Initiative	1 January 2016	2016
IAS 16 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	2016
IAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016	2016

Standard/Interpretation	Description	Entry into force	Application from financial year
IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016	2016
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016	2016
IFRS 10/IAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016	2016
Improvements to IFRs (Dec 2013/2012–2014)	Cycle	1 July 2014/ 1 January 2016	2015/2016

These IFRS changes have no significant impact on the consolidated financial statements.

Some new or amended IFRS standards and interpretations have been adopted by the IASB, but will only enter into force in a subsequent accounting period. The new developments or amendments are listed in the following table, specifying the financial year in which the adjustment enters into force at Allreal.

Standard/Interpretation	Description	Entry into force	Application from financial year
IAS 7 (Amendment)	Disclosure Initiative	1 January 2017	2017
IAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	2017
IFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions	1 January 2018	2018
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018	2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018	2018
IAS 40 (Amendment)	Investment Property	1 January 2018	2018
IFRS 16	Leases	1 January 2019	2019

IFRS 15
The standard contains new principles for recognising revenue. Of particular significance for Allreal is at what point in time revenue and income on development property held for sales are recognised. In accordance with IAS 18 and IFRIC 15, revenue and income are currently recognised on transfer of ownership of individual development real estate units (see 2.6). Under certain circumstances, the new standard IFRS 15 provides that revenue and income are recognised by the percentage of completion method (POC) over the life of a project.

IFRS 16
The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. Long-term leases for properties fall under

the scope of IFRS 16 and are to be recognised for the lessee's right to use the asset.

A detailed analysis of the impact of IFRS 15 and IFRS 16 on the consolidated financial statements has not yet been made; it is not planned to apply the standard early. Apart from additional disclosure requirements, the remaining IFRS amendments are not expected to result in any material adjustments.

1.3 Change in the calculation of diluted earnings per share

The method hitherto employed by Allreal to calculate diluted earnings per share was to adjust undiluted earnings for the amount of personnel expenses deferred for share-based reimbursements, which is not in compliance with IAS 33.

The method of calculation has therefore been adjusted accordingly, resulting in diluted earnings per share of CHF 7.65 for the previous financial year (figure published in 2015: CHF 7.67).

The method of calculating undiluted earnings per share is not affected by this change.

1.4 Method of consolidation

Subsidiaries are fully consolidated with effect from the date of their acquisition, i.e. from the date on which Allreal gains control. Allreal will be deemed to have gained control if, on the basis of existing rights, it is able to direct those activities of the subsidiaries that significantly affect their returns and also if Allreal is exposed, or has rights, to variable returns from its involvement with the subsidiary and is able to affect those returns through its power over the subsidiary.

Subsidiaries are deconsolidated with effect from the date on which control ends.

Capital is consolidated at the time of purchase using the acquisition method. The purchase price for a corporate acquisition is determined as the total of the market value of the assets transferred, the liabilities contracted or taken over and the equity financial instruments issued by Allreal. Transaction costs in connection with a corporate acquisition will be charged to the income statement. The goodwill arising from a corporate acquisition is reported as an asset on the balance sheet and corresponds to the surplus of the purchase price, the contribution of minority interests in the companies taken over and the market value of the share of equity held previously over the balance of the assets, liabilities and contingent liabilities valued at market values. If the difference is negative, the surplus is immediately charged to the income statement after renewed assessment of the market value of the net assets taken over.

All intra-Group balances, income and expenses, as well as unrealised gains and losses from intra-Group transactions are fully eliminated.

1.5 Scope of consolidation

Company	Registered office	Share capital CHF million	Shareholding in 2016	Shareholding in 2015
Allreal Holding AG	Baar	797.1	–	–
Allreal Finanz AG	Baar	100.5	100%	100%
Allreal Generalunternehmung AG	Zurich	10.0	100%	100%
Allreal Home AG	Zurich	26.5	100%	100%
Allreal Office AG	Zurich	150.0	100%	100%
Allreal Toni AG	Zurich	90.0	100%	100%
Allreal Vulkan AG	Zurich	50.0	100%	100%
Allreal West AG	Zurich	20.0	100%	100%
Apalux AG	Zurich	0.9	100%	100%
Hammertor AG	Cham	0.1	–	100%
Hammer Retex AG	Cham	0.5	100%	100%
Bülachguss AG	Bülach	0.1	100%	–

In the period under review, Hammertor AG was merged into Hammer Retex AG. Since both companies were directly or indirectly wholly owned by Allreal Holding AG, the merger had no financial impact on the 2016 consolidated financial statements.

With effect from 28 July 2016, the scope of consolidation increased by acquired company Bülachguss AG, Bülach; see 4.5.

1.6 Segment reporting

Allreal Group is subdivided into the two divisions Real Estate and Projects & Development, which constitute segments in their own right. This presentation is in line with the management approach under which Group Management as the decision-making body monitors the results of the two divisions on the level of net profit on a quarterly basis. For the transfer of segment reporting to the consolidated statement of comprehensive income see 2.7.

The Real Estate division comprises the companies Allreal Home AG (residential properties), Allreal Office AG (commercial properties), Allreal Toni AG (Toni site in Zurich-West), Allreal Vulkan AG (commercial properties in Zurich Altstetten), Allreal West AG (Escher-Wyss site in Zurich-West), Apalux AG (commercial and residential properties) and the property management operations of Hammer Retex.

The Projects & Development division consists largely of Allreal Generalunternehmung AG and Bülachguss AG plus Hammer Retex's activities as a general contractor.

The activities of Allreal Holding AG (parent company) and Allreal Finanz AG (intra-Group financing) are not assigned to segments as their business activities do not generate any operating income. In the segment information they are listed under Holding company/eliminations.

2 Accounting and valuation principles

2.1 General

The preparation of the consolidated financial statements requires estimates and assumptions to be made. These relate to the reported amounts of assets, liabilities and contingent liabilities on the balance sheet date and to income and expenditure during the reporting period. The balance sheet is prepared strictly on the basis of acquisition costs, with the exception of investment real estate, which is entered at market values. For significant estimates and assumptions, see the following accounting and valuation principles, in particular 2.29. If these estimates and assumptions, made to the best of our knowledge at that date, subsequently transpire to diverge from the facts, the original estimates and assumptions are adjusted for the year in which the situation changed. Significant changes are disclosed in the consolidated financial statements.

2.2 Derivative financial instruments

In the past, Allreal used interest rate swaps (swaps) to reduce interest rate risk. By resolution of the Board of Directors these swaps were terminated early on 6 December 2016. Their remaining negative replacement value (after deferred tax) in the hedging reserve is being released to the income statement over the original residual term to maturity.

Until termination, the swaps were used as cash flow hedges, provided there was documentation of the hedging relationship at the inception of the hedge, the hedged future cash flows were highly probable, and the hedging transaction was considered highly effective and the effectiveness of the hedge could be reliably measured. The swaps were initially carried at market value. Subsequently, the effective portion of any change in the market value of the swaps was stated under other earnings (not recognised in income). The ineffective portion was recognised immediately in income. During the period in which the hedged underlying transaction was recognised in income, the amounts stated under other earnings were taken to the income statement. Subsequent changes in the market value of swaps which did not meet the preconditions for hedge accounting were recognised in income. Positive replacement values were recognised under other receivables or under financial assets, depending on whether the derivative financial instruments had remaining terms of more than twelve months. Negative replacement values were recognised under other short-term liabilities or under long-term liabilities, depending on whether the derivative financial instruments had remaining terms of more than twelve months. Deferred taxes on the replacement values of the interest rate swaps were recognised as deferred tax assets or deferred tax liabilities. The net amount of replacement values and deferred taxes was reported as a hedging reserve in the consolidated statement of changes in shareholders' equity. In the consolidated statement of income, the changes in replacement values arising during the period under review were presented with the effect of deferred tax assets as other earnings.

2.3 Earnings from renting investment real estate

Income from renting investment real estate includes net rental income after deduction of vacancy losses, and losses due to bad debts. Costs for ground rent, management, operation, maintenance and repairs are reported separately in the income statement as direct expenses for rented investment real estate.

Rent-free periods in commercial premises are recognised on a straight line basis over the contract term.

2.4 Earnings from sale of investment real estate

Gains and losses on the sale of investment real estate correspond to the difference between the realised net proceeds after deduction of transaction costs and the latest recorded market value of the properties sold. The earnings are taken to the income statement at the time of the transfer of benefits and risks.

2.5 Earnings from revaluation of investment real estate

The revaluation of yield-producing properties and investment real estate under construction shows changes in the market value of the real estate portfolio. The report of the external real estate valuer serves as the basis. The real estate valuation underlying the revaluation excludes the deduction of transaction costs at the time of sale.

For more details of the recognition of investment real estate see 2.9.

2.6 Earnings from Projects & Development division

The earnings from the Projects & Development division include income from realisation Projects & Development (third-party projects), income from sales Development (own projects), capitalised company-produced assets and diverse income. Income from realisation Projects & Development includes the project volume completed during the period under review for third parties (third-party projects) and corresponds to the total of all project costs, fees and earnings from construction activity recognised by the percentage of completion method (POC). In the case of loss-making projects, provisions are immediately made for the estimated final loss in the project accounts (trade receivables or payables).

Earnings realised and received from the sale of development real estate (own projects) are recognised as income from sales Development at the time of transfer of benefits and risks, i.e. on transfer of ownership of individual development real estate units and entry of this transfer in the land register. When recognising the revenues, the pro rata project costs and gains are also taken into account.

Direct expenses from realisation Projects & Development and sales Development contain the accrued project costs of all third-party projects bought in by contractors as well as cumulative investment costs including capitalised company-produced assets and pro rata gains for own projects sold.

Capitalised company-produced assets accrue from investment real estate under construction as well as development real estate and are taken to income at cost if own project work is incurred.

2.7 Transfer of segment reporting to the consolidated statement of comprehensive income

The presentation of net profit in the internal reports is similar to that in the segment reports. As regards the Projects & Development division, the segment reports differ from the consolidated statement of comprehensive income in respect of the quantification of sales.

In the segment reports, the volume of projects completed for all third-party and own projects is taken as the relevant sales figure.

In the consolidated statement of comprehensive income, sales from realisation Projects & Development and sales of development real estate are recognised in accordance with 2.6. In the segment reports, in respect of the volume of projects completed for the Real Estate division (intra-Group sales) and for own projects, the difference between projects completed and sales Development is stated.

2.8 Financial expense/capitalised building loan interest

Interest expenses are accrued/deferred between reporting periods on the basis of the effective interest rate method and taken to income.

For development real estate and investment real estate under construction, debt interest is capitalised. The underlying debt interest rate is the average borrowing rate during the reporting period.

2.9 Investment real estate

The investment real estate reported under fixed assets is divided into yield-producing properties (residential and commercial properties) and investment real estate under construction. All investment real estate is carried at fair value in accordance with IAS 40 and IFRS 13. The valuation at the time of initial recognition is based on acquisition cost, including directly attributable transaction costs. After the initial recognition, the external real estate valuer regularly determines the fair value on the balance sheet cut-off date using the discounted cash flow method (DCF). For details of the valuation method and the key assumptions see 2.29. To be able to establish the highest and best use of a project, it must be approvable, in compliance with legal requirements and financially viable. Changes in fair value are taken to the income statement, factoring in deferred taxes. In the consolidated statement of changes in shareholders' equity, the cumulative difference between the acquisition cost and fair value of all investment real estate, factoring in deferred taxes encumbering said real estate, is recognised as part of retained earnings (revaluation reserves). Yield-producing properties whose book value is not likely to be derived from continued use but through a sale are reported separately at fair value in working capital as investment real estate held for sale. This is conditional on the sale being highly probable and the investment properties being in a condition ready to be sold immediately. For a sale to be classified as highly probable, it must be expected to take place within one year. For projects to be assigned to investment real estate under construction, realisation must be intended for the portfolio of investment real estate, which is conditional on a minuted decision by the Board of Directors. It must also be possible to form a reliable estimate of expenditure and income so that an estimate of fair value can be made, and a building permit and construction approval which can no longer be contested by third parties needs to have been issued for the project.

2.10 Development real estate

The development real estate carried in working capital includes land reserves, buildings under construction and completed properties which were not sold to third parties. If the criteria for investment real estate under construction mentioned in 2.9 are not met, such projects are carried on the balance sheet as development real estate.

Development real estate is reported in accordance with IAS 2, which requires that these properties be recognised in the consolidated financial statements at acquisition or production costs or, if lower, their net realisable value. The latter corresponds to the estimated sale price less expected project, construction and sales costs up until the disposal. Any impairment is taken to direct expenses from sales Development.

Land already owned by Allreal or payments on account for planned land purchases and third-party cost (but not company-produced assets) are capitalised under development reserves if the project is expected to be realised, but work has not yet started.

Projects in progress, on which structural work has yet to be completed, for which the property-specific full statement of accounts is not yet available and for which the transfer of ownership to a third party has not yet been completed are recognised as buildings under construction. Realised development real estate which has reached structural completion and development real estate destined for immediate sale to third parties are reported as completed buildings.

2.11 Other property, plant and equipment

Other property, plant and equipment is stated at acquisition or production costs less operationally necessary depreciation and, where appropriate, less additional depreciation as a result of impairment losses. The estimated useful life of plant and equipment is four to five years and three years for IT infrastructure. The works of art capitalised under other property, plant and equipment are not depreciated. Depreciation is calculated on a straight-line basis.

2.12 Intangible assets

Goodwill from acquisitions corresponds to the surplus of the purchase price, the contribution of minority interests in the companies taken over and the market value of the share of previously held equity over the balance of the assets, liabilities and contingent liabilities valued at market values. Goodwill is not amortised, but subjected to an annual impairment test.

Other tangible assets comprise software and IT developments, which are recognised at acquisition cost and, from the time they are first used, are depreciated to the income statement on a straight-line basis over their estimated useful life of three years.

2.13 Financial assets
Financial assets include long-term loans in the context of usual business operations and the pre-financing of tenant fit-outs. Loans are stated using the amortised cost method and are freely available and not pledged.

2.14 Short-term receivables
Receivables arising from construction activities undertaken on behalf of third parties are recognised according to the net principle, i.e. payments on account received from clients and partial settlements of accounts arising from the construction activities are offset against each other (order balances). Positive net positions are shown under trade receivables, while negative net positions are reported under trade payables; see also 2.6.

Trade receivables and other receivables are reported at their nominal value less necessary value adjustments for irrecoverable claims. Value adjustments are based on an individual assessment of the claim in the light of deposited collateral and also take account of appropriate historical empirical values. All short-term receivables are freely disposable and are not pledged.

2.15 Cash
Cash includes cash on hand, sight deposits with banks and short-term time deposits with maximum maturities of 90 days. They are reported at nominal value.

2.16 Share capital/Treasury shares
The share capital of Allreal Holding AG is reported as equity as it is not subject to any repayment obligation or dividend guarantee. Issuing costs which are incurred in connection with a capital increase and are directly attributable to the issuance of new shares are offset against the capital reserves under equity. The premium paid with capital increases or through conversion of a convertible bond is reported under capital reserves.

Treasury shares may be held by Allreal Holding AG or by one of its Group companies on the balance sheet cut-off date. These are stated at acquisition cost offset directly against equity and are listed as a separate item in the consolidated statement of changes in shareholders' equity. Gains and losses from transactions with treasury shares are taken to other retained earnings in equity.

2.17 Bonds
Bonds are recognised on issue on the basis of the proceeds received, net of transaction costs. The difference between reported financial liabilities and the repayment amount is amortised to the income statement over the bond's term to maturity using the effective interest method.

2.18 Borrowings

In addition to bond issues, financial liabilities include bank loans secured by mortgages and are recognised as long-term financial liabilities in compliance with IAS 1 if the contractually agreed remaining term to maturity in the credit agreements is longer than twelve months. All other financial liabilities are recognised as a short-term bank debt, including amortisation payments due within twelve months of the balance sheet cut-off date. Borrowings are recognised at amortised costs using the effective interest method.

2.19 Provisions

Provisions are made to the extent that corresponding obligations exist as at the balance sheet cut-off date and the respective event is in the past. In addition, the amount can be estimated reliably and the probability of occurrence is rated higher than that of the non-occurrence. Provisions are classified as short-term or long-term depending on whether they are expected to be utilised within one year or later. Provisions are reported at the best possible estimate of the amount necessary to meet the obligations as at the balance sheet cut-off date. If the effect is material, provisions are discounted.

2.20 Current liabilities

Liabilities arising from construction activities undertaken on behalf of third parties are recognised according to the net principle, i.e. payments on account received from clients and partial settlements of accounts arising from the construction activities are offset against each other (order balances). Negative net positions are shown under trade payables, while positive net positions are reported under trade receivables.

Trade payables and other liabilities (accrued liabilities) due within one year are recorded at their nominal value.

Interest-free payments (reservation fees and prepayments) made by future owners of units of development real estate are reported as a separate position under liabilities until such time as ownership has been transferred.

2.21 Leasing

Leasing agreements are reported as financial leases if essentially all risks and opportunities associated with ownership of the leased property are transferred to Allreal. They are classified at the beginning of the lease. The leased property is initially capitalised at the lower of the present value of the lease payments or fair value. Leasing instalments are broken down into interest and repayment amounts. The leased property is depreciated over its estimated useful life or over the term of the lease, whichever is the shorter.

Cash flows for operating leasing are taken to income directly at the time of payment.

2.22 Impairment

If there is reason to believe that the value of property, plant and equipment and intangible assets has been impaired, an impairment test will be carried out and the realisable value will be estimated. The realisable value is the lower of value in use or market value less selling costs. Any difference between the asset and the realisable value is depreciated to the income statement and reported separately in the notes to the consolidated financial statements.

2.23 Taxes

The item tax expenses in the consolidated statement of comprehensive covers current taxes on business activities, deferred taxes on revaluation and other deferred taxes.

Current taxes on business activities include income taxes due for the business year as well as property gains tax on the completion and sale of development real estate (Projects & Development division) and the sale of investment real estate (Real Estate division).

Current income taxes are calculated net of tax loss carry-forwards and in compliance with the applicable tax regulations on the basis of the results reported by the individual Group companies and are recognised under current tax liabilities.

Deferred taxes are determined using the comprehensive balance sheet liability method and are calculated at the tax rates in force or announced on the balance sheet cut-off date. With the exception of taxes imposed in the previous year on the replacement values of cash flow hedges and changes in employee benefits recognised through equity, changes in deferred taxes are taken to income.

Deferred tax liabilities take account of discrepancies in income and property gains taxes between the valuation for purposes of the consolidated financial statements and the applicable tax valuation of individual assets and liabilities for tax purposes. At the same time, a deferred tax is calculated on strictly all discrepancies leading to delays in the timing of taxation. For the higher valuation of investment real estate (positive difference between acquisition cost and market value) an individual tax rate is applied, with a realistic holding period defined for each individual investment real estate property.

Deferred tax assets from tax loss carry-forwards and the downward revaluation of investment real estate (negative difference between tax value and market value) are capitalised if they appear certain to be recoverable with future taxable income.

2.24 Employee pension plans

Employees of Allreal Generalunternehmung AG are covered by the Allreal pension fund for mandatory and extra-mandatory staff pension provision as required by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), while employees of Hammer Retex AG are affiliated to the collective foundation of a Swiss insurance company for occupational pension provision.

The Allreal pension fund is a legally independent pension institution based on the principle of defined contributions in accordance with Swiss law. The Board of Trustees of the Allreal pension fund decided to lower conversion rates by 0.50 to 0.70% (depending on age group) effective 1 January 2017. The resulting effects will be recognised immediately in the income statement under past service cost.

On the basis of IAS 19, these pension plans qualify as defined benefit plans. The assets and commitments of these plans are recalculated half-yearly by an external actuary. In accordance with IAS 19 (revised), the plan assets are recognised at fair value and liabilities are valued using the projected unit credit method.

Pension expenses comprise a past service and a net interest component which are recognised under personnel expenses as well as a revaluation component which contains actuarial gains and losses and is recognised through other comprehensive income under changes in the pension fund.

Some staff are also covered by a management insurance scheme arranged with an insurance company which is classed as a defined contribution plan under IAS 19. The expenditure reported during the period under review corresponds to the employer's payments to the plan.

2.25 Share-based reimbursement

Part of the variable remuneration may be paid to the members of Group Management in the form of shares of Allreal Holding AG. Beneficiaries have immediate right of disposal over the first half of the shares allocated to them. The second half will be placed at the beneficiary's disposal in two years, provided that the employment relationship has not been terminated. Entitlements will be satisfied by the company by means of treasury shares. The amount resulting from the share allocation is charged to personnel expenses over the vesting period. Shares are recognised at market value at the time of allocation.

2.26 Earnings per share

Net profit per share is calculated by dividing net profit by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share take account of additional shares that may be created as a result of the exercising of option or conversion rights and will have a dilutive effect on the result.

2.27 Consolidated cash flow statement

Liquid assets (cash on hand, postal and bank account balances) and short-term deposits with maximum terms of 90 days are used as funds. Cash flow from operating activities consists of operating cash flow before changes in net working capital (NWC), changes in NWC (excluding cash and current tax liabilities), as well as cost of finance paid, financial income received, and income and property gains taxes paid. Cash flows from investing and financing activities are presented separately.

2.28 Foreign currencies

The geographical range of Allreal Group's activities is confined to Switzerland. The Group has no assets or liabilities in foreign currencies. As all Group companies prepare their annual accounts in Swiss francs, consolidation does not result in any currency translation differences.

2.29 Valuation uncertainties

Investment real estate

As at 31 December 2016, Allreal holds investment real estate with a book value of CHF 3574.5 million (31.12.2015: CHF 3525.2 million). The investment real estate is valued at market value calculated using the discounted cash flow method (DCF). The DCF method is based on various estimates and assumptions, with the yield potential of a property being derived on the basis of future revenue and expenditure. Market values do not take account of transaction costs upon sale. Recognised at fair value as at 31 December 2016, yield-producing properties totalling CHF 3505.0 million (31.12.2015: CHF 3475.3 million) and investment real estate under construction totalling CHF 69.5 million (31.12.2015: CHF 49.9 million) qualify as category 3 fair values. During the period under review, no adjustments were made to valuation techniques or processes and there were no shifts within the fair value categories.

Future rental income is forecast on the basis of current contractual rents and target annual rental income. In the case of expiring commercial leases, a typical local market rent which appears sustainable from a current perspective is used. Where tenants have extension options, as a rule the lower of market rent and contractual rent is stated. Sustainable market rents will also be used in the case of open-ended leases where there is a significant difference between the contractual rents and the market level in the exit year. Moreover, property-specific assumptions with regard to temporary and structural vacancies will be factored into the market valuation.

Management and building costs are in principle based on the relevant property accounts and include non-apportionable operating and maintenance costs, as well as future repair costs based on Allreal's multi-year budgets. These costs include costs for asset maintenance to secure the long-term level of contractual and market interest rates on which the valuation is based as well as value-enhancing investments generating future additional income.

A property-specific discount is made on each investment property on the basis of macro- and micro-locational considerations and depending on real estate segment. Inflation is taken into account in the forecast cash flows. The discount and capitalisation rates are based on the interest paid on long-term, risk-free investments plus a specific risk premium.

If the actual market rents in subsequent years are lower than projected in the DCF valuations, this may lead to an adjustment of the fair values. This devaluation effect on investment real estate would be even stronger in combination with increasing discount and capitalisation rates.

In the case of investment real estate under construction, future rental income is also ascertained on the basis of typical local market rents or rents already contractually agreed. On the cost side, expenses are determined with the aid of investment calculations, the chronological progress of construction phases and cost forecasts. If actual construction costs and rental income in subsequent periods differ from the estimates and planned figures, the fair values may need to be adjusted; see also 4.1.

Development real estate
As at 31 December 2016, Allreal holds development real estate with a book value of CHF 165.7 million (31.12.2015: CHF 295.5 million). It was valued at acquisition or production costs – including company-produced assets for buildings under construction – less value adjustments for impairment losses. On the balance sheet cut-off date at the latest, an impairment test is carried out for all development projects by comparing incurred and future costs with the realisable value. On the cost side, expenses are, among other methods, determined with the aid of investment calculations, the chronological progress of construction phases and cost forecasts. The proceeds are based on market assessments, empirical values and completed sales to date. If actual construction costs and sales proceeds in subsequent periods differ from the estimates and planned figures, the book values may need to be adjusted.

Taxes
Allreal has significant deferred tax assets totalling CHF 34.6 million (31.12.2015: CHF 42.2 million) and liabilities totalling CHF 192.5 million (31.12.2015: CHF 163.4 million), which stem mainly from valuation differences relating to investment real estate; see 2.23. In calculating the deferred taxes on investment real estate, a remaining holding period was estimated for each property. If the actual holding period of the investment real estate does not correspond to the assumed holding period, this may result in a considerable difference between the tax due and the capitalised deferred taxes when the property is sold.

2.30 Information on the implementation of a risk assessment

Allreal has a comprehensive management system (PAQ) in place. This system describes all parent processes and associated controls and integrates the tasks of management, operational processes and support processes. The PAQ also covers non-financial processes. There is also a documented internal control system in place for accounting and financial reporting to prevent, minimise or identify the risk of material misrepresentation in the annual accounts. The financial reporting controls are based on the COSO framework. Once a year, Group Management provides the Board of Directors with confirmation that a system of internal controls is in place and is functioning effectively.

The Board of Directors evaluates quarterly at corporate level the risk assessment prepared by Group Management (identification, quantification, monitoring and control). In particular, the risk assessment must explicitly give consideration to the reliability and completeness of financial information (fair presentation), asset protection, compliance with laws, regulations and contracts, as well as the risk of balance sheet fraud.

Effective internal control and management systems are in place to ensure that the consolidated financial statements of Allreal Group comply with the applicable accounting rules and to ensure the fair presentation of reporting. Accounting and valuation involve making forward-looking estimates and assumptions. Estimates and assumptions which pose a significant risk in the form of an adjustment to the book values of assets and liabilities within the next financial year are shown under the individual positions in the Notes; see 2.29.

3 Notes on the consolidated statement of comprehensive income

3.1 Income from renting investment real estate

CHF million	2016	2015
Rental income from residential properties	32.7	31.5
Rental income from commercial properties	140.6	143.4
Income from renting investment real estate	**173.3**	**174.9**

The rental income is calculated as follows:

Projected rental income	186.9	192.3
Vacancy losses	–9.6	–14.4
Collection losses and loss of income as a result of rent-free periods	–4.0	–3.0
Income from renting investment real estate	**173.3**	**174.9**

The accumulated vacancy rate for the 2016 financial year amounted to a total of 5.1% of projected rental income (2015: 7.5%), with commercial properties accounting for 2.4%, while residential properties accounted for 5.7% (2015: 5.0% and 8.0%, respectively).

The rest of the rental income breaks down as follows:

CHF million	**2016**	2015
Residential real estate held on a continuous basis	32.1	31.5
Commercial real estate held on a continuous basis	139.7	141.7
Acquisitions and own developments	0.6	0.6
Sold properties	0.9	1.1
Income from renting investment real estate	**173.3**	**174.9**

3.2 Direct expenses for rented investment real estate

CHF million	**2016**	2015
Administrative and operating expenses, residential real estate	–1.6	–2.2
Administrative and operating expenses, commercial real estate	–7.0	–6.5
Maintenance and repair expenses, residential real estate	–2.7	–2.3
Maintenance and repair expenses, commercial real estate	–13.1	–20.8
Real estate expenses	**–24.4**	**–31.8**

The real estate expenses relate solely to the yield-producing properties in the Real Estate division.

The administrative and operating expenses break down as follows:

CHF million	**2016**	2015
Administrative fees and costs	–3.9	–3.6
Insurance, fees and charges	–1.5	–2.0
Janitorial services	–0.6	–0.7
Other expense and ancillary costs (borne by owner)	–2.6	–2.4
Administrative and operating expenses	**–8.6**	**–8.7**

In 2016, real estate expenses for unlet properties amounted to CHF 0.6 million (2015: CHF 1.0 million).

3.3 Income from real estate management services

CHF million	**2016**	2015
Income from administration and management	4.0	5.4
Income from sale and brokerage	0.7	0.7
Income from real estate management services	**4.7**	**6.1**

3.4 Earnings from sale of investment real estate

CHF million	2016	2015
Proceeds from sale	100.4	116.0
Transaction costs on sale	–1.6	–0.7
Balance sheet value = market value on 31.12 of the previous year	–93.2	–94.2
Earnings from sale of investment real estate	**5.6**	**21.1**

The period under review saw the sale of the commercial properties Lagerstrasse 41/45 in Zurich, Max Högger-Strasse 2 in Zurich, Alte Dübendorferstrasse 17 in Dietlikon and Badenerstrasse 141 in Zurich. After deduction of transaction costs, the sale resulted in earnings of CHF 5.6 million on a total selling price of CHF 100.4 million. In 2015, the sale of three properties produced earnings of CHF 21.1 million.

3.5 Earnings from Projects & Development division

CHF million	2016	2015
Income from realisation Projects & Development	414.7	467.0
Direct expenses from realisation Projects & Development	–372.0	–418.6
Earnings from realisation Projects & Development	**42.7**	**48.4**
Income from sales Development	232.1	126.3
Direct expenses from sales Development	–197.5	–108.3
Income from sales Development	**34.6**	**18.0**
Capitalised company-produced assets	**6.1**	**11.5**
Diverse income	**0.6**	**0.9**
Earnings from Projects & Development division	**84.0**	**78.8**

Income from realisation Projects & Development consists of architects' and project & development fees (CHF 29.3 million) and earnings from construction activity (CHF 16.9 million) (2015: CHF 36.8 million/CHF 13.6 million). This contrasts with directly offset sales deductions of CHF –3.5 million for construction insurance and guarantees, performance guarantees, bad debt allowances and third-party expenses arising from tendering (2015: CHF –2.0 million).

During the 2016 financial year, ownership of units under the projects Cholplatz Bülach (CHF 17.4 million), Lerchenbergstrasse Erlenbach (CHF 17.5 million), Holengass Meilen (CHF 2.9 million), Pfruendmatt Mettmenstetten (CHF 29.6 million), Stauffacher Steinen (CHF 14.5 million), Guntenbachstrasse Volketswil (CHF 4.6 million), Escherhof Wallisellen (CHF 4.2 million) and Guggach Zurich (CHF 141.4 million) was transferred to third parties, resulting in gains on sales of CHF 34.6 million.

Diverse income includes fees for third-party project development activities amounting to CHF 0.4 million and other earnings from commissions and services provided for third parties amounting to CHF 0.2 million.

3.6 Personnel expenses

CHF million	2016	2015
Salaries and wages	–38.9	–43.5
Social insurance benefits	–3.6	–3.7
Employee pension plans	–4.5	–5.6
Share-based reimbursement	–0.1	–0.1
Other personnel expenses	–2.3	–2.6
Personnel expenses	**–49.4**	**–55.5**

A CHF 1.2 million past service cost was credited to employee pension expenses in application of IAS 19 (2015: CHF 1.1 million); see 3.11.

Other personnel expenses include spending on actual and flat-rate staff expenses (CHF –1.8 million), training and development (CHF –0.2 million), costs for the recruitment of new employees (CHF –0.2 million) and other directly attributable staff expenses (CHF –0.1 million).

On the balance sheet cut-off date, the staff headcount stood at 292 employees, corresponding to 276 full-time equivalents (31.12.2015: 337 employees/312 full-time equivalents).

3.7 Other operating expenses

CHF million	2016	2015
IT expenses	–1.2	–1.4
Rental expenses	–3.6	–3.8
Consultancy and legal fees	–1.8	–2.3
Administration expenses	–3.5	–4.1
Capital taxes	–1.9	–1.7
Other general operating expenses	–0.8	–0.6
Other operating expenses	**–12.8**	**–13.9**

Rental expenses relate to business premises and parking spaces in Zurich, Basel, Bern, Cham and St. Gallen. For its head office in Zurich, Allreal has an indexed lease which runs until 31 January 2018, with an annual rent of CHF 2.8 million. The leases for the other sites, with annual rents of CHF 0.7 million, have fixed terms, the longest of which runs until January 2022.

CHF million	31.12.2016	31.12.2015
Rental commitments up to 1 year	3.5	3.5
Rental commitments 2–3 years	1.6	4.6
Rental commitments 4–5 years	0.9	0.0
Rental commitments more than 5 years	0.0	0.0
Total	**6.0**	**8.1**

Administrative expenses include the cost of corporate communications, telecommunications, property insurance and office supplies.

Other general operating expenses consist essentially of costs for the operation, maintenance and repair of operating facilities, postage costs and the cost of pre-tax cuts in VAT.

3.8 Financial income

CHF million	2016	2015
Interest income on financial assets	1.8	1.8
Financial income	**1.8**	**1.8**

3.9 Financial expense

CHF million	2016	2015
Interest expense payable to banks/insurance companies for liabilities	–7.4	–9.2
Interest expense for derivatives	–23.1	–25.5
Interest expense for bond issues	–9.6	–10.4
Capitalised building loan interest	0.6	1.5
Financial expenses	**–39.5**	**–43.6**

The expense for derivatives comprises interest paid of CHF –18.1 million (2015: CHF –20.4 million) in respect of interest rate swaps until terminated. In addition, in the period under review until the time of termination of all interest rate swaps, ineffective portions of the changes in market value and derivatives no longer qualifying for hedge accounting were taken to the income statement in the amount of CHF –4.2 million (2015: CHF –5.1 million). In connection with the recycling of the hedging reserves, CHF –0.8 million was charged to the income statement.

The financial expense for bond issues includes paid and accrued interest of CHF –9.4 million (2015: CHF –10.0 million) up to the balance sheet cut-off date and amortisation of CHF –0.2 million (2015: CHF –0.4 million) between the debt components and the redemption amounts.

Capitalised building loan interest of CHF 0.6 million (2015: CHF 1.5 million) breaks down into development real estate under construction (CHF 0.4 million) and investment real estate under construction (CHF 0.2 million), applying an average interest rate of 1.67 to 2.31% (2015: 2.10–2.30%).

The average interest rate on the outstanding financial liabilities is 1.67%, with an average interest lock-in period of 3.0 years for all financial liabilities (2015: 2.15% and 4.3 years).

3.10 Earnings per share/net asset value (NAV) per share

	2016	2015
Number of outstanding shares as at 1 January (in thousands)	15 910	15 941
Change in holdings of treasury shares (in thousands)	21	–31
Number of outstanding shares as at 31 December (in thousands)	15 931	15 910
Average number of outstanding shares (in thousands)	15 929	15 907
Net profit excl. revaluation effect (in CHF million)	112.2	109.7
Earnings from revaluation of investment real estate (in CHF million)	85.0	15.8
Deferred taxes on revaluation gains (in CHF million)	–23.6	–3.6
Net profit incl. revaluation effect (in CHF million)	173.6	121.9
Earnings per share incl. revaluation effect (CHF)	**10.90**	**7.66**
Earnings per share excl. revaluation effect (CHF)	**7.04**	**6.89**
Diluted earnings per share		
— incl. revaluation effect (CHF)	10.90	7.65
— excl. revaluation effect (CHF)	7.04	6.90

The diluted earnings per share for the 2015 financial year were restated owing to a change in calculation method; see 1.3.

The share-based remuneration of members of Group Management has the effect of diluting the earnings per share. For the calculation of the diluted net profit, the average number of outstanding shares increases from 15 928 818 to 15 929 586 shares.

CHF million	2016	2015
Outstanding shares (in thousands) as at 31 December	15 931	15 910
Equity as at 31 December (CHF million)	2 086.8	1 994.1
Net asset value (NAV) per share after deferred taxes (CHF)	**131.00**	**125.35**
Equity plus provision for deferred taxes less deferred tax assets (CHF million)	2 244.7	2 115.3
Net asset value (NAV) per share before deferred taxes (CHF)	**140.90**	**132.95**

At the end of the year, the share price stood at CHF 151.30 (31.12.2015: CHF 133.60). This represents a premium of 15.5% compared to the net asset value per share after deferred taxes of CHF 131.00 (31.12.2015: premium 6.6%).

3.11 Employee pension plans

Swiss pension institutions are regulated by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG). The BVG stipulates that pension institutions must be managed autonomously and as legally independent institutions.

The Board of Trustees, as the governing body of the pension fund, is made up of an equal number of employee and employer representatives. The Board of Trustees is tasked with defining and implementing investment strategy.

Plan members are insured against the economic consequences of old age, disability and death, in respect of which the BVG stipulates minimum benefits. Both employer and employee pay a share of the contributions to the pension fund; these are based on the insured salary and on the age of the plan member. Pension contributions and annual interest are credited to the individual savings accounts. Upon retirement of a plan member, the balance of the savings account is either paid out or, applying a statutory conversion rate, converted into a retirement pension. Benefits will also be paid in cases of long-term occupational disability.

All actuarial risks, comprising demographic risks (life expectancy) as well as financial risks (return on plan assets or development of wages, salaries and pensions), are borne by the pension fund and regularly assessed by the Board of Trustees. In the event of a shortfall in cover as defined by the BVG, recourse may be had to various measures. These primarily include increasing current contributions, payment of additional restructuring contributions by the employer, or adjusting the conversion rates.

Development of pension fund commitments and assets

CHF million	31.12.2016	31.12.2015
Present value of pension commitments	–150.6	–141.8
Fair value of pension fund assets	137.7	137.6
Net pension commitments	**–12.9**	**–4.2**

Defined benefit pension plan expenses break down as follows:

CHF million	2016	2015
Current service cost	5.4	6.0
Past service cost	–1.2	–1.1
Service cost	**4.2**	**4.9**
Net interest income employee pension plans	0.0	0.1
Pension expenses recognised in the statement of income	**4.2**	**5.0**

The past service cost of CHF 1.2 million was credited to the income statement under personnel expenses (2015: CHF 1.1 million).

Change in pension commitments

CHF million	**2016**	2015
Present value of pension commitments as at 1 January	141.8	151.1
Current service cost	5.4	6.0
Past service cost	–1.2	–1.1
Interest expenses	1.3	1.5
Contributions from insured members	2.8	3.1
Benefits paid	–8.4	–9.0
Insurance premiums	–0.2	–0.2
Actuarial losses/(gains)	9.1	–9.6
Present value of pension commitments as at 31 December	**150.6**	**141.8**

Changes in pension fund assets at market value

CHF million	**2016**	2015
Assets of the pension funds at market value as at 1 January	137.6	137.0
Return on plan assets (excluding interest income)	1.5	1.8
Interest income	1.2	1.3
Employer's contributions	3.2	3.4
Contributions from insured members	2.8	3.1
Benefits paid	–8.4	–9.0
Insurance premiums	–0.2	–0.2
Assets of the pension funds at market value as at 31 December	**137.7**	**137.6**

As at the balance sheet cut-off date, plan assets break down into the individual investment categories as follows:

CHF million	**31.12.2016**	in %	31.12.2015	in %
Cash and cash equivalents	3.5	2.5	4.5	3.3
Equity instruments (shares)	41.2	29.9	41.4	30.1
Debt instruments (bonds)	34.0	24.7	37.7	27.4
Other assets	0.9	0.7	0.7	0.5
Assets traded on active markets	**79.6**	**57.8**	**84.3**	**61.3**
Real estate	58.0	42.2	53.3	38.7
Assets not traded on active markets	**58.0**	**42.2**	**53.3**	**38.7**
Pension fund assets	**137.6**	**100.0**	**137.6**	**100.0**

The calculation was performed on the basis of the following assumptions:

	31.12.2016	31.12.2015
Discount rate	0.30%	0.90%
Expected development of wages and salaries	0.60%	0.60%
Expected development of pensions	0.00%	0.00–0.25%

The discount rate and the future development of wages and salaries were identified as significant actuarial assumptions.

If the discount rate were 25 basis points higher or lower than at the balance sheet cut-off date and if all other variables were to remain constant, the present value of pension fund commitments would be CHF 4.9 million lower or CHF 5.3 million higher (31.12.2015: CHF 4.3 million/CHF 4.7 million).

If the development of wages and salaries were 25 basis points higher or lower than the assumptions made at the balance sheet cut-off date and if all other variables were to remain constant, the present value of pension fund commitments would be CHF 0.5 million higher or CHF 0.6 million lower, respectively.

The revaluation component of pension fund positions recognised in other comprehensive income breaks down as follows:

CHF million	2016	2015
Change in demographic assumptions	0.0	0.0
Change in financial assumptions	–11.0	2.4
Effect of experience-based adjustments	1.6	7.2
Return on plan assets (excluding interest income)	1.5	1.8
Total expense recognised in other comprehensive income	**–7.9**	**11.4**

A probable CHF 4.4 million will be paid out under defined benefit commitments within the next twelve months, and a probable CHF 42.8 million in the subsequent nine years.

The average term of defined benefit commitments to the end of the period under review is 16.8 years (31.12.2015: 16.7 years).

For the following year, contributions to the plan are expected to come to CHF 3.0 million (employer) and CHF 2.7 million (employee) (2015: CHF 3.4 million and 3.0 million, respectively).

In addition to the Allreal pension fund, some Allreal staff are covered by a management insurance plan taken out with an insurance company. Allreal's only commitment in respect of this plan is to pay the annual contributions. In the period under review, these amounted to CHF 0.7 million (2015: CHF 0.6 million). The management plan is classified as a defined contribution plan in accordance with IAS 19.

In 2016, employee benefits came to a total of CHF 4.9 million (2015: CHF 5.6 million).

3.12 Share-based reimbursement

Members of Group Management receive an additional remuneration in the form of shares of Allreal Holding AG. Entitlements will be satisfied by the company by means of treasury shares. The amount in connection with the share allocation is charged to personnel expenses over the vesting period.

Time of allocation	Number of Allreal shares	Share price in CHF	Expenses in CHF million	Availability
10.12.2014	441	134.00	0.027	30.11.2016
18.04.2016	581	134.00	0.026	30.04.2018
18.04.2016	621	134.00	0.083	immediately

Provided that all preconditions are met, a total of 581 shares of Allreal Holding AG will in future be distributed to eligible beneficiaries.

Total expenses for share-based reimbursement amounted to CHF 0.14 million in the period under review (2015: CHF 0.14 million).

4 Notes to the consolidated balance sheet

4.1 Investment real estate

	Residential real estate		Commercial real estate		Investment real estate under construction		Total investment real estate	
CHF million	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Acquisition costs								
As at 1 January	535.8	540.1	2 748.2	2 809.8	36.8	4.7	3 320.8	3 354.6
Purchases	0.0	0.0	0.0	50.0	0.0	0.0	0.0	50.0
Investments	0.0	1.5	17.6	21.9	31.9	16.7	49.5	40.1
Capitalised building loan interest	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Disposals	0.0	–5.8	–95.0	–118.5	0.0	0.0	–95.0	–124.3
Reclassification as revaluation	0.0	0.0	0.6	0.2	0.1	0.0	0.7	0.2
Reclassifications	22.6	0.0	0.0	–15.2	–14.8	15.2	7.8	0.0
As at 31 December	558.4	535.8	2 671.4	2 748.2	54.2	36.8	3 284.0	3 320.8
Revaluation								
As at 1 January	183.8	152.4	7.5	7.3	13.1	–0.7	204.4	159.0
Higher valuations	59.2	33.2	49.2	20.8	8.6	13.8	117.0	67.8
Lower revaluations	0.0	–1.1	–30.1	–50.9	–1.9	0.0	–32.0	–52.0
Disposals	0.0	–0.7	1.8	30.5	0.0	0.0	1.8	29.8
Reclassification of acquisition costs	0.0	0.0	–0.6	–0.2	–0.1	0.0	–0.7	–0.2
Reclassifications	4.4	0.0	0.0	0.0	–4.4	0.0	0.0	0.0
As at 31 December	247.4	183.8	27.8	7.5	15.3	13.1	290.5	204.4
Balance sheet value = market value on 1 January	**719.6**	**692.5**	**2 755.7**	**2 817.1**	**49.9**	**4.0**	**3 525.2**	**3 513.6**
Balance sheet value = market value on 31 December	**805.8**	**719.6**	**2 699.2**	**2 755.7**	**69.5**	**49.9**	**3 574.5**	**3 525.2**
of which pledged or subject to restricted disposability	619.1	685.5	2 436.5	2 537.6	0.0	0.0	3 055.6	3 223.1

Within the commercial real estate portfolio, the value-enhancing investments relate to the Toni site, Zurich (CHF 12.1 million), Grüngasse 27–31/Badenerstrasse 119–133, Zurich (CHF 2.2 million) and eight other properties (CHF 3.4 million).

With the sale of four yield-producing properties, the market value of those properties amounting to CHF 93.2 million (CHF 95.0 million in acquisition costs and CHF –1.8 million in revaluation) as at 31 December 2015 was eliminated from assets.

The reclassification from investment real estate under construction to yield-producing properties relates to the commercial property Schiffbaustrasse 7, Zurich, completed as at 1 June 2016, recognised at CHF 27.0 million (CHF 22.6 million in acquisition costs and CHF 4.4 million in revaluation). The Fangletenstrasse project in Bülach (recognised at CHF 7.8 million) was reclassified from development real estate to investment real estate under construction as a result of the start of building.

In terms of individual regions and property types, the breakdown of acquisition costs and market values as at 31 December was as follows:

	Acquisition costs		Market value		Change in market value[1]	
CHF million	**2016**	2015	**2016**	2015	**2016**	2015
City of Zurich	143.0	120.4	204.6	155.3	22.3	5.3
Rest of Canton of Zurich	331.1	331.1	494.4	462.7	31.7	21.8
Other regions	84.3	84.3	106.8	101.6	5.2	4.9
Residential real estate	**558.4**	**535.8**	**805.8**	**719.6**	**59.2**	**32.0**
City of Zurich	1 569.6	1 622.6	1 629.5	1 655.6	32.9	–12.7
Rest of Canton of Zurich	798.5	822.6	784.1	808.7	–7.7	–12.6
Other regions	303.3	303.0	285.6	291.4	–6.1	–4.7
Commercial real estate	**2 671.4**	**2 748.2**	**2 699.2**	**2 755.7**	**19.1**	**–30.0**
City of Zurich	42.3	36.8	59.6	49.9	8.6	13.8
Rest of Canton of Zurich	11.9	0.0	9.9	0.0	–1.9	0.0
Other regions	0.0	0.0	0.0	0.0	0.0	0.0
Investment real estate under construction	**54.2**	**36.8**	**69.5**	**49.9**	**6.7**	**13.8**

[1] From revaluation in comparison with previous year

Costs incurred in connection with the acquisition (purchase price, notary's fees, property transaction costs, commission payments) are recognised under acquisition costs, as are the actual production costs of the additions from construction activity and value-enhancing investments and total renewals.

The revaluation of the investment real estate is based on the valuation conducted on 31 December by the external real estate valuer using the discounted cash flow method (see pages 132 to 138 of the Annual Report).

This involves the yield potential of a property being determined on the basis of future revenue and expenditure. The resulting payment flows correspond to current and forecast net cash flows. The annual payment flows are discounted to the valuation date. The discount rate used for this purpose is based on the interest paid on long-term, risk-free investments plus a specific risk premium. The latter takes account of market risks and the associated illiquidity of a property. The discounting interest rates vary according to macro- and micro-locational considerations and depending on real estate segment.

This valuation process involves the real estate valuer inspecting each property at least once every three years, as well as after additional acquisitions or on completion of major alterations. The real estate valuer calculates the payment flows on the basis of the rent rolls provided by Allreal (cut-off date 1 January of the following year), all major commercial leases, detailed budgets and medium-term planning per property, as well as planned and executed investment projects. From these parameters, the real estate valuer infers his view of the contractual market rents achievable on a sustainable basis and the future real estate expenses. The results of the valuation are discussed with Group Management, which assesses their plausibility.

As in the previous year, Jones Lang LaSalle AG acts as the real estate valuer on a contract basis. There are no further business connections or investments between Allreal and the real estate valuer.

The valuation of the yield-producing properties as at 31 December 2016 was based on the following rent bandwidths for the various regions and types of properties:

	Residential real estate				Commercial real estate			
	Contractual rents		Market rents		Contractual rents		Market rents	
CHF per m² and year	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
City of Zurich	220	420	220	410	220	600	180	600
Rest of Canton of Zurich	200	320	230	360	210	510	210	450
Other regions	150	270	160	270	100	390	80	320
All regions	150	420	160	410	100	600	80	600

A 5% increase or reduction in the market rents (serving as a basis of the valuations) of all investment properties would result in an increase or reduction in value of CHF 161 million (2015: CHF 149.0 million).

When determining the highest and best use, the external real estate valuer identified the Escher-Wyss site, Zurich, as a yield-producing property that satisfies the requirements of IFRS 13. The decision not to exploit the potential value of these properties is connected with existing and not immediately terminable rental contracts, some of which run over several years.

On the basis of a sensitivity analysis of investment real estate with a market value of CHF 3574.5 million on the balance sheet cut-off date (31.12.2015: CHF 3525.2 million), an isolated change in discount and capitalisation rates by 50 basis points would lead to an increase or decrease in value of CHF 530.0 million or CHF –408.2 million, respectively (31.12.2015: CHF 468.2 million/ CHF –364.3 million). The bandwidths for the discount and capitalisation rates used in the sensitivity analysis range between 2.50 and 3.70% (residential properties) and between 3.20 and 5.40% (commercial properties) for lower interest rates and between 3.50 and 4.70% (residential properties) and between 4.20 and 6.40% (commercial properties) for higher interest rates.

4.2 Development real estate

CHF million	Development reserves 2016	Development reserves 2015	Buildings under construction 2016	Buildings under construction 2015	Completed real estate 2016	Completed real estate 2015	Total development real estate 2016	Total development real estate 2015
As at 1 January	71.4	39.0	171.4	167.4	52.7	94.8	295.5	301.2
Purchases	2.0	35.1	0.0	0.0	0.0	0.0	2.0	35.1
Sale of companies	39.0	0.0	0.0	0.0	0.0	0.0	39.0	0.0
From construction activity/development	7.6	2.5	26.9	68.8	0.0	0.1	34.5	71.4
Income from sales Development	1.0	0.0	30.3	12.9	3.3	5.1	34.6	18.0
Impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	–4.6	0.0	–185.5	–79.0	–42.0	–47.3	–232.1	–126.3
Reclassifications	–14.8	–5.2	–34.8	1.3	41.8	0.0	–7.8	–3.9
As at 31 December = balance sheet value	**101.6**	**71.4**	**8.3**	**171.4**	**55.8**	**52.7**	**165.7**	**295.5**
of which pledged or subject to restricted disposability	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

4.3 Other property, plant and equipment

CHF million	2016	2015
Acquisition costs		
As at 1 January	7.3	7.1
Additions	0.1	0.4
Disposals	–1.5	–0.2
As at 31 December	5.9	7.3
Accumulated depreciation		
As at 1 January	5.7	5.5
Additions	0.4	0.4
Disposals	–1.3	–0.2
As at 31 December	4.8	5.7
Book value as at 31 December	**1.1**	**1.6**
of which pledged or subject to restricted disposability	0.0	0.0

Other property, plant and equipment comprises capitalised fit-out costs and installations for commercial and sales premises at the Zurich site (CHF 0.1 million), IT equipment (CHF 0.1 million) and works of art (CHF 0.9 million).

4.4 Financial assets

CHF million	31.12.2016	31.12.2015
Prefinancing of tenant fit-outs	136.8	143.4
Financial assets	**136.8**	**143.4**

In the Real Estate division, Allreal provided tenants with prefinancing of costs for interior fit-outs of business and commercial premises which will be repaid by the tenants over the term of their leases on an annuity basis. Final maturities for repayment of the prefinanced tenant fit-outs run until 2034, with interest rates at 1.00 to 5.55% p.a., depending on the individual contractual arrangements. Totalling CHF 123.9 million (31.12.2015: CHF 128.9 million), the largest individual positions for tenant fit-outs on the Toni site, Zurich, and on Zürcherstrasse, Winterthur, are with the canton of Zurich as counterparty. Interest received in the year under review amounted to CHF 1.8 million (2015: CHF 1.8 million) and was credited to financial income.

As at the balance sheet cut-off date, the prefinanced tenant fit-outs break down as follows:

CHF million	2016	2015
Acquisition costs		
As at 1 January	144.8	142.7
Additions	4.8	11.2
Disposals	–10.5	–9.1
As at 31 December	139.1	144.8
Accumulated depreciation		
As at 1 January	1.4	0.2
Additions	1.6	1.2
Disposals	–0.7	0.0
As at 31 December	2.3	1.4
Book value as at 31 December	**136.8**	**143.4**

4.5 Purchase of companies

On 28 July 2016, Allreal Generalunternehmung AG acquired 100% of the share capital of Bülachguss AG, Bülach, at a purchase price of CHF 39.3 million paid in cash. No transaction costs were incurred. Under the acquisition, one employee was taken on at unchanged terms.

Between the acquisition date and 31 December 2016, Bülachguss AG generated income of CHF 0.0 million and a contribution to net profit of CHF –1.5 million. This includes CHF –1.5 million (after deferred taxes) in revaluations of part of the development real estate which, subsequent to acquisition, was reclassified as investment real estate (Fangletenstrasse Bülach project).

If the acquisition of Bülachguss AG had taken place on 1 January 2016, the consolidated operating income would have been CHF 0.6 million higher at CHF 826.0 million and net profit would have increased to CHF 173.8 million.

The following identifiable net assets were taken over as a result of the acquisition:

CHF million	Fair value as at 28.07.2016
Cash	4.1
Development real estate	39.0
Assets	**43.1**
Other current liabilities	0.1
Deferred tax liabilities	3.7
Equity and liabilities	**3.8**
Net assets acquired	**39.3**
Purchase price paid	**39.3**
Purchase price charged to cash	39.3
Cash acquired	4.1
Net cash disposal	**35.2**

4.6 Intangible assets

CHF million	**2016**	2015
Acquisition costs		
As at 1 January	7.1	7.1
Additions	0.2	0.0
Disposals	–7.1	0.0
As at 31 December	0.2	7.1
Accumulated depreciation		
As at 1 January	7.1	5.2
Additions	0.0	1.9
Disposals	7.1	0.0
As at 31 December	0.0	7.1
Book value as at 31 December	**0.2**	**0.0**

4.7 Trade receivables

CHF million	**31.12.2016**	31.12.2015
Receivables Projects & Development division	24.4	62.6
Order balances Projects & Development division	22.1	27.8
Receivables Real Estate division	8.8	6.0
Trade receivables	**55.3**	**96.4**

The CHF 8.8 million in receivables due to the Real Estate division include balances (not yet due) owed by property management companies.

The actual losses on receivables in the Projects & Development division amounted to CHF 0.0 million (2015: CHF 0.1 million). For income losses in the Real Estate division see 3.1.

The maturities structure for the non-value-adjusted receivables of the Projects & Development division was as follows as at 31 December:

CHF million	**2016**	2015
Not due	22.1	58.8
Overdue by up to 30 days	1.2	3.5
Overdue by between 31 and 60 days	0.1	0.3
Overdue by between 61 and 120 days	1.0	0.0
Overdue by more than 120 days	0.0	0.0
Receivables Projects & Development division	**24.4**	**62.6**

The stated values conform to the valuation principles described under 2.14 after deduction of prepayments made for each project which as at 31 December is under construction for third parties and has not yet been billed and paid.

CHF million	**2016**	2015
Contract costs incurred	672.0	625.0
Fee income booked	59.7	54.2
Gains and losses booked	14.2	13.7
Services provided	**745.9**	**692.9**
Less prepayments received	–745.4	–694.4
Total project balances	**0.5**	**–1.5**
Of which with credit balance (recognised as trade receivables)	**22.1**	**27.8**
Of which with debt balance (recognised as trade payables)	**21.6**	**29.3**

4.8 Other receivables

CHF million	**31.12.2016**	31.12.2015
Prepaid expenses and accrued income	0.5	4.9
Receivables arising from WIR balances	0.0	0.2
Receivables arising from value added tax	1.2	1.9
Receivables arising from decontamination work	0.4	0.2
Diverse other receivables	1.2	1.1
Other receivables	**3.3**	**8.3**

4.9 Cash

Of the cash amounting to CHF 21.4 million (31.12.2015: CHF 23.4 million), CHF 16.7 million is freely disposable in the form of current account balances and CHF 4.7 million can only be used for certain third-party construction projects of the Projects & Development division. As at the balance sheet cut-off date, all funds are invested at standard market conditions with Swiss banks with at minimum a BBB+ rating (if rated).

4.10 Share capital

As at the balance sheet cut-off date, the share capital of Allreal Holding AG comprises 15 942 821 registered shares with a par value of CHF 50 each (fully paid up). Each share carries one vote and confers entitlement to attend the general meeting if entered in the share register.

Shareholdings developed as follows:

Number of shares	Shares issued	Treasury shares	Outstanding shares
2015			
Balance as at 1 January	15 942 821	1 568	15 941 253
Purchase treasury shares		205 499	
Sale treasury shares		–172 454	
Share-based reimbursement		–1 393	
As at 31 December	**15 942 821**	33 220	**15 909 601**
2016			
Balance as at 1 January	15 942 821	33 220	15 909 601
Purchase treasury shares		130 555	
Sale treasury shares		–150 713	
Share-based reimbursement		–1 062	
As at 31 December	**15 942 821**	**12 000**	**15 930 821**

On 31 December 2016, Allreal held 12 000 treasury shares (31.12.2015: 33 220 shares). The average purchase price per share stands at CHF 139.97 (31.12.2015: CHF 134.38). The total purchase price is deducted from consolidated equity.

The Board of Directors is authorised by the annual general meeting to increase the share capital – excluding the subscription rights of shareholders as applicable – until 15 April 2018 to acquire businesses, business units, participating interests or real estate through an exchange of shares, for financing or refinancing the acquisition of businesses, business units, participating interests or investment projects, or for the purpose of an international placement of shares worth up to CHF 50.0 million by issuing up to 1 000 000 registered shares each with a par value of CHF 50 (authorised capital).

For the purpose of issuing convertible bonds, warrant bonds or other financial instruments, the annual general meeting of 31 March 2006 created – excluding the subscription rights of shareholders – conditional capital of up to CHF 125.0 million through the issue of up to 2 500 000 registered shares with a par value of CHF 50 each. Bearers of the convertible and/or warrant bonds are entitled to subscribe to the new shares. This conditional capital decreased by CHF 0.2 million to CHF 124.8 million (as at 31 December 2016) following the conversion of convertible bonds into shares in previous years.

Further, Allreal Holding AG has conditional capital of CHF 10.0 million (200 000 registered shares at a par value of CHF 50 each) at its disposal for the purposes of issuing options to the members of the Board of Directors and management. This conditional capital has not been drawn on.

The Board of Directors will propose to the Allreal Holding AG annual general meeting of 21 April 2017 a distribution of CHF 5.75 per share, corresponding to a total amount of CHF 91.7 million, in the form of a repayment of reserves from contribution of capital. In 2016, CHF 91.6 million in reserves from contribution of capital were distributed to shareholders, corresponding to CHF 5.75 per share. Treasury shares are not entitled to a dividend.

4.11 Borrowings

Maturity of liabilities at nominal values

CHF million	< 1 year	1–3 years	3–5 years	> 5 years	Total
As at 31.12.2015					
Borrowings	1 003.5	6.0	306.0	462.3	1 777.8
Total in %	56.5	0.3	17.2	26.0	100.0
As at 31.12.2016					
Borrowings	683.0	131.0	327.0	460.3	1 601.3
Total in %	42.7	8.2	20.4	28.7	100.0

The financial liabilities of Allreal Group consist of bank loans secured by mortgage (fixed advances and fixed-rate mortgages) and five bond issues. The bank loans in the form of fixed advances are extended on a rolling basis. Apart from the bond issues, only bank loans with contractually agreed remaining terms to maturity greater than twelve months are reported as long-term financial liabilities.

The following bond issues with a total par value of CHF 645 million and a book value of CHF 644.4 million are recognised under borrowings:

1.375% bond issue 2015–2025

Amount	CHF 100.0 million
Issue price	100.919%
Coupon	1.375%, payable annually on 31 March
Term	10 years
Repayment	31 March 2025 at par

As at 31 December 2016, the 1.375% bond issue is recognised at CHF 100.4 million in long-term borrowings. During the period under review, CHF –0.1 million was spent on the amortisation of the issuing costs. In addition to the interest rate of 1.375% actually payable, the expense – corresponding to an effective interest rate of 1.32% – is also deferred to the income statement.

0.625% bond issue 2016–2024

Amount	CHF 150.0 million
Issue price	100.000%
Coupon	0.625%, payable annually on 10 May
Term	8 years
Repayment	10 May 2024 at par

As at 31 December 2016, the 0.625% bond issue is recognised at CHF 149.4 million in long-term borrowings, and during the period under review CHF 0.1 million was spent on the amortisation of issuing costs. In addition to the interest rate of 0.625% actually payable, the expense – corresponding to an effective interest rate of 0.68% – is also deferred to the income statement.

0.75% bond issue 2015–2021

Amount	CHF 120.0 million
Issue price	100.808%
Coupon	0.75%, payable annually on 31 March
Term	6 years
Repayment	31 March 2021 at par

As at 31 December 2016, the 0.75% bond issue is recognised at CHF 120.4 million in long-term borrowings. During the period under review, CHF –0.1 million was spent on the amortisation of the issuing costs. In addition to the interest rate of 0.75% actually payable, the expense – corresponding to an effective interest rate of 0.67% – is also deferred to the income statement.

2.00% bond issue 2013–2020

Amount	CHF 150.0 million
Issue price	100.311%
Coupon	2.00%, payable annually on 23 September
Term	7 years
Repayment	23 September 2020 at par

As at 31 December 2016, the 2.00% bond issue is recognised at CHF 149.4 million in long-term borrowings. During the period under review, CHF 0.2 million was spent on the amortisation of the issuing costs. In addition to the interest rate of 2.00% actually payable, the expense – corresponding to an effective interest rate of 2.12% – is also deferred to the income statement.

1.25% bond issue 2014–2019

Amount	CHF 125.0 million
Issue price	100.486%
Coupon	1.25%, payable annually on 2 April
Term	5 years
Repayment	2 April 2019 at par

As at 31 December 2016, the 1.25% bond issue is recognised at CHF 124.8 million in long-term borrowings. During the period under review, CHF 0.1 million was spent on the amortisation of the issuing costs. In addition to the interest rate of 1.25% actually payable, the expense – corresponding to an effective interest rate of 1.32% – is also deferred to the income statement.

As at 31 December 2016, fixed advances amounting to CHF 680.0 million and fixed-rate mortgages amounting to CHF 276.3 million (at nominal values) are in place, all of which were taken out with Swiss banks or insurance companies.

On the balance sheet cut-off date, borrowings (excluding bond issues) at nominal values existed towards the following banking groups and insurance companies:

Counterparty	2016		2015	
CHF million	Amount	Share in %	Amount	Share in %
Swiss cantonal banks	395.0	41.3	435.0	38.4
Swiss big banks	351.0	36.7	419.0	37.0
Other Swiss banks	100.0	10.5	151.0	13.3
Swiss insurance companies	110.3	11.5	127.8	11.3
Foreign banks	0.0	0.0	0.0	0.0
Total	**956.3**	**100.0**	**1 132.8**	**100.0**

The average interest rate of all financial liabilities as at 31 December 2016 is 1.67% (31 December 2015: 2.15%).

The average interest lock-in period for all financial liabilities as at 31 December 2016 is 36 months (31 December 2015: 52 months).

4.12 Provisions

The provisions for construction guarantees cover existing risks arising from completed projects of the Projects & Development division. The other provisions comprise possible outflows of funds arising from pending litigation and recognition of the net pension commitments under employee pension plans.

Short-term provisions

	Construction guarantees		Other		Total	
CHF million	**2016**	2015	**2016**	2015	**2016**	2015
As at 1 January	2.5	8.2	1.6	1.8	4.1	10.0
Allocation	2.7	1.3	0.0	0.0	2.7	1.3
Utilisation	–0.7	0.0	0.0	0.0	–0.7	0.0
Write-back	–0.3	–1.4	0.0	–0.2	–0.3	–1.6
Reclassification	0.0	–5.6	0.0	0.0	0.0	–5.6
As at 31 December	**4.2**	**2.5**	**1.6**	**1.6**	**5.8**	**4.1**

Long-term provisions

	Construction guarantees		Other		Total	
CHF million	**2016**	2015	**2016**	2015	**2016**	2015
As at 1 January	2.5	3.4	4.7	0.5	7.2	3.9
Allocation	0.0	0.0	8.7	0.0	8.7	0.0
Utilisation	0.0	0.0	0.0	0.0	0.0	0.0
Write-back	–0.7	–0.9	0.0	0.0	–0.7	–0.9
Reclassification	0.0	0.0	0.0	4.2	0.0	4.2
As at 31 December	**1.8**	**2.5**	**13.4**	**4.7**	**15.2**	**7.2**

The allocation of CHF 8.7 million to other long-term provisions relates to the change in net pension commitments under employee pension plans; see 3.11.

The provisions were reassessed and adjusted as at the balance sheet cut-off date. In the assessment of the company, the provisions formed are necessary to reflect legal or de facto liabilities arising from previous events in connection with which a cash outflow is likely. The amounts and temporary classification are based on estimates and as such are subject to uncertainties.

Provisions are classified as short-term or long-term, depending on whether they are expected to be utilised within one year or later.

4.13 Other long-term liabilities

Other long-term liabilities totalling CHF 71.8 million as at 31.12.2015 relate to the negative replacement values of the interest rate swaps (hedge accounting) with residual maturities of more than twelve months.

4.14 Trade payables

CHF million	31.12.2016	31.12.2015
Payables Projects & Development division	35.5	33.4
Order balances Projects & Development division	20.0	29.3
Trade payables	**55.5**	**62.7**

The reported values represent liabilities after deduction of corresponding counterclaims for each project, in compliance with the valuation principles described under 2.20; see also 4.7.

4.15 Prepayments for development real estate

CHF million		31.12.2016	31.12.2015
Basel	Kirschblütenweg	0.6	0.0
Bülach	Cholplatz	0.0	0.2
Erlenbach	Lerchenbergstrasse	1.0	2.2
Mettmenstetten	Pfruendmatt	1.3	3.9
Steinen	Stauffacher	0.1	0.5
Wallisellen	Escherhof	0.0	0.1
Zurich	Guggach	3.8	17.2
Prepayments for development real estate		**6.8**	**24.1**

4.16 Other current liabilities

CHF million	31.12.2016	31.12.2015
Diverse liabilities	0.1	0.5
Accrual of staff holiday entitlements	1.6	1.9
Accrued expenses and prepaid income	20.5	19.5
Other current liabilities	**22.2**	**21.9**

As at the balance sheet date, all holiday entitlement not yet utilised by employees is evaluated on the basis of individual rates of pay and is recognised as an accrual in the consolidated financial statements. As at 31.12.2016, this accrual amounted to CHF 1.6 million (31.12.2015: CHF 1.9 million).

Accrued expenses and prepaid income essentially comprise accrued interest expenses arising from financial liabilities, real estate expenses or operating expenses not yet settled and remuneration not yet paid to the Board of Directors and Group Management.

5 Additional information

5.1 Taxes

5.1.1 Breakdown of tax expense

In the income statement, expense for 2016 and 2015 breaks down as follows:

CHF million	Note	2016	2015
Current taxes on business activities	5.1.2	–23.1	–14.9
Deferred taxes on revaluation	5.1.4	–23.6	–3.6
Other deferred taxes	5.1.5	–7.6	–11.0
Total tax expense		**–54.3**	**–29.5**

5.1.2 Current taxes on business activities

Current income taxes are calculated using the actual tax rates in force.

This position comprises income taxes and property gains taxes:

CHF million	2016	2015
Income taxes	–9.0	–8.8
Property gains taxes	–14.1	–6.1
Current taxes on business activities	**–23.1**	**–14.9**

In the Projects & Development division, expenses for property gains taxes are contingent on the time of sale of development real estate; in the Real Estate division, they are contingent on sales from the portfolio. These property taxes are incurred on a cyclical basis accordingly.

5.1.3 Current tax liabilities

As at 31 December, the following receivables and liabilities are due from or owed to municipal and cantonal tax authorities:

CHF million	31.12.2016	31.12.2015
Property gains taxes	4.8	2.5
Federal, cantonal and municipal taxes 2011	0.0	–0.1
Federal, cantonal and municipal taxes 2012	–0.1	–0.2
Federal, cantonal and municipal taxes 2013	–0.6	–0.3
Federal, cantonal and municipal taxes 2014	–0.5	–0.9
Federal, cantonal and municipal taxes 2015	–2.9	8.1
Federal, cantonal and municipal taxes 2016	6.7	0.0
Current tax liabilities	**7.4**	**9.1**

5.1.4 Deferred taxes on revaluation in the income statement

The deferred taxes on revaluation break down as follows:

CHF million	2016	2015
From revaluation during current year	–23.6	–3.6
Total deferred taxes from revaluation	**–23.6**	**–3.6**

The upward valuation of CHF 85.0 million on the investment real estate led to a net charge of CHF 23.6 million to deferred taxes in the income statement, CHF –1.7 million of which was attributable to investment real estate under construction and CHF –21.9 million to yield-producing properties.

5.1.5 Other deferred taxes in the income statement

CHF million	2016	2015
From temporary valuation differences	–19.7	–19.6
From capitalised tax effects of loss carry-forwards	5.9	9.4
From recognition of bond issue	0.0	0.3
From recognition of pension commitments	0.2	0.3
From write-back as a result of property sales	6.0	–1.4
Total other deferred taxes	**–7.6**	**–11.0**

During the period under review, the temporary valuation differences between the tax-relevant individual financial statements of the Group companies and the consolidated financial statements increased, such that deferred tax income of CHF 19.7 million was charged to the income statement.

In addition, tax effects amounting to CHF 5.9 million arising from loss carry-forwards and valued at the consolidated tax rate of 22% were charged to the income statement. With the sale of four investment properties, deferred tax liabilities amounting to CHF 6.0 million net were written back.

5.1.6 Deferred tax liabilities and assets

The deferred tax liabilities from the provision for deferred taxes reported under long-term liabilities break down as follows:

CHF million	31.12.2016	31.12.2015
From higher valuation of investment real estate	95.9	71.9
From temporary valuation differences on investment real estate	96.1	91.4
From temporary valuation differences on other balance sheet items	0.2	–0.2
From recognition of bond issue	0.3	0.3
Provisions for deferred tax	**192.5**	**163.4**

The deferred tax liabilities in connection with the higher valuation of investment real estate (difference between market and acquisition value) are based on an average holding period of at least ten years from date of purchase, or year of construction in the case of new properties, and a tax rate of up to 31% (2015: 31%). Deferred taxes are calculated separately for each investment property.

Temporary valuation differences on investment real estate (difference between acquisition value and taxable book value) and other balance sheet positions record the differences between the individual financial statements of the Allreal Group companies and the consolidated financial statements. These mainly involve write-downs on investment and development real estate, additional value adjustments on receivables and the recognition of additional provisions deducted from the current tax assessment.

Valuation differences on write-downs on investment real estate in the canton of Zurich and on other balance sheet positions are calculated at a consolidated tax rate of 21 to 22% (2015: 22%). A tax rate of 14 to 24% (2015: 15%) was applied to valuation differences on write-downs on investment real estate outside the canton of Zurich.

In 2016, with the amortisation of the bond issues, deferred taxes totalling CHF 0.1 million were credited to the income statement (2015: CHF 0.3 million) and with the issue of the 0.625% bond 2016–2024 deferred taxes of CHF –0.1 million were recognised in income.

Deferred tax assets comprise the following positions:

CHF million	**2016**	2015
From tax loss carry-forwards	31.0	25.1
From recognition of pension commitments	2.8	0.9
From temporary valuation differences on other balance sheet items	0.8	0.3
From negative replacement values of interest rate swaps	0.0	15.9
Deferred tax assets	**34.6**	**42.2**

As at 31 December 2016, capitalised deferred taxes existed on tax loss carry-forwards of CHF 31.0 million (31.12.2015: CHF 25.1 million) relating to Group companies domiciled in Zurich which reported cumulative losses in the individual financial statements, which losses are likely to be offset against gains in the following years (expiry of first tax loss carry-forward as of 2018). A tax rate of 22% was applied (2015: 22%).

The recognition of pension commitments results in deferred tax assets amounting to CHF 2.8 million as at the balance sheet cut-off date (31.12.2015: CHF 0.9 million), representing a year-on-year increase of CHF 1.9 million, CHF 1.7 million of which was taken directly to other earnings and CHF 0.2 million to income.

5.1.7 Reconciliation

The following table shows the reconciliation between the theoretical tax rates applicable to the Group and the effective taxes.

CHF million		**2016**	2015
Earnings before tax		227.9	151.4
Reference tax rate	%	22.0	22.0
Expected tax expense at the reference tax rate		50.1	33.3
Adjustment of tax effects on revaluations		4.9	–0.1
Deferred taxes credited for previous years		–2.8	–3.2
Income subject to a lower tax rate		–2.4	–1.9
Income subject to higher tax rate		4.5	1.4
Effective tax expense		**54.3**	**29.5**

The reference tax rate used is the sum total of the national, cantonal and municipal income tax rates which are applied on average.

The adjustment of tax effects on revaluations reflects the change in the upward and downward valuations of investment properties and their cumulative balance, encumbered with up to 31% deferred taxes and as the difference versus the reference tax rate of 22%.

The credit of CHF 2.8 million for current taxes of previous years results from the recalculation of the tax status of each Group company on the basis of tax returns submitted or definitive tax assessments received.

Income subject to a lower tax rate factors in that a number of the Group companies are domiciled at locations where the total tax burden is significantly lower than the consolidated tax rate of 22%.

Income subject to a higher tax rate factors in that gains on real estate subject to property gains tax are taxed at total tax rates of up to 35% and are therefore above the consolidated tax rate of 22%. In particular, this relates to gains taxed in connection with the invoicing of completed projects in the Projects & Development division or from the sale of investment properties in the Real Estate division.

5.2 Capital commitments, contingent liabilities and legal disputes

CHF million	**31.12.2016**	31.12.2015
Purchase commitments	18.5	35.0
Guarantees and sureties	0.0	0.0

The capital commitments relate to contractual agreements for the acquisition of development real estate. Whether the commitment is invoked depends on the fulfilment of the conditions agreed with the counterparties.

As in the previous year, there are no guarantees or sureties in favour of third parties. Beyond this, in the individual financial statement, Allreal Holding AG has issued guarantees and sureties amounting to an additional CHF 421.6 million in connection with financings and derivative financial transactions with third parties on behalf of individual subsidiaries (2015: CHF 539.6 million).

As at 31 December 2016, there are no pending legal disputes of a nature liable to have a significant impact on the asset and income situation of Allreal Group for which no corresponding provisions are in place.

5.3 Assets pledged as security for own liabilities

CHF million	31.12.2016	31.12.2015
Investment real estate	3 574.5	3 525.2
Development real estate	165.7	295.5
Total assets affected	3 740.2	3 820.7
of which pledged or subject to restricted disposability	**3 055.6**	**3 223.1**
of which actually utilised (borrowings)	956.3	1 132.8

5.4 Financial instruments

5.4.1 Management of finance and capital

In the context of the financing strategy, in the investment and financing guidelines last amended on 1 October 2013 the Board of Directors issued rules on the extent to which Allreal Group can take out external debt. The share of consolidated equity must be over 35% on the balance sheet cut-off date, net gearing must not exceed 150%, the interest coverage ratio must not fall below 2.0 and the investment and development real estate balance sheet positions may only be refinanced with a maximum of 70% interest-bearing borrowings.

The Board of Directors reviews the capital structure on a quarterly basis and monitors in particular compliance with the limits set out in the investment and financing guidelines. Capital management encompasses both equity capital and interest-bearing borrowings (financial debt).

The contractual terms agreed with lenders regarding minimum capitalisation (financial covenants) are identical to those laid down by the internal investment and financing guidelines. During the period under review, they were complied with without exception and are as follows as at the balance sheet cut-off date:

Equity ratio
(equity as a percentage of total assets)

CHF million	31.12.2016	31.12.2015
Equity	2 086.8	1 994.1
Equity and liabilities	3 992.9	4 136.0
Equity ratio	**52.3%**	**48.2%**

Net gearing
(net financial debt as a percentage of consolidated equity)

CHF million	31.12.2016	31.12.2015
Borrowings	1 600.7	1 777.6
Cash	–21.4	–23.4
Net financial debt	**1 579.3**	**1 754.2**
Equity	**2 086.8**	**1 994.1**
Net gearing	**75.7%**	**88.0%**

Interest coverage ratio
(EBITDA excl. revaluation gains divided by net financial expense)

CHF million	31.12.2016	31.12.2015
EBITDA excl. revaluation gains	181.0	179.7
Net financial expense	37.7	41.8
Interest coverage ratio	**4.8**	**4.3**

Refinancing of properties
(Borrowings in percent of the book value of investment and development real estate)

CHF million	31.12.2016	31.12.2015
Borrowings	**1 600.7**	**1 777.6**
Investment real estate	3 574.5	3 525.2
Development real estate	165.7	295.5
Total real estate	**3 740.2**	**3 820.7**
Refinancing of properties	**42.8%**	**46.5%**

If the financial covenants are not complied with, the lenders are contractually entitled to raise the margins for financing, introduce amortisation obligations or demand full repayment of loans.

5.4.2 Financial risk management

Allreal Group is exposed to various financial risks stemming from the market, changes in interest rates, receivables, refinancing and liquidity. Risk management is conducted in compliance with the investment and financing guidelines approved by the Board of Directors. The operational implementation of the guidelines is undertaken directly by the Chief Executive Officer or the Chief Financial Officer, who submits reports to Group Management on key financial ratios at least once a month. The Board of Directors is informed of the development of financial risks in writing every three months by Group Management.

5.4.3 Market interest rate risk

Fluctuations in the market interest rate give rise to an interest rate risk for Allreal as part of the borrowings are in the form of fixed advances with mortgage collateral or mortgage loans on a short-term basis up to a maximum of 6 months. Advances are taken out with banks and are denominated exclusively in Swiss francs. As at the balance sheet cut-off date, these advances amounted to CHF 683 million, corresponding to 42.7% of all borrowings.

The remaining financial liabilities are refinanced through bond issues and fixed-rate mortgages to prevent interest rate risk during their term.

In previous years, payer swaps were concluded to reduce risk, but they caused an additional increase in interest expense as a consequence of negative CHF interest rates. For this reason, all outstanding interest rate swaps were terminated early on 6 December 2016.

The maturity structure is reviewed by the Board of Directors and Group Management at least quarterly and the risks are analysed by means of simplified liability management. The aim is to achieve an even distribution of the maturities structure of the financial liabilities.

For the purposes of a sensitivity analysis, it was assumed that all balance sheet positions as at 31 December were in place on the same scale for a whole year and that the interest rate level changes by one percentage point at the beginning of the period. This would mean that net profit would remain unchanged if interest rates fell by 1%. If interest rates were to go up by 1%, net profit would decrease by CHF 0.7 million (2015: CHF 1.4 million/CHF –5.7 million).

5.4.4 Credit risk

The credit risk to which Allreal is exposed is that a counterparty might be unable to meet its financial obligations owing to default, resulting in losses for the Group. Customers' payment arrears and credit standing are continuously monitored in both the Projects & Development division and the Real Estate division. Monthly reports with comments on the largest positions are submitted to Group Management.

Trade receivables and other receivables consist of a large number of balances owed by counterparties in the Projects & Development division and owed by tenants and property management companies in the Real Estate division. Receivables from tenancies are typically secured via separate bank guarantees or tenant deposits. There are no concentrations of risk in which a single debtor accounts for more than 20% of total trade receivables. Payments on account are periodically requested for current construction projects. Allreal's close monitoring of receivables explains its low historical default rate.

The credit risk relating to cash and derivative financial instruments is considered small as the counterparties consist solely of banks and insurance companies with good credit ratings (minimum long-term rating of BBB+). Allreal endeavours to work with a large number of banks which mainly operate in Switzerland. At CHF 10.6 million, the maximum default risk relating to cash is lower than the book value of CHF 21.4 million, since with a number of lending banks waiver of the right to offset credit balance against liabilities was contractually excluded.

The maximum default risk relating to receivables and other claims corresponds to the book value. The guarantees and sureties issued in favour of banks in connection with financing transactions are not likely to give rise to any additional charges greater than the recognised borrowings from banks and insurance companies amounting to CHF 956.3 million.

As at the balance sheet cut-off date, the credit risk relating to financial assets amounts to CHF 136.8 million, which corresponds to the balance sheet item.

5.4.5 Refinancing and liquidity risk

As at the balance sheet cut-off date, unutilised immediately callable credit limits granted by banks are in place in an amount of CHF 589 million. The binding financial ratios agreed with banks in the credit agreements are the same as those laid down in the investment and financing guidelines; during the period under review they were complied with at all times. Three-year medium-term planning is in place for Allreal Group which ensures that the thresholds are complied with on a rolling basis through early extension of maturing loans. Under the financial covenants, Allreal has the option of taking out around CHF 1.5 billion in new borrowings before new equity is required.

The following breakdown shows the non-discounted payment outflows of existing liabilities. In accordance with contractual agreements, the earliest possible repayments are entered as the maturity dates.

Interest and nominal amount payments on liabilities

CHF million	Book value	< 1 year	1–3 years	> 3 years
As at 31.12.2015				
Borrowings (including interest)	1 777.6	1 017.4	21.4	803.7
Derivative financial transactions	71.8	12.8	21.8	20.7
Trade payables (excluding order balances)	33.4	33.4	0.0	0.0
Other current liabilities	20.0	20.0	0.0	0.0
Total	**1 903.0**	**1 060.2**	**47.5**	**850.8**
As at 31.12.2016				
Borrowings (including interest)	1 600.7	695.1	152.7	810.8
Trade payables (excluding order balances)	35.5	35.5	0.0	0.0
Other current liabilities	20.6	19.7	0.9	0.0
Total	**1 656.8**	**750.3**	**153.6**	**810.8**

5.4.6 Market valuation of financial assets and liabilities

Financial assets and borrowings are recognised using the amortised cost method.

In the previous year, derivative financial instruments (interest rate swaps) were stated at market value as at the balance sheet cut-off date, by estimating and discounting future payment flows at current interest rates on 31 December 2015. Because the contracts are standardised, it is possible to value them on the basis of current interest rates. Allreal has the interest rate swaps calculated by third parties.

All financial instruments carried at fair value are broken down into categories.

Allocation to the individual categories is dependent on the database for calculating the fair values.

Category 1: Fair value using prices quoted on an active market (stock exchange)
Category 2: Fair value using a valuation method whose input factors are derived from an active market
Category 3: Fair value using a valuation method whose input factors are not observable on an active market

CHF million	Category 1	Category 2	Category 3	Total
As at 31.12.2015				
Liabilities from derivative financial instruments (net)	0.0	–71.8	0.0	–71.8
As at 31.12.2016				
Liabilities from derivative financial instruments	0.0	0.0	0.0	0.0

In 2016 and 2015 there were no reclassifications within the categories.

With the exception of the borrowings shown below, it can be assumed that the book values of the financial assets and the other financial liabilities correspond to fair values.

CHF million		Fair value category	Nominal value	**31.12.2016 Book value**	**31.12.2016 Fair value**	31.12.2015 Book value	31.12.2015 Fair value
2.00% bond issue	2013–23.09.2020	1	150.0	149.4	159.9	149.2	160.4
1.25% bond issue	2014–02.04.2019	1	125.0	124.8	128.4	124.7	129.0
2.50% bond issue	2011–12.05.2016	1	150.0	–	–	149.9	151.3
0.75% bond issue	2015–31.03.2021	1	120.0	120.4	122.2	120.5	122.3
1.375% bond issue	2015–31.03.2025	1	100.0	100.4	106.4	100.5	103.4
0.625% bond issue	2016–10.05.2024	1	150.0	149.4	150.0	–	–
Fixed-rate mortgages		2	276.3	276.3	286.6	296.8	307.3

The fair values of the bond issues correspond to the market price as at the balance sheet cut-off date. The fair values of the fixed-rate mortgages are determined using the CHF interest rates current as at 31 December for the respective terms (at least 0.0%) plus a credit margin of 0.70% (2015: 0.8%).

The following table shows the book and market values (fair values) of all financial instruments recognised on the balance sheet.

CHF million	**31.12.2016 Book value**	**31.12.2016 Market value**	31.12.2015 Book value	31.12.2015 Market value
Financial assets				
Assets at amortised cost	192.1	192.1	239.8	239.8
Cash	21.4	21.4	23.4	23.4
Loans and receivables	213.5	213.5	263.2	263.2
Financial liabilities				
Borrowings at amortised cost	1 600.7	1 633.5	1 777.6	1 809.7
Other liabilities at amortised cost	56.1	56.1	53.4	53.4
Derivative financial instruments used for hedge accounting	0.0	0.0	71.8	71.8

5.5 Transactions with related parties

Related parties consist of those shareholders who have formed a group under the shareholders' pooling agreement with a view to complying with the "Lex Koller" requirements and as at the balance sheet cut-off date hold 38.80% of the share capital of Allreal Holding AG, the Board of Directors, Group Management and the Allreal pension fund.

The seven members of the Board of Directors received fixed remunerations totalling CHF 0.63 million (2015: CHF 0.70 million), which is paid out after the annual accounts have been approved by the annual general meeting. These persons do not receive any other remuneration.

Name	Title	2016	2015
		CHF million	CHF million
Bruno Bettoni	Chairman since 15.04.2016	0.15	0.23
Dr Thomas Lustenberger	Chairman until 15.04.2016	–	0.15
Dr Ralph-Thomas Honegger	Vice Chairman	0.08	0.08
Albert Leiser	Member	0.08	0.08
Olivier Steimer	Member	0.08	0.08
Peter Spuhler	Member	0.08	0.08
Andrea Sieber	Member since 15.04.2016	0.08	–
Thomas Stenz	Member since 15.04.2016	0.08	–

The remuneration of the Board of Directors is paid directly by Allreal Holding AG. The members of Group Management are employees of Allreal Generalunternehmung AG – a wholly owned subsidiary of Allreal Holding AG – which pays the remuneration of these persons. All amounts represent gross payments before the social insurance contributions paid by the remuneration recipients. The employer's share of the social insurance contributions is not included.

In the period under review, remuneration totalling CHF 3.12 million (2015: CHF 3.74 million) paid to Group Management was recognised in the consolidated financial statements, out of which the highest total remuneration of CHF 1.15 million (2015: CHF 0.96 million) was paid to Roger Herzog.

Variable bonuses will be paid out in cash after the annual accounts and the compensation report have been approved by the Board of Directors.

CHF million	2016	2015
Roger Herzog, Chief Executive Officer		
Fixed basic salary	0.73	0.64
Employer's contributions management pension plan	0.10	0.04
Variable bonus in form of cash payment	0.25	0.22
Variable remuneration in form of shares[1]	0.07	0.06
Total remuneration	1.15	0.96
Other members of Group Management		
Fixed basic salaries	1.24	1.75
Employer's contributions management pension plan	0.23	0.23
Variable bonuses in form of cash payment	0.41	0.70
Variable remuneration in form of shares[1]	0.09	0.10
Total remuneration	1.97	2.78

[1] Calculated at the market value on date of allocation

In summary, the following remunerations paid to the Board of Directors and Group Management were recognised in the consolidated financial statements:

CHF million	2016	2015
Short-term benefits	3.59	4.28
Benefits paid after termination of employment contract	0.00	0.00
Termination payments	0.00	0.00
Benefits from shares and option plans	0.16	0.16
Other long-term benefits	0.00	0.00
Total	**3.75**	**4.44**

In the period under review and in the previous year, no loans, credits or sureties were granted to members of the Board of Directors and Group Management or parties related to them, nor to former members of these bodies.

On 19 April 2016, Allreal Holding AG sold 200 registered shares to one member of the Board of Directors at the market price of CHF 135.20 (transaction value: CHF 0.03 million) and on 20 April 2016 bought 250 registered shares from one member of Group Management at the market price of CHF 135.40 (transaction value: CHF 0.03 million).

As at 31 December 2016, the following members of the Board of Directors and Group Management were directly or indirectly invested in Allreal Holding AG:

Name	Title	Number of shares	Value in CHF million	Number of shares	Value in CHF million
			2016		2015
Bruno Bettoni	Chairman of the Board of Directors since 15.04.2016	18 180	2.75	18 180	2.43
Dr Thomas Lustenberger	Chairman of the Board of Directors until 15.04.2016	–	–	6 381	0.85
Dr Ralph-Thomas Honegger	Vice Chairman of the Board of Directors	400	0.06	200	0.03
Olivier Steimer	Member of the Board of Directors	1 000	0.15	1 000	0.13
Thomas Stenz	Member of the Board of Directors since 15.04.2016	220	0.03	–	–
Peter Spuhler	Member of the Board of Directors	266 000	40.25	266 000	35.54
Roger Herzog	Chief Executive Officer	1 471	0.22	1 105	0.15
Hans Engel	Member of Group Management	142	0.02	145	0.02
Alain Paratte	Member of Group Management	682	0.10	486	0.06
Nigel Woolfson	Member of Group Management	712	0.11	499	0.07
Bernhard Marti	Member of Group Management until 21.09.2016	–	–	155	0.02

The shareholding of the Helvetia Group, St. Gallen, in which Dr Ralph-Thomas Honegger performs the function of Chief Investment Officer (CIO) and is a member of management, is not included in the table.

The shares held by the members of the Board of Directors and Group Management correspond to 1.81% of the share capital of the company (31.12.2015: 1.84%).

During the year under review, the Projects & Development division carried out construction projects for a total of CHF 18.7 million (2015: CHF 25.0 million) for several parties to the shareholders' pooling agreement under standard market conditions, which corresponds to 4.5% of income from realisation Projects & Development (2015: 4.1%).

The Helvetia Group, which holds 10.0% of Allreal Holding AG's share capital, is represented on the Board of Directors of Allreal Holding AG by Dr Ralph-Thomas Honegger. Insurance contracts (policies covering buildings, construction and personnel) are in place between the Helvetia Group and individual Allreal companies with an annual premium volume of CHF 1.2 million (2015: CHF 1.1 million).

A buildings insurance policy with an annual premium volume of CHF 0.13 million (2015: CHF 0.13 million) is held with the Swiss Mobiliar Group, which is a member of the shareholders' pooling agreement through a subsidiary. Allreal was granted fixed mortgages amounting to CHF 52.5 million (CHF 37.5 million at 1.55% and CHF 15.0 million at 1.90%) with terms running until 2022.

Privatbank IHAG Zurich AG, which belongs to the group of companies of the core shareholder IHAG Holding AG, has granted Allreal loans secured by mortgage totalling CHF 20.0 million (interest rate of 0.50% with a term until January 2017). The bank has also been entrusted with the task of market making for the company (fees of CHF 0.08 million).

For several years, Allreal has had a business relationship with Banque Cantonale Vaudoise, where Olivier Steimer, member of the Board of Directors of Allreal Holding AG, holds the office of Chairman of the Board of Directors. As at the balance sheet cut-off date, there are mortgage-backed loans in the amount of CHF 50.0 million (interest rate of 0.6% with terms to February 2017) in place.

Allreal obtains legal consulting services from several law firms, including Meyerlustenberger Lachenal Attorneys at Law, in which Andrea Sieber is a partner. In the 2016 financial year, Allreal was charged fees amounting to CHF 0.057 million (2015: CHF 0.061 million).

The Allreal pension fund holds Allreal registered shares with a value of CHF 1.7 million (2015: CHF 1.5 million). As at the balance sheet cut-off date, there are no receivables or liabilities between the Allreal pension fund and the Allreal companies. During the period under review, Allreal's employer's contributions amounted to CHF 2.5 million (2015: CHF 2.8 million).

Taking the above-mentioned into account, as at the balance sheet date, there are no significant outstanding receivables or liabilities between any related parties, and no other transactions with related parties took place in 2016.

5.6 Intracompany relationships

The transactions between the individual Group companies are carried out at arm's length. This also applies in particular to building services provided to the Real Estate division by the Projects & Development division.

In addition, the Projects & Development division performs management services for the other parts of the company. In 2016, it received CHF 5.0 million (2015: CHF 4.8 million) from the Real Estate division as well as CHF 0.6 million (2015: CHF 0.6 million) from Allreal Holding AG for such services. These sums were eliminated in the consolidated financial statements.

5.7 Events after the balance sheet date

Between 31 December 2016 and 7 February 2017 (date on which the consolidated financial statements were approved by the Board of Directors), no further events took place which would result in any adjustments to the book values of the assets and liabilities or which would need to be disclosed here.

Information on the real estate portfolio

Residential real estate as at 31 December 2016

Location	Address	Ownership status[1]	Year acquired	Year of construction	Renovation [2]	Site area in m²	Register of suspected contaminated sites	Minergie	Habitable area in m²
City of Zurich									
Zurich	Hardturmstrasse 5	CO[7]	2004	2014		2 651	no	yes	6 087
Zurich	Heerenwiesen 23–41	CoO[5]	2003	1996		6 970	no	no	4 670
Zurich	Josefstrasse 137	SO	1999	1984		903	no	no	2 747
Zurich	Neunbrunnenstrasse 47–53	SO	1993	2013		4 291	yes	yes	4 640
Zurich	Schiffbaustrasse 7[6]	SO	2010	2016		1 610	no	yes	2 333
Zurich	Zollikerstrasse 185–187	SO	2008	1984		1 445	no	no	1 637
Total city of Zurich						**17 870**			**22 114**
Rest of Canton of Zurich									
Adliswil	Moosstrasse 1–13 / Grütstrasse 33–39	SO	2005	2011		13 901	no	yes	13 299
Bülach	Hohfuristrasse 7–11 / Unterweg 55–59 / Im Stumpen 2	SO	1999	1979	2013 TR	8 412	no	no	3 850
Fällanden	Unterdorfstrasse 2 / 4 / Unterdorfwäg 2–22	SO	2003	2008		23 691	no	no	14 903
Glattbrugg	Hohenstieglen-strasse 1–23, 2–16	SO	1999	1990		29 639	no	no	14 654
Kloten	Schaffhauserstrasse 117 / 119	SO	2001	1992		3 643	no	no	2 090
Oberglatt	Chlirietstrasse 6, 8, 10	SO	2003	1974	2006 / 2007 PR	2 028	no	no	2 479
Schlieren	Limmataustrasse 2–8 / Limmatstrasse 9–11 / Engstringermatte	SO	1999	1984		8 907	no	no	5 100
Schlieren	Schulstrasse 71–77 / Flöhrebenstrasse 6	CO[7]	2002	1988		2 543	no	no	3 332
Volketswil	Sunnebüelstrasse 1–17 / Ifangstrasse 12–20 / Neufund 1/3	SO	1999	1968	2002 / 2003 TR	20 110	no	no	12 236
Wallisellen	Escherweg 2–6 / Favreweg 1–5 / Richtiarkade 13–15 / Richtiring 14–16	SO	2002	2014		8 242	no	yes	13 856
Total rest of Canton of Zurich						**121 116**			**85 799**
Other regions									
Allschwil	Kurzelängeweg 26–38 + 32a	SO	1999	1989	2010 PR	6 260	no	no	4 015
Basel	Achilles Bischoff-Strasse 2–10	SO	2006	1969	2009 TR	2 420	no	no	5 954
Basel	Grosspeterstrasse 45 / St.-Jakobs-Strasse 108	SO	2006	1995		2 067	no	no	3 022
Gland	Chemin du Molard 10 / Allée Leotherius 2 / Allée Louis Cristin 1	SO	2011	2014		1 173	no	yes	4 981
Total other regions						**11 920**			**17 972**
Total residential real estate						**150 906**			**125 885**

[1] SO = sole ownership; CoO = co-ownership; CO = condominium ownership
[2] TR = total renovation; PR = partial renovation
[3] Cumulative vacancy rate as a percentage of target rental income for 2016
[4] As per 31.12.2016 valuation (nominal rates)
[5] 60% co-ownership Allreal
[6] Rental income from 01.06.2016
[7] Condominium property owned 100% by Allreal

1–1½-room apartments	2–2½-room apartments	3–3½-room apartments	4–4½-room apartments	≥ 5-room apartments	Total apartments	Other uses in m^2	Target rental income in CHF million for 2016	Vacancy rate in %[3]	Discount/capitalisation rate in %[4]
0	17	27	6	1	51	0	2.6	9.1	3.80/3.30
5	7	15	17	4	48	1 799	1.4	0.5	3.90/3.40
4	36	0	0	0	40	212	0.8	0.8	3.60/3.10
0	0	14	21	5	40	0	1.5	1.3	3.80/3.30
0	3	16	3	1	23	1 002	0.9	12.4	3.90/3.40
2	2	4	4	2	14	165	0.6	0.2	3.50/3.00
11	**65**	**76**	**51**	**13**	**216**	**3 178**	**7.8**	**4.7**	
0	27	62	38	10	137	350	3.7	0.4	3.80/3.30
0	9	16	18	6	49	50	1.0	2.0	4.00/3.90
0	20	41	56	22	139	2 392	4.0	2.0	4.10/3.60
18	30	71	41	0	160	659	3.1	1.2	3.90/3.40
0	4	0	10	4	18	200	0.5	0.0	3.90/3.40
0	17	17	0	0	34	9	0.5	0.4	4.00/3.50
0	18	24	12	0	54	286	0.9	0.9	3.80/3.30
0	0	24	16	0	40	354	0.8	3.8	3.90/3.40
0	0	48	60	40	148	110	2.4	0.4	3.90/3.40
1	18	75	22	2	118	1 208	4.0	3.6	3.90/3.40
19	**143**	**378**	**273**	**84**	**897**	**5 618**	**20.9**	**1.6**	
0	7	20	20	0	47	490	1.0	3.8	4.10/3.60
28	24	28	24	0	104	1 040	1.6	1.1	3.90/3.40
5	19	11	8	0	43	47	0.9	3.9	4.00/3.50
1	21	29	9	5	65	0	1.6	0.0	4.20/3.70
34	**71**	**88**	**61**	**5**	**259**	**1 577**	**5.1**	**1.8**	
64	**279**	**542**	**385**	**102**	**1 372**	**10 373**	**33.8**	**2.4**	

Commercial real estate as at 31 December 2016

Location	Address	Ownership status[1]	Year acquired	Year of construction	Renovation[2]	Site area in m[2]
City of Zurich						
Zurich	Bändliweg 21	SO	2005	1995		9 254
Zurich	Bellerivestrasse 30	SO	2004	1986	2016/2017 TR	2 316
Zurich	Bellerivestrasse 36	SO	2004	1974	2009/2010 PR	10 494
Zurich	Binzmühlestrasse 95–99/Therese Giehse-Strasse 1	SO	2005	2001		11 712
Zurich	Birmensdorferstrasse 108/Weststrasse 75	SO	2000	1983	2007/2008 TR	1 254
Zurich	Brandschenkestrasse 38/40	SO	2001	1992	2013 PR	1 402
Zurich	Förrlibuckstrasse 109 (Toni site)	SO	2007	1977/2014		24 477
Zurich	Grüngasse 27–31/Badenerstrasse 119–133	SO	2002	1925	2006/2007 PR	7 870
Zurich	Hardstrasse 319 (Escher-Wyss site)[5]	SO	2002	1945/2010	2015 PR	40 350
Zurich	Herostrasse 12	SO	2010	2014		4 027
Zurich	Hohlstrasse 600	SO	2001	1986	2006/2012 TR	2 894
Zurich	Kalchbühlstrasse 22/24	SO	2000	1976	2014/2015 TR	3 101
Zurich	Kreuzstrasse 5	LO	2004	2006		3 333
Zurich	Renggerstrasse 3	SO	1999	1966	2001 PR	1 389
Zurich	Vulkanstrasse 106	SO	2002	2005		12 295
Zurich	Weststrasse 74	SO	1996	1995		1 482
Zurich	Zollikerstrasse 183	SO	2008	1984	2007 PR	3 371
Zurich	Zollstrasse/Josefstrasse 23–29/Klingenstrasse 4	SO	1993/2006	1997	2016 PR	4 201
Total city of Zurich						**145 222**

[1] SO = sole ownership; LO = leasehold owned 100% by Allreal
[2] TR = total renovation; PR = partial renovation
[3] Cumulative vacancy rate as a percentage of target rental income for 2016
[4] As per 31.12.2016 valuation (nominal rates)
[5] Valuation as at 31.12.2016 according to IFRS 13

Register of suspected contaminated sites	Minergie	Floor space in m²	Percentage of office space	Percentage of retail space	Percentage of residential space	Percentage of other uses	Target rental income in CHF million for 2016	Vacancy rate in %[3]	Discount/ capitalisation rate in %[4]
no	no	18 642	90.8	0.0	0.0	9.2	7.0	0.0	4.50/4.00
no	no	3 078	94.7	0.0	0.0	5.3	1.5	62.3	4.50/4.00
no	no	11 950	73.6	0.0	0.0	26.4	5.7	0.3	4.30/3.80
no	no	26 139	7.8	54.6	32.7	4.9	7.0	3.8	4.40/3.90
no	no	4 743	74.5	3.0	10.5	12.0	1.4	2.2	4.40/3.90
no	no	4 856	33.8	0.0	19.3	46.9	2.1	22.1	4.30/3.80
yes	yes	87 004	87.2	0.0	12.8	0.0	21.0	2.8	4.20/3.80
yes	no	12 847	16.5	7.6	32.8	43.1	3.3	4.2	4.14/3.64
yes	no	50 432	32.3	0.0	0.0	67.7	10.3	0.9	–/–
no	yes	11 256	95.8	0.0	0.0	4.2	3.6	28.3	4.50/4.00
no	no	10 190	91.0	0.0	0.0	9.0	4.3	0.0	4.70/4.20
no	no	6 244	45.8	0.0	6.0	48.2	1.6	0.6	4.70/4.20
no	no	1 628	95.7	0.0	0.0	4.3	1.0	0.0	4.20/3.70
no	no	1 729	77.1	0.0	0.0	22.9	0.5	0.1	4.60/4.10
no	yes	36 311	95.1	0.0	0.0	4.9	11.5	0.1	4.60/4.10
no	no	3 277	33.5	0.0	55.3	11.2	0.9	13.8	4.20/3.70
no	no	2 777	81.7	0.0	0.0	18.3	1.3	0.0	4.50/4.00
no	no	10 703	57.0	3.3	29.8	9.9	4.1	4.7	4.30/3.80
		303 806	**66.2**	**5.2**	**9.7**	**18.9**	**87.8**	**4.4**	

Commercial real estate as at 31 December 2016

Location	Address	Ownership status[1]	Year acquired	Year of construction	Renovation[2]	Site area in m[2]
Rest of Canton of Zurich						
Bassersdorf	Grindelstrasse 3/5	SO	2008	1988	2001 PR	6 004
Dübendorf	Sonnentalstrasse 8	SO	2015	1974	2006 PR	16 621
Glattbrugg	Thurgauerstrasse 111	SO	1997	1969	1995 PR	4 086
Kloten	Schaffhauserstrasse 115/121	SO	2001	1992		4 000
Opfikon	Boulevard Lilienthal 2–8	SO	2007	2014		5 167
Opfikon	Lindbergh-Allee 1[5]	SO	1987	2007		5 241
Schlieren	Bernstrasse 55	SO	2003	2003		7 089
Schlieren	Zürcherstrasse 104	SO	2002	1988	2012 TR	4 724
Urdorf	In der Luberzen 29	SO	2000	1993		4 667
Wallisellen	Allianz office building[6]	SO	2002	2013		13 078
Wallisellen	UPC office building[7]	SO	2002	2014		16 875
Winterthur	Schützenstrasse 2/Zürcherstrasse 12/14[8]	SO	2002	1928/53/86		18 386
Total rest of Canton of Zurich						**105 938**
Other regions						
Baar	Baarermatte	SO	2002	1981		17 960
Basel	Missionsstrasse 60–62a	SO	1999	1972	2014 TR	1 811
Basel	Missionsstrasse 64–64a	SO	2007	1972	2014 TR	1 658
Basel	Steinenvorstadt 36	SO	1999	1982	2012/2013 PR	718
Basel	Viaduktstrasse 40–44/Binningerstrasse 35	SO	2009	1998		5 454
Le Grand-Saconnex	Route François-Peyrot 10–14	SO	2011	2004		8 442
Petit-Lancy	Chemin des Olliquettes 4/Chemin du Gué 99	SO	2008	2010		1 417
Total other regions						**37 460**
Total commercial real estate						**288 620**

[1] SO = sole ownership
[2] TR = total renovation; PR = partial renovation
[3] Cumulative vacancy rate as a percentage of target rental income for 2016
[4] As per 31.12.2016 valuation (nominal rates)
[5] Lightcube office building and co-ownership rights to the TMC Galleria car park
[6] Allianz office building with retail space in Konradhof and Escherhof
[7] UPC office building with retail space and peripheral plots
[8] Three properties

Register of suspected contaminated sites	Minergie	Floor space in m[2]	Percentage of office space	Percentage of retail space	Percentage of residential space	Percentage of other uses	Target rental income in CHF million for 2016	Vacancy rate in %[3]	Discount/ capitalisation rate in %[4]
no	no	12 586	55.9	0.0	0.0	44.1	1.8	21.7	5.90/5.00
no	no	26 006	25.9	1.5	0.5	72.1	2.5	0.0	4.90/4.40
no	no	7 417	9.0	74.7	0.0	16.3	1.8	19.9	5.40/4.90
no	no	4 343	97.5	0.0	0.0	2.5	0.9	0.8	5.00/4.90
no	yes	13 414	93.2	0.0	0.0	6.8	3.8	0.0	4.81/4.31
no	yes	13 314	90.8	0.0	0.0	9.2	4.4	22.3	4.80/4.30
no	no	10 193	88.2	0.0	0.0	11.8	2.0	6.3	4.80/4.30
no	no	2 705	35.5	43.1	0.0	21.4	0.9	0.0	5.20/4.70
yes	no	9 456	74.1	0.0	0.0	25.9	1.7	44.2	5.90/5.40
no	yes	50 819	74.7	12.9	0.0	12.4	13.5	2.4	4.70/4.20
no	yes	25 525	77.8	16.1	0.0	6.1	9.7	5.7	4.70/4.20
no	no	24 319	82.1	0.0	0.0	17.9	5.3	10.1	4.78/4.28
		200 097	**68.8**	**8.9**	**0.1**	**22.1**	**48.4**	**8.0**	
no	no	10 112	76.4	0.0	0.0	23.6	2.8	15.1	4.80/4.30
no	no	3 985	81.8	0.0	8.0	10.2	1.2	0.3	4.60/4.10
no	no	2 829	71.9	0.0	3.4	24.7	0.6	0.3	4.60/4.10
no	no	4 292	37.5	27.8	30.3	4.4	1.5	3.2	4.90/4.00
no	no	20 213	61.8	20.2	0.0	18.0	5.4	1.3	4.80/4.10
no	no	5 498	92.8	0.0	0.0	7.2	3.2	16.3	4.70/4.20
yes	yes	5 516	91.8	0.0	0.0	8.2	2.2	0.0	4.50/4.00
		52 445	**71.1**	**10.1**	**3.3**	**15.6**	**16.9**	**6.3**	
		556 348	**67.6**	**7.0**	**5.6**	**19.7**	**153.1**	**5.7**	

Disposals of yield-producing properties

Location	Address	Type[1]	Year of construction	Transfer of ownership
Dietlikon	Alte Dübendorferstrasse 17	CP	1954	01.03.2016
Zurich	Badenerstrasse 141[2]	CP	1954	01.04.2016
Zurich	Lagerstrasse 41/45	CP	1954	01.03.2016
Zurich	Max Högger-Strasse 2	CP	1954	01.03.2016

[1] CP = commercial property, RP = residential property
[2] Leasehold

Leasehold properties

Location	Address	Length of agreement
Zurich	Kreuzstrasse 5	20 October 2086

Allreal is the ground lessee of this yield producing property, but no ground rent is due.

Future ground rents will be due as follows:

CHF million	2016	2015
Ground rents up to one year	0.0	–0.1
Ground rent from two to five years	0.0	–0.2
Ground rents after five years	0.0	–3.5
Total future ground rents	**0.0**	**–3.8**

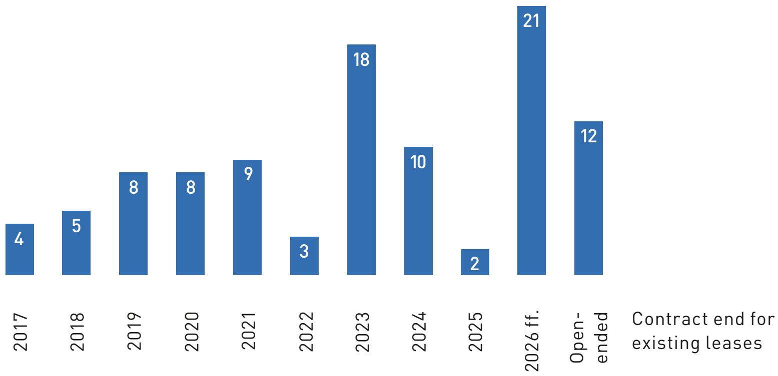
Largest tenants, commercial real estate

Share in total rental income from commercial real estate:

	2016	2015
Canton Zurich	18%	19%
Allianz Suisse Insurance Company Ltd	8%	8%
MAN Diesel & Turbo Switzerland Ltd	7%	7%
IBM Switzerland Ltd	6%	6%
UPC Switzerland GmbH	6%	5%
Total	**45%**	**45%**

The five largest tenants' share of total rental income from all yield-producing properties (residential and commercial) in 2016 amounted to around 37% (canton Zurich 15%, Allianz Suisse Insurance Company Ltd 7%, MAN Diesel & Turbo Switzerland Ltd 5%, IBM Switzerland Ltd 5% and UPC Switzerland GmbH 5%).

Profile of terms of rental contracts for commercial real estate
in percent of outstanding rental income in CHF million



The weighted remaining term of fixed-term rental contracts is 7.1 years (31.12.2015: 7.8 years).

Future income from fixed-term contracts

As a result of fixed-term rental contracts on yield-producing properties, the following nominal rental income will accrue in future:

CHF million	**2016**	2015
Residential real estate		
Rental income up to one year	1.6	1.3
Rental income from two to five years	5.6	4.7
Rental income after five years	1.9	2.4
Total future rental income from fixed-term contracts	**9.1**	**8.4**
Commercial real estate		
Rental income up to one year	127.8	127.3
Rental income from two to five years	436.1	458.7
Rental income after five years	282.1	290.0
Total future rental income from fixed-term contracts	**846.0**	**876.0**
Total future rental income from fixed-term contracts Yield-producing properties	**855.1**	**884.4**

84.6% of all rental income for commercial space is indexed, i.e. rents are adjusted for inflation in accordance with the Swiss Consumer Price Index (CPI) (2015: 87.2%)

95.4% of rental contracts for residential space are for an unlimited term (2015: 96.0%). The weighted remaining term of fixed-term rental contracts for residential property is 4.7 years (31.12.2015: 5.5 years). Rental prices are based, among other factors, on the development of the mortgage reference rate calculated quarterly by the Swiss National Bank and last published on 2 June 2015, when it was reduced to 1.75%.

As at 31 December 2016, 69.2% of all rental contracts contained index clauses corresponding to a target rental income of CHF 128.3 million (2015: 72.1%, CHF 129.0 million).

Investment real estate under construction as at 31 December 2016

Location	Property	Acquisition/ project start	Site area in m[2]	Register of suspected contaminated sites	Minergie	Market value CHF million[1]	Estimated investment volume CHF million[2]	Target rental income on completion p.a. CHF million	Expected completion
Bülach	Fangletenstrasse	2011	11 250	yes	yes	9.9	38.5	2.0	2018
Zurich	Schiffbauplatz	2002/2014	11 180	yes	yes	59.6	74.5	4.7	2017
Total investment real estate under construction						**69.5**	**113.0**	**6.7**	

[1] As per 31.12.2016 valuation
[2] Building and land costs

Schiffbauplatz, Zurich
New-build five- to six-floor commercial building to Minergie standard with lettable floor space of 13 100 square metres. The project comprises 10 700 square metres of office space on the first to fifth floors, 1800 square metres of space for catering and commercial businesses on the ground floor, 600 square metres of storage space and 36 parking spaces in the underground car park. Ten-year rental contracts have been concluded for the whole of the office space and part of the storage space. The project is being built by the Projects & Development division and, upon completion in the second half of 2017, will be reported under the portfolio of yield-producing properties. For the market valuation as at the balance sheet cut-off date, nominal discount and capitalisation rates of 4.60% and 4.10% were applied (31.12.2015: 4.50% and 4.00%).

Fangletenstrasse, Bülach ZH
Four new-build apartment buildings with a total of 76 rental apartments to Minergie-Eco standard on the 11 250-square-metre plot on Fangletenstrasse in Bülach-Nord. The rentable area is 7387 square metres. The project is being built by the Projects & Development division and, upon completion in 2018, will be reported under the portfolio of yield-producing properties. For the first-time market valuation as at the balance sheet cut-off date, nominal discount and capitalisation rates of 4.40% and 3.90% were applied.

The two investment real estate properties under construction are 100% solely owned by Allreal.

Yield-producing properties (CHF 3505.0 million) and investment real estate under construction (CHF 69.5 million) are recognised as at 31 December 2016 at fair values according to category 3. No adjustments were made to valuation techniques or processes during the period under review.

Development real estate as at 31 December 2016

Location	Property	Acquisition / project start	Site area in m²	Register of suspected contaminated sites	Book value CHF million	Estimated investment volume CHF million[1]	Project status	Expected completion
Development reserves								
Bassersdorf	Grindelstrasse	2008	6 000	no	3.7[2]	15.0	in planning	open
Bülach	Fangleten-/Solistrasse	2011	44 084	yes	44.6[2]	270.0	in planning	open
Dielsdorf	Neuwisen	2013	46 419	no	35.3[2]	175.0	in planning	open
Rümlang	Bäuler	1987	30 278	yes	16.0[2]	100.0	in planning	open
Winterthur	Florenstrasse	2016	11 582	no	2.0[3]	55.0	in planning	open
Total development reserves					**101.6**	**615.0**		
Buildings under construction								
Basel	Kirschblütenweg	2011	3 948	no	8.3	16.0	under completion	2018
Total buildings under construction					**8.3**	**16.0**		
Completed real estate								
Erlenbach	Lerchenbergstrasse	2014[4]			13.9			
Mettmenstetten	Pfruendmatt	2016[4]			7.8			
Steinen	Stauffacher	2016[4]			1.6			
Zurich	Guggach	2016[4]			32.5			
Total completed real estate					**55.8**			
Total development real estate					**165.7**	**631.0**		

[1] Land and building costs
[2] Book value includes acquisition costs for the land 100% owned by Allreal and accrued project costs of third parties
[3] Book value includes acquisition costs for prepayments made for land and accrued project costs of third parties (transfer of ownership for land pending)
[4] Completion

Kirschblütenweg, Basel
New-build complex of 12 freehold row houses and 24 garage parking spaces to Minergie standard with lettable floor space (100% residential) of 1967 square metres. It is being built by Allreal Generalunternehmung AG and is scheduled for completion in 2018. As at 31 December 2016, all residential units had been sold, 0 of which with transfer of ownership.

Lerchenbergstrasse, Erlenbach ZH
Five new-build semi-detached houses and three new-build apartment buildings with a total of 39 residential units and 93 underground parking spaces to Minergie standard with lettable floor space (100% residential) of 7730 square metres. The project was built by Allreal Generalunternehmung AG and completed in 2014. As at 31 December 2016, 35 out of 39 residential units had been sold, 33 of which with transfer of ownership. 4 apartments were still for sale.

Pfruendmatt, Mettmenstetten ZH
New-build complex of 35 terraced houses and 72 parking spaces to Minergie standard with lettable floor space (100% residential) of 5578 square metres. The project was built by Allreal Generalunternehmung AG and completed in 2016. As at 31 December 2016, all 35 residential units had been sold, 28 of which with transfer of ownership.

Stauffacher, Steinen SZ

Two new-build apartment buildings with a total of 18 condominiums and 30 garage parking spaces to Minergie standard with lettable floor space (100% residential) of 2249 square metres. The project was built by Hammer Retex AG and completed in 2016. As at 31 December 2016, 17 out of 18 residential units had been sold, 16 of which with transfer of ownership. 1 apartment was still for sale.

Guggach, Zurich

Four new-build apartment buildings with a total of 197 condominiums and 219 underground parking spaces to Minergie standard with lettable floor space (100% residential) of 25 919 square metres. The project was built by Allreal Generalunternehmung AG and completed in 2016. As at 31 December 2016, 189 out of 197 residential units had been sold, 174 of which with transfer of ownership. 8 apartments were still for sale.