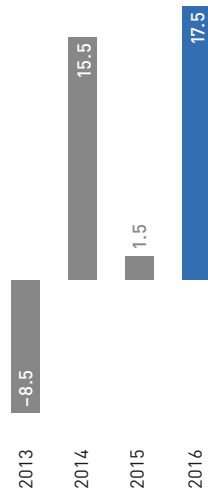
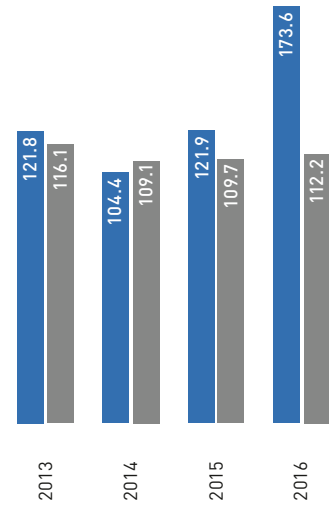


### Overview of share performance



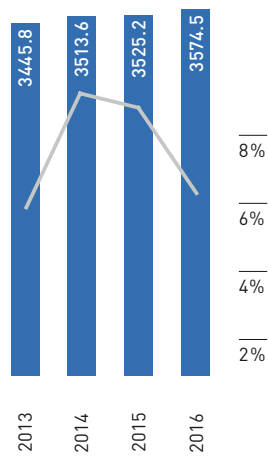
Overall performance: Price change plus profit distribution in percent of share price as on 1 January

### Net profit CHF million



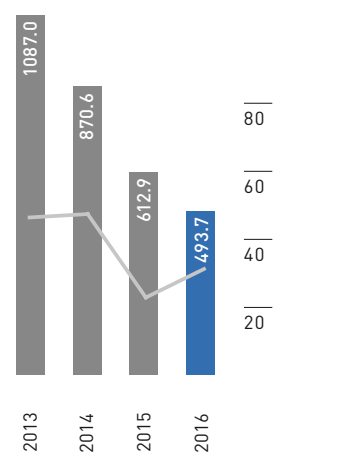
■ Net profit incl. revaluation effect  
■ Net profit excl. revaluation effect

### Market values and vacancy rate CHF million



■ Yield-producing properties  
— Vacancy rate in %

### Completed project volume and EBIT Projects & Development division CHF million



■ Completed project volume Projects & Developments division  
— EBIT Projects & Development division

# Key figures at a glance

		2016 31.12.2016*	2015 31.12.2015*	Change in % <sup>1</sup>
<b>Group</b>				
Total sales <sup>2</sup>	CHF million	671.7	793.9	-15.4
Operating profit (EBIT) incl. revaluation gains	CHF million	265.6	193.2	+37.5
Net profit incl. revaluation effect	CHF million	173.6	121.9	+42.4
Operating profit (EBIT) excl. revaluation gains	CHF million	180.6	177.4	+1.8
Net profit excl. revaluation effect	CHF million	112.2	109.7	+2.3
Cash flow	CHF million	246.7	33.7	-
Return on equity incl. revaluation effect	%	8.5	6.2	+2.3
Return on equity excl. revaluation effect	%	5.9	5.9	-
Equity ratio on cut-off date	%	52.3	48.2	+4.1
Net gearing on cut-off date <sup>3</sup>	%	75.7	88.0	-12.3
Average interest rate on financial liabilities on cut-off date	%	1.67	2.15	-0.48
Average duration of financial liability	months	36	52	-16
Sales Projects & Development division	CHF million	493.7	612.9	-19.4
Earnings from Projects & Development division <sup>4</sup>	CHF million	84.0	78.8	+6.6
Operating margin Projects & Development division <sup>5</sup>	%	41.0	27.4	+13.6
Employees on cut-off date	full-time equivalents	276	312	-36
<b>Allreal Holding AG</b>				
Net profit	CHF million	41.7	28.9	+44.3
Share capital	CHF million	797.1	797.1	-
<b>Share</b>				
Earnings per share incl. revaluation effect	CHF	10.90	7.66	+42.3
Earnings per share excl. revaluation effect	CHF	7.04	6.89	+2.2
Net asset value (NAV) per share before deferred tax on cut-off date	CHF	140.90	132.95	+6.0
Net asset value (NAV) per share after deferred tax on cut-off date	CHF	131.00	125.35	+4.5
Profit distribution per share <sup>6</sup>	CHF	5.75	5.75	-
Share price on cut-off date	CHF	151.30	133.60	+13.2
Dividend/Profit distribution yield <sup>6</sup>	%	3.8	4.3	-0.5
<b>Valuation on cut-off date</b>				
Market capitalisation <sup>7</sup>	CHF million	2 410.3	2 125.5	+13.4
Enterprise value <sup>8</sup>	CHF million	3 989.6	3 879.7	+2.8

\* Should no further particulars be given, values referring to the income statement concern the full year and balance sheet value the cut-off dates 31.12.2016 resp. 31.12.2015

<sup>1</sup> Changes in quantum and percentage values shown as absolute difference

<sup>2</sup> Sales resulting from rental of investment real estate plus completed project volume Projects & Development division

<sup>3</sup> Finance liabilities minus cash and marketable securities as percentage of equity

<sup>4</sup> Income from realisation in Projects & Development, Sales Development, capitalised company-produced assets and various revenues minus direct expenses from realisation in Projects & Development, Sales Development

<sup>5</sup> EBIT excl. revaluation and restoration of value adjustments on projects as percentage of profit from business activity (balance of operating income, direct operating expenses and capitalised company-produced)

<sup>6</sup> Board of directors proposal of CHF 5.75 per share for the 2016 financial year by means of repayment of reserves from capital contributions

<sup>7</sup> Stock price at balance sheet date multiplied by the number of outstanding shares

<sup>8</sup> Market capitalisation plus net finance debts

# Real estate at a glance

		2016 31.12.2016*	2015 31.12.2015*	Change in % <sup>1</sup>
<b>Yield-producing properties</b>				
Residential real estate	number	20	19	+1
Commercial real estate	number	39	43	-4
Market value on cut-off date	CHF million	3 505.0	3 475.3	+0.9
Rental income from investment real estate	CHF million	173.3	174.9	-0.9
Vacancy rate <sup>2</sup>	%	5.1	7.5	-2.4
Real estate expenses	CHF million	-24.4	-31.8	-23.3
Real estate expenses	in % of rental income	14.1	18.2	-4.1
Gross yield <sup>3</sup>	%	5.1	5.1	-
Net yield <sup>4</sup>	%	4.4	4.2	+0.2
<b>Investment real estate under construction</b>				
Buildings	number	2	2	-
Market value on cut-off date	CHF million	69.5	49.9	+39.3
Investment volume	CHF million	113.0	96.0	+17.7
<b>Development real estate</b>				
Book value development reserves on cut-off date	CHF million	101.6	71.4	+42.3
Estimated investment volume development reserves	CHF million	615.0	637.0	-3.5
Book value buildings under construction on cut-off date	CHF million	8.3	171.4	-95.2
Estimated investment volume buildings under construction	CHF million	16.0	268.0	-94.0
Book value completed real estate on cut-off date	CHF million	55.8	52.7	+5.9

\* Should no further particulars be given, values referring to the income statement concern the full year and balance sheet value the cut-off dates 31.12.2016 resp. 31.12.2015

<sup>1</sup> Changes in quantum and percentage values are shown as absolute difference

<sup>2</sup> In percent of targeted rental income, cumulated at cut-off date

<sup>3</sup> Rental income from investment real estate in percent of continued market value as at 1 January

<sup>4</sup> Rental profit from investment real estate in percent of continued market value as at 1 January

# Record result for 2016 strongly characterised by revaluation gains

- Convincing operating net profit
- Continued and ongoing reduction of vacancy rate
- Projects & Development division profitable despite lower project volume
- Proposal for unchanged profit distribution of CHF 5.75 per share

Net profit including revaluation gains for the 2016 financial year amounted to CHF 173.6 million. This is the highest profit ever reported in the company's history and is based on the contribution made by its two divisions, Real Estate and the Projects & Development, and the positive value correction of the portfolio.

Net profit excluding revaluation gains amounted to CHF 112.2 million. The operating result is characterised, on the one hand, by the favourable contribution made by earnings from real estate in the Real Estate division and, on the other hand, by earnings realised from the sale of development real estate and the realisation of third-party projects in the Projects & Development division.

Earnings derived from the rental and management of investment properties plus the completed project volume amounted to an overall performance of CHF 671.7 million.

The number of employees as at 31 December 2016 amounted to 276 full-time positions. The decline compared to the comparable number the previous year is due to the Project & Development division's lower project volume.

## **The Allreal share confirmed as a sound and long-term investment maintaining its value**

As at 31 December 2016, the Allreal share closed at CHF 151.30, or 13.2% above the comparable value the previous year. The positive price increase and the profit distribution of CHF 5.75 per share represent an overall performance for the period under review of 17.5%. At the shareholders' meeting scheduled for 21 April 2017, the board of directors will propose the disbursement of CHF 5.75 per share, which is unchanged compared to the previous year and tax free for private investors. Taking into consideration the year-end share price, this corresponds to a cash yield of 3.8%.

## **Real Estate division with successful rental of commercial space**

Despite the lower vacancy rate in the period under review, downsizing the portfolio resulted in a slight decrease in rental income of 0.9% to CHF 173.3 million.

Based on numerous newly concluded rental contracts and the stable situation concerning existing rental agreements, the cumulative vacancy rate decreased distinctly from 7.5% to 5.1%.

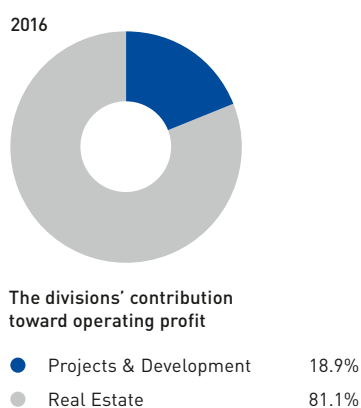
Real estate expenses in the year under review decreased by 4.1 percentage points to 14.1% owing to the completion of larger refurbishment projects the previous year.

The reduction of vacancy-related earnings losses and the lower real estate expenses resulted in a respectable net yield of 4.4%.

In the period under review, the portfolio of yield-producing properties recorded one addition owing to reclassification and four departures due to sale. The portfolio of yield-producing properties on the cut-off date thus comprised 20 residential and 39 commercial properties.

Owing to market participants' expectations of decreasing yield (yield compression) and the lower vacancy rate, the valuation of all investment properties carried out by an external real estate valuator resulted in a strongly positive revaluation by CHF 85 million.

The market value on the cut-off date of the entire portfolio amounted to CHF 3.57 billion.



### Projects & Development division with a very gratifying result

Earnings from the Projects & Development division in the period under review amounted to CHF 84.0 million, or 6.6% above the comparable value the previous year. The result reflects one-off profits resulting from the sale of development real estate.

As a result of lower personnel costs Allreal's operating expenses of CHF 54.8 million fell by 10.3% compared to the previous year.

Owing to higher income from operating activities and lower operating expenses, earnings before interest and taxes (EBIT) of CHF 34.4 million exceeded the previous year's comparable result by a respectable 59.3%.

In the period under review the Project Development department again made a substantial contribution toward the good result of the division and of the entire group by developing successful projects both for third parties and for Allreal's own portfolio. In this regard, the transfer of the Bülachguss site development to the Realisation department represented a significant milestone. Moreover, a larger section of the complex was sold to an institutional investor during the period under review.

The Realisation department implemented a project volume amounting to CHF 493.7 million. This amount is 19.4% below that reported the previous year owing to the restriction to projects with a sound profit potential, realistic schedules and existing profit potential.

The share of third-party projects in the completed project volume amounted to 84% and the share of own projects to 16%. Owing to the construction start of the large project in Bülach in October 2016, the share of own projects will grow in the medium term.

The order backlog of some CHF 700 million will allow the Realisation department's capacity utilisation for more than twelve months.

### Adjustment to financing structure

Owing to the income from the sale of yield-producing and development properties, Allreal's financial debt fell by approximately 10% to CHF 1.6 billion.

In the period under review, a 2.50% debenture loan of CHF 150 million was refinanced by a 0.625% debenture loan covering the same amount with time to maturity of eight years (2024), resulting in substantially lower financial charges.

In December 2016, all outstanding interest swaps were terminated prematurely owing to the burden on financial expenses resulting from the effects of negative interest rates. Consequently, related expenses will become plannable for the succeeding years as the hedging reserves shown in equity will be released across the coming years affecting net income. As a result, Allreal will gain complete freedom of action in terms of financing while, in addition, eliminating the risk of higher negative interest.

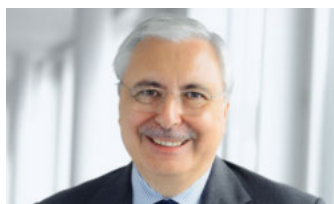
On the cut-off date, the average interest rate for debt amounted to 1.67% with an average time to maturity of 36 months. Allreal expects this period to increase in the years to come.

Disposable credit limits on the cut-off date amounted to CHF 589 million. With the resulting debt capacity of CHF 1.5 billion, opportunities in the market can be taken advantage of.

#### **Carefully optimistic assessment of future perspectives**

Owing to the development unfolding in both divisions, Allreal expects business activity to remain stable. The company anticipates operating net profit for the 2017 financial year to be reported slightly below that of the year under review.

With their trust and support, shareholders as well as employees have created the precondition for successful business operations based on their commitment and competence. The Board of Directors and Group Management express their gratitude for their contribution toward the outstanding result.



A handwritten signature in black ink, appearing to read 'Bruno Bettoni'.

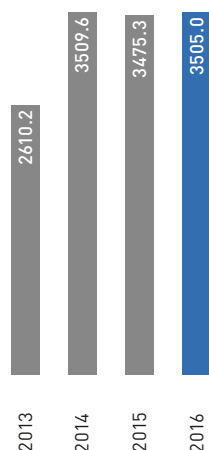
Bruno Bettoni  
Chairman

A handwritten signature in black ink, appearing to read 'Roger Herzog'.

Roger Herzog  
Chief Executive Officer

# Real Estate division

Yield-producing properties  
CHF million



Rental income in the 2016 financial year decreased marginally by 0.9% to CHF 173.7 million compared to the comparable period the previous year. Earnings declined despite the reduced vacancy rate owing to the divestment of yield-producing properties in the first half of 2016 and the connected loss of rental income.

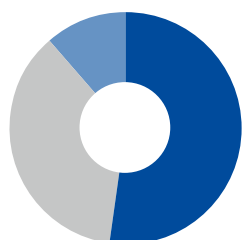
A breakdown of rental income shows only minor changes compared to the previous year. In the period under review, the share of residential properties in total rental income amounted to CHF 32.7 million and that of commercial properties to CHF 140.6 (2015: CHF 31.5 million / CHF 143.4 million).

In terms of usage category, the rounded share of Office/Services amounted to 56%, Residential to 22%, Trade/Warehousing to 7%, Parking to 7%, Retail to 5% and Remaining usage to 3%.

On the cut-off date, the average duration of fixed-term rental agreements for commercial real estate was 7.1 years and the share of contracts to be renewed represented a low 4%.

Of the total earnings from letting commercial real estate the ten largest tenants contributed a share of 59.4% and the five largest tenants a share of 45% (2015: 59.9% / 45.6%).

Thanks to numerous positive results concerning initial and follow-up letting of both residential and commercial space, the cumulated vacancy rate decreased by 2.4 percentage points to 5.1% (2015: 7.5%).

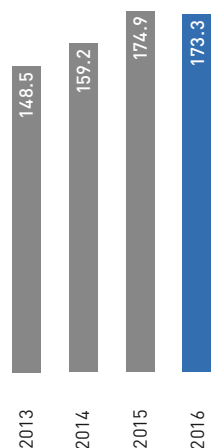


Regional distribution of commercial and residential properties  
in percent of market value as at 31 December 2016

● City of Zurich	52.3%
● Canton of Zurich	36.5%
● Other regions	11.2%

Letting success concerning two residential properties in Zurich-West affecting income in the period under review and several commercial buildings in metropolitan Zurich and western Switzerland contributed to the significant reduction. Moreover, rental agreements were concluded in 2016 for three large commercial properties which will result in a further decline of the vacancy rate in 2017. These three properties refer to the commercial building on Boulevard Lilienthal in Opfikon with 13,414 square metres of useful space, the commercial building at Bellerivestrasse 30 in Zurich Riesbach with 3,078 square metres of useful space, and the commercial building on Herostrasse Zurich Altstetten with 11,256 square metres of useful space.

Income from yield-producing properties  
CHF million

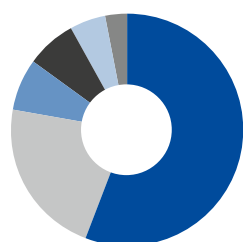


Excluding concluded rental agreements which will affect income only in 2017, the following properties presented the highest vacancy rates on the cut-off date: the commercial building In der Luberzen in Urdorf ZH, the street level retail areas in the Richti complex in Wallisellen ZH, the commercial building Route François-Peyrot in Le Grand-Saconnex VD, and the commercial building Baarermatte in Baar ZG. The cumulated loss of income resulting from these properties amounts to CHF 2.1 million per annum in total.

Real estate expenses in the year under review were reported at CHF 24.4 million, corresponding to an expenditure rate of 14.1% in terms of the entire rental income (2015: CHF 31.8 million / 18.2%). The significantly lower level of real estate expenses compared to the 2016 financial year is due to the conclusion the previous year of two large refurbishment projects.

The decline in loss of income owing to vacancies and the lower real estate expenses resulted in a very gratifying net yield for yield-producing properties of 4.4% (2015: 4.2%).

In the year under review, the share of the Allreal properties managed by Hammer Retex in terms of market value grew by 48.1% (2015: 40%). Subsequently, accentuated by the expiration of a large individual contract at the end of 2015, revenue derived from real estate management and marketing declined by 23.0% to CHF 4.7 million (2015: CHF 6.1 million). Owing to the management of Allreal's yield-producing properties by Hammer Retex, third-party expenses concerning real estate management decreased by CHF 1.7 million.



Breakdown of commercial and residential properties by usage  
in percent of target rental income 2016

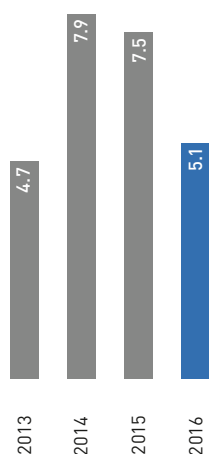
Office and services	56%	Sales	5%
Residential	22%	Other	3%
Trade and warehousing	7%		
Parking	7%		

### Portfolio of investment real estate with two additions and four divestments

On 1 June 2016, an own project located at Schiffbaustrasse 12 in Zürich-West was reclassified and transferred to the portfolio of yield-producing properties. The seven-storey residential and commercial building with rentable space of 3,397 square metres and annual rental income of CHF 1.3 million comprises 23 rental apartments as well as office and commercial space. The investment volume of the practically fully let building amounted to approximately CHF 23 million.



**Cumulative vacancy rate  
yield-producing properties**  
in percent of target rental income

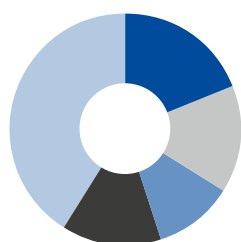


In the period under review, Allreal divested four commercial buildings at a profit of CHF 5.6 million, or 6% above the amount shown in the balance sheet.

Three properties with total usable space of 14,976 square metres were sold to an institutional investor. The properties divested with effect from 1 March 2016 refer to one commercial building each in Dietlikon ZH, Zurich Ausser-sihl and Zurich Altstetten. A commercial building held in leasehold in Zurich Aussersihl with 2,600 square metres useful space was sold with effect from 1 April 2016.

The portfolio of yield-producing properties as at 31 December 2016 included 20 residential properties with a total of 1,349 rental apartments and 39 commercial properties with a total of 554,490 square metres of useful space.

The Fanglethen-/Solistrasse development property in Bülach ZH was transferred to the portfolio of investment real estate as at 30 June 2016. The residential complex comprises four apartment buildings with a total of 76 rental apartments. It is the first of six projects to be implemented on the Bülachguss site.



**Breakdown of tenants of commercial real estate**  
in percent of rental income from commercial real estate 2016

● Largest tenant	18.1%	● Sixth- to tenth-largest tenants	14.4%
● Second- and third-largest tenants	14.7%	● Others	40.6%
● Fourth- and fifth-largest tenants	12.2%		

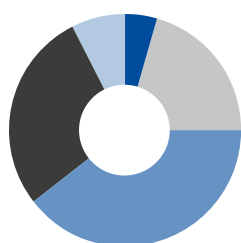
As the additions and divestments concerning investment real estate under construction in the period under review remained in balance, the inventory as at the cut-off date remained unchanged at two properties. They correspond to an investment volume of approximately CHF 113 million, a total market value of CHF 69.5 million and an annual target rental income following completion of CHF 6.7 million.

In a valuation of 61 investment properties by external assessors as at the cut-off date, the yield compression and a clearly lower vacancy rate lead to a massive positive value correction before tax of CHF 85.0 million (2015: CHF 15.8 million).

The 20 residential properties were again positively revalued by CHF 59.2 million (2015: CHF 32.0 million), the commercial properties were revalued by CHF 19.1 million (2015: CHF 30.0 million) and the two investment properties under construction by CHF 6.7 million (2015: CHF 13.8 million).

The inventory changes made in the 2016 financial year and the positive value correction resulted in a market value of the entire portfolio of CHF 3.57 billion (2015: CHF 3.53 billion). Of this amount CHF 3505.0 million or 98.1% applied to the portfolio of 59 yield-producing properties (2015: CHF 3,475.3 million/98.6%) and CHF 69.5 million or 1.9% to the two investment properties under construction (2015: CHF 49.9 million/1.4%).

The share of residential properties in the portfolio of yield-producing properties amounted to CHF 805.8 million or 23.0% (2015: CHF 719.6 million/20.7%), and that of commercial properties to CHF 2699.2 million or 77.0% (2015: CHF 2755.7 million/79.3%).



**Residential real estate**  
Apartment mix by size of apartment by 31. December 2016

● 1 1/2 rooms	4.7%	● ≤ 4 1/2 rooms	28.1%
● 2 1/2 rooms	20.3%	● ≥ 5 rooms	7.4%
● 3 1/2 rooms	39.5%		

The geographic distribution of the yield-producing properties remained practically unchanged compared to the previous year. The following situation emerged on the cut-off date in terms of market value: City of Zurich 52.3% (2015: 52.1%), remaining Canton of Zurich 36.5% (2015: 36.6%), both Cantons of Basel 6.4% (2015: 6.3%), Cantons of Geneva and Vaud 3.8% (2015: 3.8%) and Canton of Zug 1.0% (2015: 1.2%).

In the period under review, the Real Estate division reported net profit excluding revaluation gains of CHF 93.5 million, representing a contribution toward Group net profit excluding revaluation gains of 81.4%.

# Projects & Development division

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

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

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

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

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

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

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

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

## **Project Development**

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

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

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

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

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

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

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

\* On behalf of third party

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

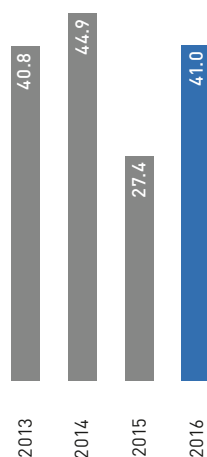
Kirschblütenweg	Residential condominium	Basel
Berglistrasse*	Residential	Bülach ZH

\* On behalf of third party

## Realisation

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

Operating margin  
Projects & Development division  
in percent



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

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

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

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

#### Projects completed in the 2016 financial year

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

The following projects were completed in the period under review:

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

\* Own project

### Current Projects

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

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

### Projects started in 2016

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

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

Further projects taken up in the year under review include:

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

\* Own project

### Sale of development real estate

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

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

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

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

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

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

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

# Outlook

In Switzerland, the sound economic growth and robust business trend is expected to continue in 2017.

Construction activity, which remains vigorous despite decreasing demand, will inevitably further accentuate competitive pressure in the real estate market and will result in rising vacancies in commercial buildings, especially, but also in the residential rental market. Allreal expects prices for residential ownership to remain stable, or decrease slightly. Owing to the high investment pressure, no change is expected in the transaction prices for fully-let yield-producing properties. The trend toward lower rents could, therefore, accelerate further.

The competition and pressure on prices and margins in the primary and secondary construction industry will probably increase and make successful business activity very demanding for general contractors.

Allreal enjoys good preconditions for the continuation of successful business activity based on its business model – the combination of a stable-income real estate portfolio with the activity of a project developer and general contractor – and its financial power.

In the year under review, Allreal clearly reduced the loss of income related to the vacancy rate. As several larger rental agreements become effective only in 2017, and only few agreements are up for renewal, the vacancy rate is expected to decrease further.

Optimisation of the real estate portfolio was essentially completed with the divestment of four commercial properties. Allreal expects portfolio growth of over 200 million francs planned for the coming years to be achieved by means of own projects that are profitable across the long term and realised by the Projects & Development division. The first addition to its portfolio – the office building on Schiffbauplatz in Zurich-West – will be carried out in the second half of 2017.

The Projects & Development division is well positioned thanks to experience in project development and its utilisation capacity which is adjusted to the lower project volume. Owing to the low number of development projects under construction, Allreal expects a clearly reduced profit on sales in 2017.

The termination of interest swaps will result in massively lower financial expenses for the current year.

Based on the development emerging in both divisions, Allreal expects its business development to remain stable. Thanks to the optimisation potential offered by financing, the company expects to report operating results for the 2017 financial year of slightly below those of the year under review.



# Business model and strategy

Allreal combines a stable-income real estate portfolio with the activities of a general contractor (project development and realisation).

Underpinned by this proven and successful business model, Allreal is able to cover the entire value chain of a property – from project development and realisation all the way through to profitable long-term property investments. This integrated approach also generates numerous synergies that benefit clients and the company alike.

Allreal does not operate in the main or secondary construction industries, nor does it have any participating interests in these sectors. This means that our company's independence and transparency as regards contract placement are always guaranteed. Contracts are awarded solely on the basis of objective and economic criteria.

Allreal defines its most important operating and financial target values as follows:

Return on equity excl. revaluation effect	6-7% p.a.
Share of residential segment in total rental earnings	> 20%
Net yield on investments and yield-producing properties (at cost of acquisition)	≥ 5%
Equity ratio	> 35%
Net gearing (ratio of net financial debt and equity)	< 150%
Interest cover ratio	> 2.0
Capital gearing on investment real estate and development real estate	< 70%
Distribution yield	< 80% of net operating result (excl. revaluation effect)

## Real Estate division

Active management and continuous expansion of the portfolio of residential and commercial properties secure stable and long-term value creation. Individual properties and entire real estate portfolios are acquired, held or sold depending on market conditions and the opportunities they generate. Allreal's

subsidiary, Hammer Retex, has extensive experience of facility management and has a particularly strong presence in central Switzerland and the Zurich area. Hammer Retex is primarily a service provider for third parties, but it also undertakes facility management for certain properties within Allreal's own portfolio. For properties not managed by Hammer Retex, Allreal collaborates with companies that have strong local and regional roots.

Allreal handles various additional activities, including sales of residential property developed and realised by ourselves for the account of the Projects & Development division, and providing advice on real estate transactions for private individuals, companies and institutional investors.

Allreal's investment properties are located mainly in the Zurich metropolitan area and other Swiss business centres. Residential properties account for at least 20% of total rental income.

Allreal holds the third-largest real estate portfolio of all listed Swiss real estate companies.

### Projects & Development division

The Projects & Development division provides services in project development and the realisation of real estate. The division's offer comprises all services connected with the development and realisation of new buildings and the conversion or renovation of buildings aimed at delivering fair market returns and optimal added value. The implementation of the buildings is economically and ecologically balanced.

The Projects & Development division provides these services for third parties, for its own account (resale), or for the account of the Real Estate division.

With branches in Bern, Cham, St. Gallen and Zurich, the Projects & Development division is one of the largest suppliers in German-speaking Switzerland.

#### Real Estate

Portfolio Management  
Real Estate Management  
Sales/Contracting

**Experience**  
**Value creation**  
**Expertise**

#### Projects & Development

Project Development  
Realisation

# Organisation

The following table contains information concerning the members of the Board of Directors and of the Executive Management, who all reside in Switzerland.

## Board of Directors

Bruno Bettoni [*1949, Swiss] Chairman, member since 2014	Dr. Ralph-Thomas Honegger [*1959, Swiss] Vice Chairman, member since 2012	Albert Leiser [*1957, Swiss] Member since 2005	Olivier Steimer [*1955, Swiss] Member since 2013
1999–2015 Chief Executive Officer of Allreal Group	Dr. rer. pol. Since 2002 Chief Investment Officer and Member of the Executive Board of the Helvetia Group (Helvetia Patria Group until 2005)	Certified real estate trustee Since 2004 Executive general manager of City of Zurich and Canton Zurich Home Owners' Association	lic. iur Since 2002 Chairman of the Board of Directors of Banque Cantonale Vaudoise
1995–1999 Managing director of Oerlikon-Bührle Immobilien AG	1996–2001 Various management functions with Helvetia Patria Versiche- rungen and Member of Executive Management Switzerland	1999–2004 Head Real Estate and Mortgages division, Rentenanstalt/Swiss Life	2001–2002 CEO Private Banking International of Credit Suisse Group
1983–1995 Member of Group Management of Oerlikon-Bührle Immobilien AG	1987–1995 Various management functions with Patria Versicherungen	1994–1998 Various management functions with Rentenanstalt/Swiss Life	1997–2001 Member of the Executive Board Private Banking, Credit Suisse Group
1973–1982 Various functions with Oerlikon-Bührle Immobilien AG		1977–1994 Positions with various real estate companies	1983–1996 Various functions at Credit Suisse Group
Board member of a non-listed company		Board member of two non-listed companies Member SVIT Zurich City of Zurich councillor (President 2012/2013)	Board Member of Chubb Limited, Zurich Member of the Bank Council at Swiss National Bank SNB (Deputy Chairman), Zurich and Berne Board of Trustees, Swiss Finance Institute (Chairman), Zurich; Member of the Executive Committee, economiesuisse, Zurich, and functions at numerous other institutions

<b>Peter Spuhler</b> (*1959, Swiss) Member since 2013	<b>Andrea Sieber</b> (*1976, Swiss) Member since 2016	<b>Thomas Stenz</b> (*1959, Swiss) Member since 2016
Since 1989 owner, Chairman of the Board of Directors and CEO of Stadler Rail Group	Lic.iur. HSG, LL.M.	Swiss certified accountant/auditor
Member of the Board of Directors, Rieter Holding AG, Winterthur; Autoneum Holding AG, Winterthur	Since 2003 Lawyer and partner in Zurich-based law firm Meyerlustenberger Lachenal Zurich	Since 2014 Independent business consultant
Board Member, Aebi Schmidt Holding AG (Chairman), Frauenfeld; Gleisag Gleis- und Tiefbau AG (Chairman), Goldach; Walo Bertschinger AG, Zurich, and other unlisted companies	Supervisory board chairwoman of Meyer Burger (Germany) AG, Hohenstein-Ernstthal, Germany (formerly: Roth & Rau AG)	2002–2014: Partner Ernst & Young AG (head Auditing department 2007–2010, Chairman 2009–2014)
Member of LITRA (Deputy Chairman), Berne, and numerous other institutions		1978–2002: Arthur Andersen AG (appointed partner in 1990, head Auditing 1999–2002)
		Board member of Capvis Equity Partners AG, Baar, and other unlisted companies
		Chairman of advisory board of Lorange Institute of Business, Horgen

All members of the Board of Directors of Allreal Holding AG are non-executive in the company and, with the exception of the disclosed mandates, they especially hold no official roles or political offices. None of the Board members in the past held operating management functions within the Allreal Group, with the exception of Bruno Bettoni. There are two Board of Directors committees (Risk and Audit Committee, and Nomination and Compensation Committee). The Board members are appointed individually for one-year tenure which lasts until the following annual Shareholders' Meeting.

## Group Management

Roger Herzog [*1972, Swiss] Chief Executive Officer since 2015 Member of Group Management since 2004	Thomas Wapp [*1972, CH] Chief Financial Officer Member of Group Management as from 1 April 2017	Hans Engel [*1955, Swiss] Head of Investments Member of Group Management since 1999	Alain Paratte [*1964, Swiss] Head of Real Estate Member of Group Management since 2013
Swiss certified auditor 2004–2015 Chief Financial Officer	Lic.oec Diploma as IFRS Accountant Swiss Certified Accountant	Certified real estate trustee 1987–1999 Member of the group management of Oerlikon-Bührle Immobilien AG	Graduate architect Swiss Federal Institute of Technology (ETH) / Swiss Society of Engineers and Architects (SIA), post-graduate studies in general building management (ETH)
2003 Joined Allreal Generalunter- nehmung AG as Head Accounting	2008–2016 Management functions with Züblin Immobilien Holding AG, Chief Financial Officer since September 2010	1981 Joined Oerlikon-Bührle Immo- bilien AG as an expert for contracts and the purchase, sale and development of real estate	2009 Joined Allreal Generalunter- nehmung AG as Head Portfolio Management
1998–2003 PricewaterhouseCoopers, Manager Auditing and Consulting	2001–2008 Accountant, Ernst & Young AG	1974–1980 Recording officer in two Zurich notaries' offices	2003–2009 Pensimo Management AG, portfolio manager Turidomus real estate investment fund
1995–1998 Zurich Business School, degree in Business Administration	Graduation in Business Administration from University of Lausanne	Various management-related courses	1998–2003 Project development Oerlikon-Bührle Immobilien AG/ Allreal Generalunternehmung AG
1988–1995 Credit Suisse, employee in foreign exchange and commercial credit divisions		Commercial apprenticeship	
Commercial apprenticeship			1996–1998 Swiss Federal Institute of Technol- ogy Zurich, post-graduate studies in general building management (ETH)
			1992–1996 Planpartner AG, regional planning specialist
			Swiss Federal Institute of Technol- ogy ETH, architecture degree

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**Nigel Woolfson**

(\*1958, Swiss)

Head Project Development,  
Member of Group Management  
since 2013

Graduate quantity surveyor and  
regional planner, MBA

2006

Joined Allreal Generalunterneh-  
mung AG as team leader, Project  
Development

1994–2006

Karl Steiner AG, department head,  
Project Development

1989–1993

Steigerpartner Architekten AG,  
project manager and specialist in  
real estate consulting

1986–1989

Suter+Suter, specialist in real  
estate consulting and project  
development

1982–1986

South African Transport Services  
(SATS), quantity surveyor and  
specialist in project development

University of Natal, Durban, SA,  
degree in quantity surveying

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

**Signatory authority**

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

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**Auditors**

Ernst & Young AG, Zurich

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**External real estate valuer**

Jones Lang LaSalle AG, Zurich

# Corporate governance

## Basic principles and introduction

This corporate governance report outlines the principles of management and control at the highest corporate level of Allreal Group. The following information on corporate governance is in compliance with the Corporate Governance Directive (DCG) of 1 January 2016 issued by SIX Swiss Exchange as well as with the commentaries on the Corporate Governance Directive. It follows the structure used in the DCG.

## 1 Group structure and shareholders

### 1.1 Group structure

Allreal Group operates solely in Switzerland. Its legal structure and participating interests are shown below.

Allreal  
Holding AG  
Baar

Allreal Home AG Zurich	Allreal Office AG Zurich	Allreal Toni AG Zurich	Allreal Vulkan AG Zurich	Allreal West AG Zurich	Apalux AG Zurich	Allreal Finanz AG Baar
Allreal Generalunternehmung AG Zurich	Hammer Retex AG Cham	Bülachguss AG Bülach				

Company	Registered office	Share capital CHF million	% of shares held
Allreal Home AG	Zurich	26.52	100.00
Allreal Office AG	Zurich	150.00	100.00
Allreal Toni AG	Zurich	90.00	100.00
Allreal Vulkan AG	Zurich	50.00	100.00
Allreal West AG	Zurich	20.00	100.00
Apalux AG	Zurich	0.90	100.00
Allreal Finanz AG	Baar	100.50	100.00
Allreal Generalunternehmung AG	Zurich	10.00	100.00
Hammer Retex AG	Cham	0.50	100.00
Bülachguss AG	Bülach	0.10	100.00

All shareholdings are unlisted companies which are fully consolidated in the Group's financial statements.

The scope of consolidation changed from the previous year as a consequence of the absorption of Hammertor AG into Hammer Retex AG. Since both companies were already directly or indirectly fully controlled by Allreal Holding AG in the previous year, for consolidation purposes this did not result in any changes.

Moreover, the scope of consolidation increased following the acquisition of 100% of Bülachguss AG, Bülach, on 28 July 2016 by Allreal Generalunternehmung AG.

Operationally, the Group is structured into two divisions:

#### **Real Estate division**

Investments in residential and commercial properties, including properties with particular development potential and investment real estate under construction. Various real estate services (property management, residential property sales, real estate consultancy, contract administration) are also provided.

#### **Projects & Development division**

Combination of project development, general contraction activities (realisation) and real estate services.

Allreal Holding AG has its registered office in Baar/Switzerland and is listed on SIX Swiss Exchange. As at 31 December 2016, market capitalisation amounted to CHF 2410.3 million. The registered shares are traded on the main segment (security number 883756, ISIN CH0008837566, symbol ALLN).

### **1.2 Significant shareholders**

As at 31 December, the following shareholders were entered in the share register of Allreal Holding AG as having a shareholding (direct and/or indirect) which exceeds a threshold of 3% ("Significant shareholders"):

	2016	2015
Helvetia Group, St. Gallen <sup>1</sup>	10.0%	10.0%
Swiss Mobiliar Group, Bern <sup>2</sup>	3.8%	3.2%
Pension Fund of Oerlikon Contraves AG, Zurich	3.8%	4.1%
GastroSocial Pension Fund, Aarau	3.4%	3.4%
PKE-CPE Pension Foundation, Zurich	3.3%	3.3%
Pension Fund of the canton of Basel-Landschaft, Liestal	3.1%	3.1%
Canton Zurich, BVK Employee Pension Fund of the canton of Zurich, Zurich	< 3%	3.4%
Highclere International Investors LLP, London, UK	< 3%	> 3%

<sup>1</sup> Holding via wholly owned subsidiaries Helvetia Swiss Life Insurance Company Ltd, Basel, and Helvetia Holdings AG, St. Gallen

<sup>2</sup> Holding via wholly owned subsidiaries Swiss Mobiliar Insurance Company Ltd, Bern, Swiss Mobiliar Life Insurance Company, Nyon, Swiss Mobiliar Asset Management Ltd, Bern, Protekta Legal Protection Insurance Ltd, Bern, and the Pension Fund of the Employees of Swiss Mobiliar Group, Bern



For further details of the composition of the shareholder base see page 160 of the Annual Report.

Owing to legislation on the acquisition of real estate in Switzerland (“Lex Koller”), Allreal is required to provide evidence that it is Swiss controlled in order to be permitted to acquire residential real estate or building land for the realisation of residential property.

In order to satisfy the provisions of the “Lex Koller”, a shareholders’ pooling agreement is in place between the significant shareholders and several other shareholders. Under the terms of this agreement, the participating shareholders have committed to jointly hold a controlling majority of the share capital of Allreal Holding AG. Shares outside the pooling agreement are freely disposable.

As at 31 December 2016, the pooling shareholders held 38.80% of the share capital (tied and free shares). The core elements of the shareholders’ pooling agreement are the rules binding on the pooling shareholders stipulating that – subject to any preferential purchase rights accorded to the remaining pooling shareholders – tied shares may only be sold to third parties who are not deemed to be foreign nationals within the meaning of the “Lex Koller” and who are prepared to enter into the pooling agreement. There are no further obligations in place such as voting instructions at the annual general meeting.

During the reporting period, the proportion of pooling shareholders (tied shares) remained unchanged compared to the previous year at 35% of the share capital. The last disclosure report in this connection was filed on 8 April 2016 owing to a change in the composition of the Group.

Likewise on 8 April 2016, Swiss Mobiliar Cooperative, Bern, and the Pension Fund of the Employees of Swiss Mobiliar Group, Bern, disclosed to the company and to SIX Swiss Exchange that they jointly hold 3.27% of the shares of Allreal Holding AG.

On 12 January 2016, Highclere International Investors LPP, London, UK, disclosed to the company and SIX Swiss Exchange that its shareholding had fallen below the 3.0% threshold.

Particulars of these shareholders can be found on the SIX Swiss Exchange website under Significant shareholders ([www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html](http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html)).

### **1.3 Cross-shareholdings**

There are no cross-shareholdings.

## 2 Capital structure

### 2.1 Capital

As at 31 December, Allreal Holding AG had the following capital structure:

CHF million	2016	2015
Share capital issued	797.1	797.1
Authorised capital	50.0	100.0
Conditional capital	134.8	134.8

### 2.2 Authorised and conditional capital in particular

#### Authorised capital

The Board of Directors is authorised by the annual general meeting of 15 April 2016 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).

#### Conditional 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 had not been drawn on as at the balance sheet date.

### 2.3 Changes in capital

Ordinary and authorised share capital as at 31 December has remained unchanged over the past three years. The annual general meeting of 15 April 2016 set a new maximum amount of CHF 50.0 million for authorised capital.

CHF	31.12.2016	31.12.2015	31.12.2014
Ordinary share capital	797 141 050	797 141 050	797 141 050
Authorised share capital	50 000 000	100 000 000	100 000 000
Conditional share capital	134 788 150	134 788 150	134 788 150

#### 2.4 Shares and participation certificates

The share capital is divided into 15 942 821 fully paid-in registered shares with a par value of CHF 50 each. All outstanding shares are unitary shares; there are no preferred or voting right shares.

The registered shares are issued in the form of book-entry securities.

All shares are dividend-bearing. Exercise of the membership rights accorded to the shareholder is conditional on an entry in the share register. Each registered share carries one vote at the general meeting.

The voting rights attaching to treasury shares held by the company are suspended, and no dividends are paid on these shares.

The company has no participation certificate capital.

#### 2.5 Dividend-right certificates

Allreal has not issued any dividend-right certificates.

#### 2.6 Limitations on transferability and nominee registrations

Every shareholder is entitled to be entered in the share register. The Board of Directors may refuse entry in the share register if the number of registered shares held by the buyer, or by a group of shareholders acting jointly, directly or indirectly exceeds 5% of the share capital.

Subject to the 5% clause referred to above, nominee registrations are admissible without any limitations on voting rights.

#### 2.7 Convertible bonds and options

The company had issued neither convertible bonds or warrant bonds nor option plans on Allreal registered shares as at the balance sheet date.

### **3 Board of Directors**

#### **3.1 Members of the Board of Directors**

Under the articles of association, the Board of Directors of Allreal Holding AG consists of one or more members. It currently has seven members. For the current composition of the Board and information on individual Board members, refer to pages 18 and 19 of the Annual Report. None of the Board members perform executive duties in the company and, with the exception of Bruno Bettoni, none have performed operational management functions within Allreal in the past.

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. Allreal works for the Helvetia Group as a general contractor for the realisation of construction projects. These services are provided at arm's length. During the period under review, the volume of project work completed for the Helvetia Group amounted to CHF 3.2 million.

In addition, insurance contracts are in place between the Helvetia Group and individual Allreal companies which have an annual premium volume of CHF 1.2 million (policies covering buildings, construction and management).

Olivier Steimer is Chairman of the Board of Directors of Banque Cantonale Vaudoise, which has had a business relationship with Allreal going back several years. As in the previous year, there are mortgage-backed loans in the amount of CHF 50.0 million in place as at the balance sheet cut-off date.

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.

There are no other business relationships between Allreal and members of the Board of Directors.

#### **3.2 Other activities and vested interests**

For details of other work and functions performed by individual members of the Board of Directors outside Allreal see pages 18 and 19 of the Annual Report.

#### **3.3 Articles of association provisions relating to the number of permissible activities**

Each member of the Board of Directors may hold a maximum of 15 remunerated mandates outside Allreal, not more than 5 of which may be mandates with publicly owned companies.

### 3.4 Elections and terms of office

The members of the Board of Directors, the Chairman of the Board of Directors and the members of the Nomination and Compensation Committee are elected individually on an annual basis by the general meeting. Re-election is permitted. The age limit is 70.

Albert Leiser was first elected to the Board of Directors in 2005, Dr Ralph-Thomas Honegger in 2012, Olivier Steimer and Peter Spuhler in 2013, Bruno Bettoni in 2014, Andrea Sieber and Thomas Stenz in 2016.

### 3.5 Internal organisational structure

The general meeting elected Bruno Bettoni Chairman of the Board of Directors. The Board of Directors constitutes itself and has appointed Dr Ralph-Thomas Honegger to serve as its Vice Chairman. The function of Board Delegate does not exist.

The Board of Directors has a quorum if at least half of its members are present. It passes its resolutions with the majority of the votes cast; the Chairman has a casting vote.

The Board of Directors held four ordinary meetings in the period under review, three of which lasted half a day. The fourth meeting took the form of a strategic appraisal over around one and a half days. Three meetings were attended by all Board members for the full duration of the meetings, while one meeting was attended by five members. Accordingly, each member of the Board of Directors attended at least three meetings during the period under review. These meetings are also attended by members of Group Management for specific agenda items. The Board of Directors also passed resolutions on a number of specific business transactions by circular letter and telephone conferences.

The following key points were addressed at the Board meetings held in 2016:

- Review, isolated adjustment and approval of corporate strategy, medium-term planning for the period from 2017 to 2019 and the annual budget for 2017
- Discussion and examination of the implementation of the two-pillar strategy with backtracing of the specified quantitative targets
- Discussion and approval of the financial statements for each quarter (including liquidity status, debt financing and pending legal disputes), of the variance analysis versus the 2016 budget and of the forecast calculation for 2016 as a whole
- Examination and approval of applications relating to sales of investment properties as well as major investment projects of the Projects & Development division
- Assessment of opportunities and risks of major own projects (development real estate, and investment real estate under construction)
- Discussion of the transaction and rental market and the vacancy situation at individual investment properties within the Real Estate division's remit as well as of appropriate letting measures
- Discussion of the direction of the Projects & Development division as well as its short- and medium-term capacity utilisation and work in pro-

- gress
- Detailed analysis of the general market environment plus a peer group comparison, followed by a mandate to Group Management to implement the strategic measures resulting from this analysis
  - Discussion and assessment of financing management (interest lock-in periods and credit facilities)
  - Resolutions on the termination of interest rate swaps (hedge accounting)
  - Deliberations and resolutions in connection with the issue of a bond
  - Monitoring of and compliance with the investment and financing guidelines
  - Approval of the half-yearly external financial reporting including media releases
  - Approval of the proposals of the Risk and Audit Committee and the Nomination and Compensation Committee (including remuneration)
  - Deliberations on risk management (risk matrix and catalogue) and the internal control system (ICS)
  - Development of the share price and the shareholder structure in relation to compliance with “Lex Koller” requirements
  - Discussion and approval of the agenda items to be proposed to the annual general meeting on 15 April 2016.

The Chairman of the Board of Directors assumes special tasks in his capacity as the liaison to the Chief Executive Officer. Performing these tasks usually involves a monthly meeting and frequent telephone contact.

### **3.6 Board committees**

With a view to integrating the specialist expertise and experience of individual Board members into the decision-making process and enabling the Board to produce reports as part of its supervisory duties, the Board of Directors formed two committees as provided for in the organisational regulations. The duties and powers assigned to the Board of Directors in accordance with the organisational regulations and the law remain vested in the full Board of Directors, i.e. the two Committees have no decision-making powers. The Chairmen of the Committees inform the full Board of Directors of the key findings of the Committee meetings and/or present the resulting proposals.

#### **Risk and Audit Committee**

The Risk and Audit Committee supports the Board in supervising accounting and financial reporting, the auditors and the external real estate valuer and in monitoring compliance with legal requirements.

The tasks include reviewing the structuring of the accounting system in terms of appropriateness, reliability and effectiveness, reviewing the annual financial statements and the other financial information to be published, monitoring corporate risk assessment and reviewing risk management practices and/or the effectiveness of the internal control system (ICS) and periodic reviewing of the insurance cover available to Allreal. The Risk and Audit Committee is also responsible for monitoring business activity for compliance with decisions of the Board of Directors, with internal regulations and guidelines, with corporate policy principles and with relevant legal requirements, in particular those arising from the Stock Exchange Act.

In addition, the Risk and Audit Committee reviews the performance, independence and compensation of the auditors and the external real estate valuer. This includes in particular examining the compatibility of the auditing activities with any consultancy mandates and reviewing overall remuneration. The review reports and the resulting findings and recommendations are discussed in detail with Group Management and the external auditors and consequent measures are formulated. Implementation of these measures is overseen by the Risk and Audit Committee.

The tasks, duties, and powers of the Risk and Audit Committee are defined in the organisational regulations of 2 December 2014. The full Board of Directors is informed of the activities of the Risk and Audit Committee by the latter's Chairman at the next Board meeting and decides on any resulting proposals.

The Risk and Audit Committee is made up of Albert Leiser (Chairman), Olivier Steimer (member) and Thomas Stenz (member). Meetings are normally attended by the Chief Financial Officer.

In 2016, the Risk and Audit Committee held three meetings. The main focus was on reviewing the 2015 annual financial statement and the 2016 half-yearly financial statement in relation to the above-mentioned tasks. In addition, cooperation with the external auditors and the operational management was assessed in detail. The Chief Financial Officer was present at two of the meetings. A third meeting, dealing with specific accounting matters, was also attended by the Chairman of the Board and the Chief Executive Officer. Representatives of the external auditors and the external real estate valuer were present for individual items on the agenda.

#### **Nomination and Compensation Committee**

The Nomination and Compensation Committee supports the Board of Directors with regard to the selection, compensation and training of the members of the Board, Group Management and the management of the Projects & Development division.

Its tasks include managing the selection process for members of the Board of Directors and Group Management and the resulting submission of proposals to the full Board of Directors; in respect of Group Management, this also extends to the submission of proposals relating to the key conditions of their contracts of employment. The Committee is also mandated by the full Board of Directors to prepare a compensation report for submission to the annual general meeting.

Its other tasks include succession planning at the most senior level of management, monitoring management training and reviewing and proposing the salary policy suggested by the Chief Executive Officer for the attention of the full Board of Directors.

The tasks, duties and powers of the Nomination and Compensation Committee are defined in the organisational regulations of 2 December 2014. The Chairman of the Nomination and Compensation Committee briefs the full Board of Directors on the Committee's activities. The Board decides on the resulting proposals. The Committee does not have any decision-making powers.

The annual general meeting appointed Bruno Bettoni (Chairman) and Dr Ralph-Thomas Honegger (member) to the Nomination and Compensation Committee. The meetings are normally attended by the Chief Executive Officer.

In 2016, the Nomination and Compensation Committee held two meetings, which the Chief Executive Officer also participated in. These meetings were essentially concerned with personal particulars regarding Group Management, with wage policy for the entire company, as well as with remuneration of the members of the Board and Group Management. In connection with the recruitment of a new Chief Financial Officer, the Nomination and Compensation Committee called on the services of consulting external advisors and participated in several candidate interviews. The Committee submitted its proposals regarding these issues to the Board of Directors.

### **3.7 Definition of areas of responsibility**

The principles governing the most senior level of management and the delineation of powers and responsibilities are defined in the organisational regulations of 2 December 2014. While the Board of Directors performs the tasks of supervisory and steering body, Group Management is in charge of the operational business.

At the same time, under the articles of association and the organisational regulations, in particular the following powers and responsibilities are vested in the Board of Directors:

- Ultimate direction of Allreal Group and ultimate oversight of the persons entrusted with management (compliance)
- Defining the organisation and appointment of management and persons authorised to act as proxies
- Determining the organisation of and procedures for accounting, financial controlling and financial planning
- Producing the annual report and annual financial statements, preparing the general meeting and implementing its resolutions
- Defining business policy, including in particular investment and financial policy
- Decisions on major transactions, including in particular investments and divestments.



All other tasks are delegated to Group Management. In particular, the latter also prepares the following for approval by the Board of Directors: medium-term planning over a period of three years, the annual budget and financial statements and proposals for investments or divestments. It conducts operational business.

Allreal has internal auditors, who periodically report directly to the Risk and Audit Committee. Allreal staff conduct regular reviews in order to verify property accounts prepared by external property management companies.

### **3.8 Information and control instruments vis-à-vis Group Management**

In particular, the Board of Directors has the following supervisory and control instruments at its disposal:

- Comparative calculation of the annual budget for medium-term planning and corresponding variance analysis (annually)
- Reporting on the functioning and effectiveness of the internal control system (ICS) for financial reporting (annually)
- Reports on compliance with the investment and financing guidelines based on instruments of simplified liability management (quarterly)
- Quarterly statements with presentation of the financial situation (incl. budget comparison, end-of-year forecast and corresponding variance analysis) and management reports (quarterly)
- Balanced score card relating to Allreal Group and its divisions (quarterly)
- Risk matrix and assessments of specific major projects (quarterly)
- Detailed reports from Group Management on the trend of business in the individual business areas, with lists of the investments and divestments made (management information system/quarterly)

## **4 Group Management**

### **4.1 Members of Group Management**

Group Management is appointed by the Board of Directors. On the balance sheet cut-off date, it consisted of four members: the Chief Executive Officer, the Head of Investments/Divestments, the Head of Real Estate and the Head of Project Development. Effective 1 April 2017, the Chief Financial Officer, whose duties have been assumed ad interim by the Chief Executive Officer since 21 September 2016, will also be appointed to Group Management. The contractual period of notice for all members of Group Management is six months, with the exception of the Chief Executive Officer, whose period of notice is twelve months. There are no agreements in place for severance payments or signing bonuses. For information on individual members of Group Management, refer to pages 20 and 21 of the Annual Report.

### **4.2 Other activities and vested interests**

For details of other work and functions performed by individual members of Group Management outside Allreal see pages 20 and 21 of the Annual Report.

#### **4.3 Articles of association provisions relating to the number of permissible activities**

Each member of Group Management may hold a maximum of two remunerated mandates, not more than one of which may be a mandate with a publicly owned company.

#### **4.4 Management contracts**

Allreal has not outsourced any management activities to third parties.

### **5 Compensation, shareholdings and loans**

Details of the remuneration and shareholdings of members of the Board of Directors and Group Management as well as loans granted to them can be found in the compensation report (pages 37 to 42). The compensation report also outlines the content and procedures for determining compensation, as well as the associated statutory rules.

## **6 Shareholders' participation rights**

### **6.1 Voting right restrictions and representation**

Only persons identified as being entered in the share register are entitled to exercise participation rights at the general meeting. In accordance with Art. 6 para. 3 of the articles of association, the Board of Directors may reject an entry if the number of registered shares held by the buyer, or by a group of shareholders acting jointly, exceeds 5% of the share capital. The registration restrictions may be lifted by a simple majority decision taken by the general meeting. There are no other restrictions.

In the 2016 financial year, the Board of Directors did not reject any share register entries.

Every shareholder also has the option of representing his shares personally at the general meeting or of having himself represented by a proxy, authorised in writing, who need not be a shareholder.

Moreover, every shareholder may have his shares represented by the independent proxy, who is elected annually by the annual general meeting. The independent proxy exercises the voting rights transferred to him in accordance with instructions. In cases where he has received no instructions, he will abstain from voting.

The articles of association, the minutes of general meetings and the organisational regulations of Allreal Holding AG can be accessed on the Allreal website.

## **6.2 Statutory quorums**

The articles of association do not specify any quorums over and above the statutory rules on the adoption of resolutions (Art. 703 and 704 Swiss Code of Obligations [CO]).

## **6.3 Convocation of general meetings**

The convocation of the general meeting is governed by the statutory provisions (Art. 699 and 700 CO) and by Art. 10 and 11 of the articles of association.

## **6.4 Agenda**

Until 20 days before the general meeting, shareholders individually or jointly representing at least 1% of the share capital may submit to the Board of Directors written proposals and requests for items to be added to the agenda.

The German-language list of agenda items will be sent to the shareholders along with the invitation to attend the general meeting.

If so decided by the general meeting, items to be discussed can be admitted for discussion without prior announcement. However, with the exception of the convening of an extraordinary general meeting or a special audit, a resolution may only be passed at the next general meeting.

## **6.5 Entry in the share register**

Invitations to attend the general meeting will be sent to shareholders at least 20 days in advance. Shareholders entered in the share register by the last dispatch date are entitled to vote.

The qualifying date for the 18<sup>th</sup> annual general meeting on 21 April 2017 is 27 March 2017.

# **7 Changes of control and defence measures**

## **7.1 Duty to make an offer**

Art. 7 of Allreal's articles of association contains an opting-out clause. This provision was introduced to permit shifts among the pool shareholders without triggering the duty to make an offer.

## **7.2 Change-of-control clauses**

In the event of a change in the majority control of the company, there are no agreements in place benefiting the members of the Board of Directors or Group Management.

## **8 Statutory auditors**

### **8.1 Duration of the mandate and term of office of the lead auditor**

The annual general meeting of 15 April 2016 elected Ernst & Young AG as auditors of Allreal Holding AG and all subsidiaries included in the scope of consolidation for the 2016 financial year.

Daniel Zaugg, Audit Partner, has performed the function of lead engagement partner since 2013.

### **8.2 Audit fees**

For 2016, audit fees of CHF 0.35 million were agreed, covering the remuneration for auditing the consolidated annual accounts, the statutory individual accounts of all Allreal companies, as well as for issuing audit confirmations for the compensation report.

The amount of the auditing fee for 2016 corresponds to a budget proposal submitted by the external auditors for a three-year period from 2016 to 2018.

### **8.3 Additional fees**

For additional accounting services required in 2016, Ernst & Young AG invoiced a Group company for CHF 0.014 million. This corresponds to 4.0% of the audit fee.

### **8.4 Information tools pertaining to an external audit**

The Risk and Audit Committee maintains an exchange of information with the external auditors within the scope of the tasks described on pages 29 and 30 of the Annual Report.

During five weeks in the period under review, the auditors conducted audits for the half-yearly financial statements, the internal control system (ICS) and the annual financial statements. The results were discussed with the members of Group Management.

In addition to the statutory report to the annual general meeting, the auditors also prepare a comprehensive report to the Board of Directors which, together with further findings and proposals for improvement, is presented to a meeting of the Risk and Audit Committee and discussed in detail. Specifically, the report for the 2016 financial year contained material findings on accounting, on the impact of estimation processes, on uncorrected audit differences, on the status of findings from previous years, as well as comments of the internal control system (ICS). The audit plan and details of its implementation, further findings from the year under review, as well as legal and regulatory developments were also disclosed to the Board of Directors. The Chairman of the Risk and Audit Committee conveyed the key findings of these discussions to the full Board of Directors.

## 9 Information policy

Allreal provides information on business performance and the financial situation twice yearly by means of an annual and a half-year report. Financial reporting is in compliance with the International Financial Reporting Standards (IFRS) and the provisions of the SIX Swiss Exchange Listing Rules. Moreover, the consolidated financial statements and the annual financial statements as at 31 December are in accordance with Swiss legislation.

Shareholders entered in the company's share register will be sent a copy of the annual report and the half-year report. In place of the abridged annual report, shareholders may request to receive a full version or opt not to be sent reports at all. The agenda for the annual general meeting will in any case be sent to registered shareholders together with the invitation.

Analysts' and media conferences will be held half-yearly. Furthermore, Allreal is subject to the ad hoc publicity obligation according to Art. 53 of the Listing Rules. Ad hoc communications will be e-mailed to interested parties on request. Ad hoc communications may be subscribed or unsubscribed via the company website at: <http://www.allreal.ch/nc/en/media/media-releases-ad-hoc-publicity/subscribe-to-media-releases/>

Further information on Allreal and the interactive electronic version of the annual report are available at [www.allreal.ch](http://www.allreal.ch). The contact addresses are shown on pages 172 to 174 of the Annual Report.

Below is a schedule of important dates:

Annual general meeting 2017	21 April 2017
Half-year results 2017	29 August 2017
Annual results 2017	27 February 2018
Annual general meeting 2018	20 April 2018
Half-year results 2018	28 August 2018

# Compensation report

## **Introduction and principles**

The compensation report of Allreal Holding AG contains information on the remuneration paid to members of the Board of Directors and Group Management. The compensation report is in accordance with the following regulations and guidelines:

- Swiss Code of Obligations (CO)
- Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO)
- Corporate Governance Directive (DCG) issued by SIX Swiss Exchange
- Swiss Code of Best Practice for Corporate Governance issued by *economiesuisse*
- Articles of association of Allreal Holding AG
- Organisational regulations of Allreal Holding AG

The compensation system in place for members of the Board of Directors and Group Management is simple and transparent and has remained unchanged compared with the previous year. The system is designed to achieve sustainable business success with a top-tier corporate leadership which takes the long-term view, supported by a competitive, performance-based compensation policy.

## **1. Responsibilities and procedures for determining compensation**

### **1.1 Responsibilities of the annual general meeting**

In accordance with the articles of association, the Board of Directors will, on a yearly basis, submit a binding proposal to the annual general meeting for the total remuneration to be paid to the members of the Board of Directors and the total fixed remuneration (basic salary and employer's contributions to the management pension plan) to be paid to Group Management for the current financial year.

Furthermore, the total variable remuneration to be paid to Group Management and, where applicable, the Board of Directors for the past financial year is subject to the binding approval of the annual general meeting.

Accordingly, the annual general meeting of 21 April 2017 will vote on the total remuneration to be paid to the Board of Directors and the total fixed remuneration to be paid to Group Management for the 2017 financial year and the total variable remuneration to be paid to Group Management for the 2016 financial year.

If the annual general meeting refuses to approve individual components of remuneration, the Board of Directors may submit a new proposal or convene a new general meeting.

### **1.2 Responsibilities of the Board of Directors**

The Board of Directors will submit yearly to the annual general meeting a compensation report detailing the remuneration paid to the Board of Directors and Group Management in the past year.

### **1.3 Responsibilities of the Nomination and Compensation Committee**

The Nomination and Compensation Committee is responsible for designing, implementing and monitoring the compensation system for the members of the Board of Directors and Group Management by means of internal benchmarking, as well as for all employees (salary policy). This was done without calling on the services of any external consultants. Once a year, the Nomination and Compensation Committee will prepare all the background information required by the Board of Directors as a basis for its decisions and will also draft the proposals to be submitted to the annual general meeting.

The annual general meeting of 15 April 2016 appointed Bruno Bettoni (Chairman) and Dr Ralph-Thomas Honegger (member) to the Nomination and Compensation Committee.

## **2. Compensation system**

### **2.1 Statutory rules**

Art. 31 to 34 of the articles of association of Allreal Holding AG govern the principles of remuneration. They provide that the Board of Directors and Group Management may, in addition to a fixed remuneration, also receive results-based and performance-based compensation as well as equity securities or convertible and warrant bonds. Variable remuneration will be dependent on performance targets.

In the case of members of Group Management appointed after the total fixed remuneration for the current year has been approved by the annual general meeting, an additional amount of a maximum of 20% of the fixed total remuneration paid to the respective predecessor is available. This additional amount may not, however, exceed 50% of the approved total remuneration for Group Management.

The articles of association do not contain any special rules regarding loans, credits and pension benefits granted to members of the Board of Directors and Group Management. The exact wording (in German only) of the articles of association can be accessed on the Allreal website: <http://www.allreal.ch/de/investoren/corporate-governance/statutenprotokolle>

### **2.2 Remuneration paid to the members of the Board of Directors**

The members of the Board of Directors receive fixed remuneration, which is paid out after the annual general meeting has approved the annual financial statements.

The remuneration takes account of the claims made on the individual members and their responsibilities and is not tied to company targets. It is regularly reviewed and presented annually to the annual general meeting for approval. No further remuneration is paid to the Board of Directors.

### **2.3 Remuneration paid to the members of Group Management**

In addition to their fixed basic salary (including fringe benefits and employer's contributions to the management pension plan), members of Group Management also receive variable remuneration (target bonus), which is

paid out in cash and is based on the company's annual result (performance bonus) and the attainment of individual targets (function bonus). Over and above this, members of Group Management also receive variable remuneration in the form of share allocations geared to the company's long-term performance.

#### **Fixed basic salary**

The amount of the fixed basic salary in cash is dependent on the individuals' tasks and responsibilities, on their experience and on their proven track record. The basic salary is determined on joining the company or on being appointed to Group Management and is reviewed annually by the Nomination and Compensation Committee.

#### **Target bonus**

The amount of the target bonus, consisting of the performance and function bonuses, is set by the Board of Directors annually.

##### Performance bonus

The performance bonus is based on the budgeted net operating profit (net profit excl. revaluation effect). If the budget is achieved, the performance bonus will be paid out the following year once the annual financial statements have been approved by the annual general meeting. It will amount to a maximum of 25% of the basic salary per member of Group Management. If the net operating profit falls short of the budget by 10 or more percent, no performance bonus will be paid out. If the net operating profit is 10 or more percent above budget, 150% of the agreed performance bonus will be paid out. The performance bonus for a net operating profit which is less than 10% above or below budget will be calculated on a linear basis.

With net profit excl. revaluation effect at CHF 112.2 million, the result was 3.2% better than budgeted.

##### Function bonus

The function bonus is dependent on the performance of the member of Group Management in his area of responsibility and functions and hence on individual target attainment. The function bonus may make up a maximum of 40% of the target bonus and will amount to a maximum of 15% of the basic salary per member of Group Management. If the individual targets are not achieved, no bonus will be paid out.

In the 2016 financial year, the average individual target attainment for Group Management as a whole amounted to approximately 72%.

#### **Remuneration in shares**

In addition to the variable target bonus, members of Group Management may be awarded a variable remuneration component in the form of shares. The stock exchange value of the registered allocated shares of Allreal Holding AG must not exceed 10% of the individual's fixed basic salary for the year in question. Bonus recipients will be able to access half of the allocated shares immediately and the remainder in two years' time provided their position is not under notice of termination.



If the budget is achieved, the variable remuneration shall, in principle, make up no more than 40% of the basic salary per member of Group Management.

### 3 Remuneration paid in the 2016 financial year

#### 3.1 Remuneration paid to the members of the Board of Directors

The seven members of the Board of Directors received fixed remuneration totalling CHF 0.63 million (2015: CHF 0.70 million).

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	-
<b>Total remuneration</b>		<b>0.63</b>	<b>0.70</b>

#### 3.2 Remuneration paid to the members of Group Management

The total remuneration paid to the members of Group Management decreased by 17% year-on-year to CHF 3.12 million (2015: CHF 3.74 million). This difference largely reflects a change in the composition of Group Management and a decrease in the number of members. Of the total remuneration of CHF 3.12 million, CHF 0.35 million was paid to persons who left Group Management in the period under review. Their remuneration consisted of a fixed (CHF 0.35 million) and a variable (CHF 0.00 million) component.

At CHF 1.15 million, the highest total remuneration was paid to Roger Herzog, Chief Financial Officer and Member of Group Management until 30 April 2015 and since 1 May 2015 Chief Executive Officer (2015: CHF 0.96 million). The remuneration received by him and that received by the other members of Group Management is broken down as follows:

	2016		2015	
	CHF million	Share	CHF million	Share
Roger Herzog, Chief Executive Officer since 1 May 2015				
Fixed basic salary	0.73	63%	0.64	67%
Employer's contributions management pension plan	0.10	9%	0.04	4%
Variable bonus in form of cash payment	0.25	22%	0.22	23%
Variable remuneration in form of shares <sup>1</sup>	0.07	6%	0.06	6%
<b>Total remuneration</b>	<b>1.15</b>	<b>100%</b>	<b>0.96</b>	<b>100%</b>

	2016		2015	
	CHF million	Share	CHF million	Share
Other members of Group Management				
Fixed basic salary	1.24	63%	1.75	63%
Employer's contributions management pension plan	0.23	12%	0.23	8%
Variable bonus in form of cash payment	0.41	21%	0.70	25%
Variable remuneration in form of shares <sup>1</sup>	0.09	4%	0.10	4%
<b>Total remuneration</b>	<b>1.97</b>	<b>100%</b>	<b>2.78</b>	<b>100%</b>

<sup>1</sup> Calculated at the market value on date of allocation

Of the total remuneration of CHF 3.12 million paid to members of Group Management for the 2016 financial year, fixed remuneration (basic annual salary and contributions to pension funds) accounted for 74%, while the variable component of pay (performance bonus, function bonus and shares) accounted for 26% (2015: 71%/29%). The variable elements of remuneration will be paid out following the resolution taken by the general meeting. The variable component amounted to between 28 and 31% of the total remuneration for persons who were members of Group Management as at the balance sheet cut-off date. Persons who left Group Management in the period under review did not receive a variable component.

Total variable bonuses for all members of Group Management in the amount of CHF 0.66 million (2015: CHF 0.92 million) are broken down into performance bonuses of CHF 0.46 million and function bonuses of CHF 0.20 million (2015: 0.46 million/0.46 million) and were calculated in accordance with the principles described in 2.3 above.

#### 4. Remuneration paid compared against the remuneration approved by the annual general meeting on 15 April 2016

##### 4.1 Fixed remuneration paid to the members of the Board of Directors

Period	Remuneration paid CHF million	Remuneration approved CHF million
01.01.2016–31.12.2016	0.63	0.63

##### 4.2 Fixed remuneration paid to the members of Group Management

Period	Remuneration paid CHF million	Remuneration approved CHF million
01.01.2016–31.12.2016	2.30	2.40

### 4.3 Variable remuneration paid to the members of Group Management

Period	Remuneration paid CHF million	Remuneration approved CHF million
01.01.2015–31.12.2015	1.08	1.08

## 5. Further transactions with members of the Board of Directors and Group Management

### 5.1 Former members

In the period under review and in the previous year, no loans, credits or sureties were granted to former members of these bodies, nor was remuneration of any kind paid to them.

### 5.2 Related parties

As in the previous year, no remuneration was paid to related parties on non-arm's length terms.

### 5.3 Loans and credits

As in the previous year, in the 2016 financial year, no loans, credits or sureties were granted to members of the Board of Directors and Group Management or parties related to them. Accordingly, there are no receivables outstanding.

### 5.4 Management transactions

The following management transactions with shares of Allreal Holding AG were registered in the 2016 financial year. Details can be accessed on the website of SIX Swiss Exchange Regulation:

Date	Title	Transaction	Number of shares	Transaction value CHF million
19.04.2016	Member of the Board of Directors	Buy	200	0.027
20.04.2016	Member of Group Management	Sell	250	0.034

In addition, in the year under review, a total of 1062 shares of Allreal Holding AG were allocated to members of Group Management as a component of their remuneration.

Details of shareholdings of members of the Board of Directors and Group Management can be found on page 113 of the Annual Report.

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# Sustainability

Responsible entrepreneurial activity and sustainable corporate management determine Allreal's strategy and operation. The company is aware of and assumes its responsibility toward the environment and the society.

The code of conduct applying to the entire Allreal Group describes the expected behaviour of employees, contractors and suppliers, thereby defining guidelines to be respected and observed without exceptions and limitations. Observance of high ethical standards of behaviour characterised by personal responsibility and strict adherence to all legislation of significance to the company represents the basis of all entrepreneurial activity.

## **Economic responsibility**

Allreal endeavours to provide its shareholders with a regular return comparable to a direct investment in real estate and thus allowing shareholders to participate in the company's economic success. The business model combines a stable-income real-estate portfolio with the activities of a general contractor. Generally, up to 80% of the earnings resulting from the operating business are distributed to shareholders.

Thanks to the clear strategy, considerate handling of risk, sound financing and the high earnings power, Allreal provides good conditions for continuous growth in shareholder value.

## **Ecological responsibility**

While impact on the environment may be minimised when constructing or operating real estate, it cannot be eliminated completely. While efforts to minimise environmental pollution as a rule lead to higher production costs, they are usually more than only compensated for in the medium to long term owing to lower operating and maintenance expenses and a longer life expectancy. When taking into consideration the entire life of a building, it shows that projects that are planned and realised sensitive to the ecology and easy on the environment can be considered profitable in the long term and by all means consistent with economic interests.

At Allreal, development, planning and realisation of all projects are therefore based on the principle of careful use of resources and minimum disruption of the environment. The company thus ensures to consistently comply with all provisions of environmental law, careful use of non-renewable sources of energy and implementation of energy-saving measures during realisation and operation of real estate. As a consequence, projects for third parties, for the sale to third parties and for the company's own portfolio are balanced both in terms of ecology and the economy.

In this connection, Allreal has made a name for itself as a pioneer and path-breaker in the development, planning and implementation of ecologically exemplary projects. The company has realised about 100 Minergie buildings since the year 2000, including the zero-heating-energy Eulachhof complex in Winterthur, which was granted the Swiss Solar Award and the Watt d'Or Award. Moreover, Allreal implemented Switzerland's first building complex – Richti Wallisellen – which complies with the requirements of the 2000-watt society and in Mönchaltorf one of the first residential complexes in Canton Zurich to comply with the Minergie standard A.

### Energy balance of yield-producing real estate

In terms of operating and maintaining its own income-producing real estate, Allreal endeavours to keep the strain on the environment as low as possible. For its income-producing properties, the company measures and analyses energy and water consumption based on the internationally accepted recommendations of the European Public Real Estate Association EPRA. The data systematically gathered for the first time in 2012 provides an inventory of the current status, and a multi-year comparison is of relevance for the definition, implementation and control of sustainable measures taken in order to lower energy consumption and the connected reduction of pollutant emission.

The calculation of energy and water consumption takes into consideration income-producing properties for which the necessary information is available across a twelve-month accounting period. In the 2016 financial year, this applies to 18 residential properties at a total market value of CHF 758 million and 37 commercial properties at a total market value of CHF 2536 million (2015: 14 residential/35 commercial properties). Comparability is, however, restricted as both the composition of the portfolio and the parameters differ from year to year.

Total energy consumption (electricity and heating) of the surveyed properties in the year under review amounted to 72.7 million kilowatt-hours, corresponding to an average consumption per square metre of 104.1 kilowatt-hours (2015: 62.7 million kWh/110.9 kWh). These values correspond to a CO<sub>2</sub> equivalent of in total 19 903 tons or 28.7 kilograms per square metre (2015: 16 830 t/29.7 kg). The reduction of total energy consumption was due on the one hand to the new properties included in the portfolio and on the other to the refurbishment and modernisation of yield-producing properties.

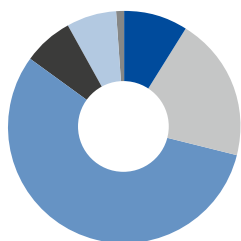
Water consumption of the surveyed properties amounted to 383 801 cubic metres corresponding to a clearly lower average consumption per square metre compared to the previous year of 554 litres (2015: 373 026 m<sup>2</sup>/657 l).

### Total consumption per year

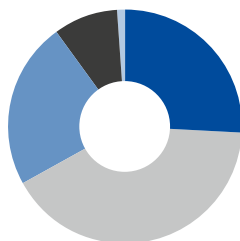
	2016	2015
Number yield-producing buildings	55	49
Total lettable space in m <sup>2</sup>	693 366	566 112
Average lettable space per building in m <sup>2</sup>	12 607	11 553
General electricity in kWh	16 154 701	12 775 764
Heating in kWh	56 007 328	49 991 680
<b>Total energy in kWh</b>	<b>72 162 029</b>	<b>62 767 444</b>
Water consumption in m <sup>3</sup>	383 801	373 026

### Average annual consumption per square metre

General electricity in kWh	23.3	22.6
Heating in kWh	80.8	88.3
<b>Total energy in kWh</b>	<b>104.1</b>	<b>110.9</b>
Water consumption in l	554	657



18 residential buildings  
Market value CHF 758 million



37 commercial buildings  
Market value CHF 2536 million

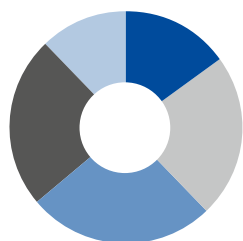
#### Energy mix in kWh

- General electricity
- Woodchip
- District heating
- Natural gas
- Heating oil
- Heat pump electricity

### Society and social responsibility

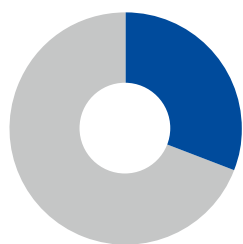
Efficient, capable and experienced employees are of major importance concerning successful long-term business activity. That is why Allreal attaches great significance to the systematic ongoing and further training of its staff at all hierarchical levels and in all areas of activity. In 2015, annual expenses of internal and external ongoing and further training on average amounted to CHF 540 per employee (2014: CHF 655). Moreover, Allreal offers young people the opportunity to enter working life by means of an apprenticeship programme. On the cut-off date it was taken advantage of by four apprentices.

An employee survey carried out twice a year ensures that conflict potential is recognised early and corresponding measures are defined and implemented on time.



Employees by age structure

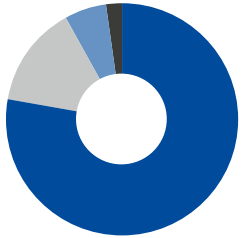
● <29 years	15%	● 50-59 years	24%
● 30-39 years	23%	● >60 years	12%
● 40-49 years	26%		



Employees by gender

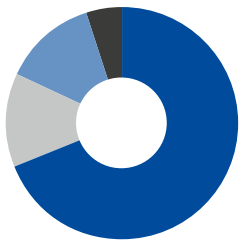
● male	69%
● female	31%





Employees by location

● Zurich	78%
● Cham	14%
● Bern	6%
● St. Gallen	2%



Employees by area of activity

● Projects & Development	69%
● Head-office functions	13%
● Hammer Retex	13%
● Real estate	5%



Employees by length of employment

● <1 year	9%	● 11-15 years	11%
● 1-3 years	21%	● 16-20 years	6%
● 4-6 years	25%	● >21 years	12%
● 7-10 years	16%		

Allreal attaches special significance to clear and unambiguous definitions concerning all aspects relating to occupational safety and safety on the construction site. Adherence to applicable safety regulations is therefore monitored in regular intervals.

Prevailing pressure on price and deadlines experienced in the construction industry increases the risk of wage undercutting and other violations of labour and social-security regulations. This is connected with a considerable

danger of failing to reach the required quality standards, especially in cases of work being awarded to subcontractors, which is then completed by untrained tradespeople often not employed in conformity with the law. In order to ensure for all projects that the quality level of contracts awarded to subcontractors is being maintained and liability and reputation risks thus minimised, Allreal has taken corresponding measures. These measures include deeper verification of Allreal's subcontractors and, in turn, their subcontractors with regard to maintaining applicable labour and social-security regulations, stricter inspections of construction sites, the duty for tradesmen on large construction sites to identify themselves, tightening of contractual agreements with contractors, and a restriction on the number of their subcontractors.

Allreal cultivates ongoing communications with various stakeholders, maintains contact and exchanges ideas with representatives of politics, the authorities, political parties and associations based on open and transparent communications with all dialogue partners.

In addition, Allreal supports cultural and social organisations within the parameters of long-term agreements. The company welcomes and supports volunteer work performed by its employees in their spare time. Moreover, the company demonstrates its commitment to society and to its social responsibility by membership in various non-party or politically non-partial organisations.