Financial year report

Dear shareholders
Ladies and gentlemen

The Zug Estates Group achieved a gratifying result once again in 2015. The year's highlights were the completion and successful letting of the properties under a further development phase of the Suurstoffi site in Risch Rotkreuz, as well as the conclusion of long-term agreements with new anchor tenants. A number of far-reaching decisions were also taken on the future direction of the Suurstoffi site project, and the next development phase was begun.

Net income significantly higher

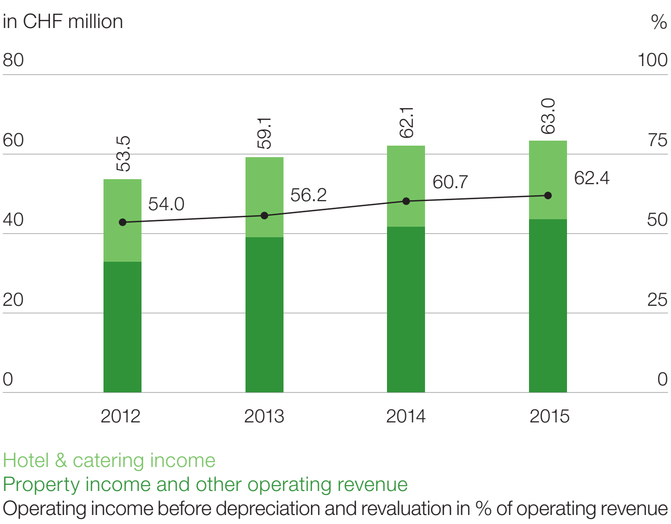
The Zug Estates Group generated operating income of CHF 63.0 million in 2015, representing a year-on-year increase of 1.6%. Property income rose by 4.4% to CHF 39.1 million despite the sale of two properties and a decrease in residential rents resulting from a reduction in the reference rate. Stripping these factors out, property income would have been about CHF 1 million higher and up approximately 7.6% on the year before. In an increasingly challenging market environment, the hotel & catering business unit reported income of CHF 19.8 million, practically maintaining the previous year's figure and improving profitability. The Group's operating expenses were 2.3% lower year-on-year. Operating income before depreciation and revaluation rose by 4.0% to CHF 39.2 million (previous year: CHF 37.7 million).

In 2015, the Group invested CHF 47.5 million in the further development and consolidation of its sites. In addition, the book value of investment properties increased by CHF 50.5 million net following revaluation. Income from the revaluation of investment properties (net) thus more than doubled compared with the previous year's figure of CHF 21.3 million. The contributing factors here were the above-average quality of the locations and properties in the portfolio (high proportion of residential property), the continuous development and positioning of the Suurstoffi site as a preferred location for housing and business, the successful conclusion of rental agreements, and market-related factors.

The year-on-year decrease in the financial result to CHF 2.1 million reflected the higher borrowing costs and lower income from securities. Due to the high level of income from the revaluation of investment properties (net), tax expenditure increased by CHF 6.3 million year-on-year to CHF 11.7 million.

As a result of the good operating result and the high revaluation, EBIT and net income were well above the previous year's figures at CHF 86.3 million and CHF 67.1 million respectively. Net income excluding income from revaluation increased by 0.3% to CHF 24.1 million (previous year: CHF 24.0 million).

Operating revenue and income



Net income and Net income excluding revaluation

Payout increases by 10.8%

Net income excluding income from revaluation, which is relevant for the payout to shareholders, rose year-on-year by 0.5% to CHF 48.97 per series B registered share; the inclusion of income from revaluation resulted in a significant increase to CHF 136.69 (previous year: CHF 91.75). The solid result allows the board of directors to propose to shareholders in 2016 that the payout be increased by 10.8% to CHF 20.50 per series B registered share.

Overall earnings per share at 17.6%

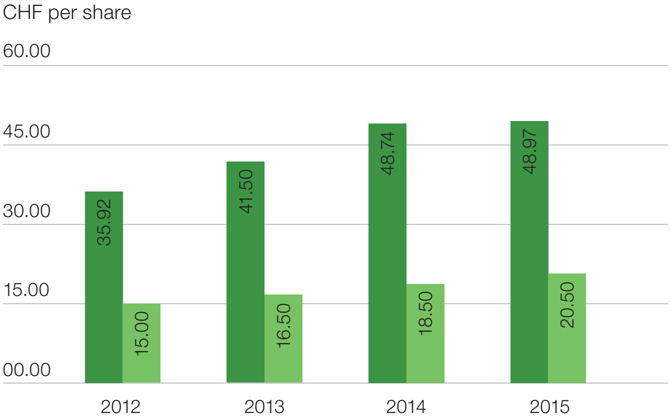
The NAV at market value, a measure including the fair value of properties used for operational purposes, came to CHF 1 600.45 per series B registered share (previous year: CHF 1 468.89). The Zug Estates share closed at CHF 1 445.00 on December 31, 2015, 16.2% higher than at the beginning of the year. Factoring in the payout of CHF 18.50 per series B registered share made in May 2015 from the reserves from capital contributions and, as such, exempted from withholding tax, overall earnings per share came to 17.6% in the 2015 financial year (previous year: 8.5%).

Fair value of portfolio rises to CHF 1.2 billion

The Group continued its growth strategy in the year under review, investing CHF 36.9 million in expanding its portfolio. In Risch Rotkreuz, the second development phase was completed, and construction started on the third phase. Headway was also made on planning work for the other phases. The Group used the favorable market environment to give the portfolio further focus. On March 1, 2015, it sold the industrial site in Oberentfelden (Aargau) at fair value. Zug Estates also decided to sell two further non-strategic apartments in Baar. Furthermore, on July 1, 2015, Zug Estates purchased the last property under third-party ownership at the Suurstoffi site. Conversely, the Group sold the property Suurstoffi 3a–c. These consolidation activities created the ideal conditions for the development of Lucerne University's Suurstoffi campus.

The book value of the entire portfolio stood at CHF 1 113.3 million at the end of the year, up 6.7% on the previous year. Adjusted for the transactions in 2015, the portfolio grew by 8.4%. Properties used for operational purposes are stated at cost less writedowns. The fair value of these properties is CHF 113.7 million, with the fair value of the entire portfolio thus amounting to CHF 1 188.9 million (previous year: CHF 1 111.0 million).

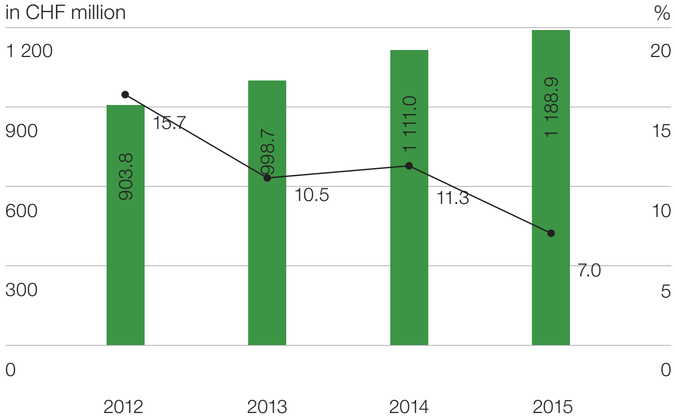
Net income excluding income from revaluation and payout per series B registered share



Net income excluding income from revaluation – per series B registered share
Payout per series B registered share [1]

[1] Payable in the following year, 2015: proposal of the board of directors

Fair value of portfolio



Fair value of the portfolio (left-hand axis)
Year-on-year change (right-hand axis)

Equity ratio still more than 60% despite continuing investment activity

The Zug Estates Group can build on a solid equity base offering long-term stability. In spite of continuing investment activity, equity capital totaled CHF 723.4 million as at December 31, 2015, equivalent to a solid equity ratio of 60.8%.

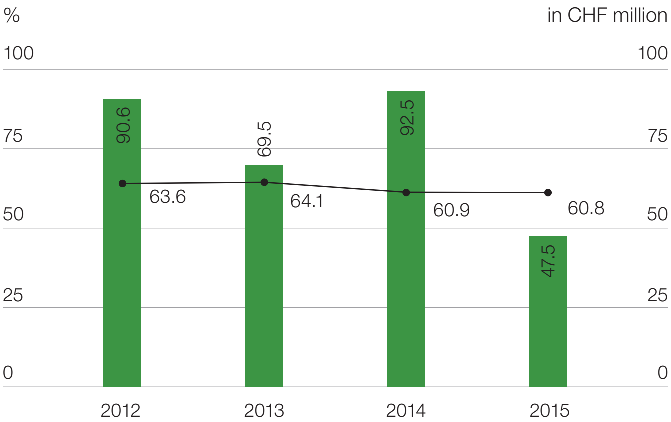
As planned, Zug Estates borrowed additional capital in an amount of CHF 30 million in the year under review. Borrowed capital stood at CHF 350 million as at the end of December, corresponding to an unchanged 29.4% of total assets. Zug Estates has a long-term hedge in place against interest rate risk. The average residual term of the interest-bearing debt rose to 9.2 years (previous year: 7.6 years), while the average interest rate was 2.5% (previous year: 2.2%). The Group has undrawn credit lines of CHF 110 million. These, coupled with cash and cash equivalents of CHF 55.2 million as at year-end, provide the Group with adequate scope to fund the continuing expansion of its real estate portfolio.

New rental agreements in sync with strong development momentum

The second development phase of the Suurstoffi site, consisting of nine apartment buildings comprising 145 rented apartments and 11 condominium apartments, was completed on schedule and the units were handed over to the occupants in the first half of the year. All apartments have been let, increasing the proportion of residential property within the portfolio to just under 30%.

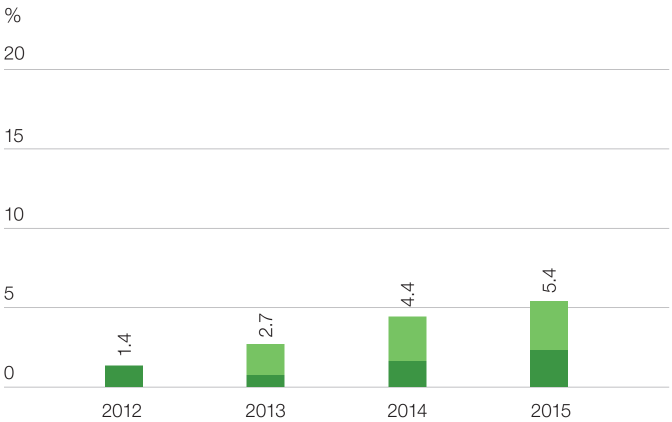
A number of significant letting transactions for commercial space were also completed in 2015. A long-term rental agreement was negotiated with Lucerne University of Applied Sciences and Arts (HSLU) for the two-stage construction of the new Suurstoffi Rotkreuz campus: occupying an area of approx. 4 000 m² rented space in existing Suurstoffi buildings, the HSLU's new IT department will be opening its doors to students in fall 2016. In a second phase tentatively scheduled for fall 2019, sections of the HSLU School of Business, together with the IT department, will move into a new building adjacent to the train station. The planned expansion of the Suurstoffi Rotkreuz campus will accommodate almost 2 000 students and 250 HSLU employees.

Equity and investments



Equity ratio (left-hand axis)
Investments in the portfolio (right-hand axis)

Vacancy rate (on reference date)



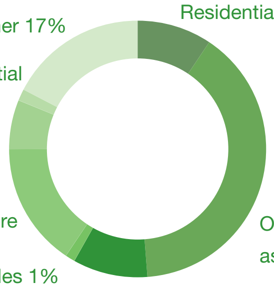
Vacancy rate as at December 31
Voids before initial renting and strategic voids as at December 31

Market research company GfK concluded a long-term rental agreement for service business space. Raising the Suurstoffi site's profile as a place of business, GfK will be relocating with about 200 employees in fall 2017 to a new building under the third development phase. Just two years after opening at the Suurstoffi site, the Migros-owned ONE Training Center is expanding its fitness facilities and has rented additional commercial space.

In Zug, rental agreements for approx. 1 700 m² of office and retail space were extended or renewed. This will generate higher rental revenue in the retail segment in particular. For the remaining commercial space, negotiations with prospective tenants are at an advanced stage. We therefore expect to be able to report largely full occupancy for the main rental properties by the end of 2016.

As at December 31, 2015 (reference date), the vacancy rate was 5.4%, representing a decrease of one percentage point since the middle of the year. Adjusted for voids before initial renting (parking spaces in particular) and space rented to the HSLU and other tenants over 2016, the year-end vacancy rate came to 2.3%.

Breakdown of vacancies as at December 31, 2015



Strong construction and development activity

2015, too, was marked by strong construction and development activity. Zug Estates reported major progress at both sites in the year under review:

- On the Suurstoffi site, a third development phase was launched, comprising 152 rental apartments, eight apartments with 52 rooms for HSLU students, and commercial space for some 500 workplaces. Construction began on schedule in fall 2015, with occupancy planned for the second half of 2017. The investment volume amounts to some CHF 110 million. Long-term rental agreements have already been concluded for 38% of the commercial space. Negotiations for further space are progressing.

- The HSLU's choice of location will allow Zug Estates to proceed with the integrated planning of the western section of the Suurstoffi plot on which the final site of the Lucerne University of Applied Sciences and Arts is to be constructed by 2019, and make a start on the necessary adaptation of the development plan in cooperation with the local municipality. The draft development plan envisages a higher plot ratio as well as additional residential space. It was drawn up on the basis of a professional urban planning variant study and, following a preliminary evaluation by the Canton of Zug, is to be put to voters in Risch for approval in fall 2016. In tandem with work on adapting the development plan, designs for the new building were invited by public competition, the results of which will be announced in spring 2016.

- In addition, the decision was taken to construct a 70-meter residential tower block in the center of the Suurstoffi site. About 90 condominium properties and approx. 2 500 m² of office and commercial space are planned. The study process has been completed and the planning application is due to be submitted in spring 2016. Construction is timetabled to start in fall 2016, with occupancy scheduled for winter 2018/19.

- Moreover, continuing demand for office space at the Suurstoffi site prompted the decision by Zug Estates to begin planning an office building for 600 workplaces. The building is being planned with a composite masonry-and-timber-work design and at 36 meters high on completion, it will be Switzerland's tallest wooden building.

- The negative outcome of the vote taken on the Zug city tunnel in a local referendum clarified the position on an important precondition for the future development of the Zug City Center site. The circumstances are now in place to initiate a master plan to tap into the enormous potential of the center of Zug.

Business hotel segment robust

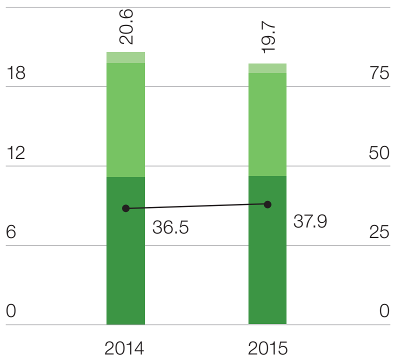
Hotelbusiness Zug AG defended its market leadership of Zug's business hotel segment in 2015. Occupancy rates at its establishments rose slightly, with room prices remaining almost unchanged, while accommodation revenue was stable at CHF 11.2 million. Catering income decreased by CHF 0.8 million, due chiefly to lower revenues from the leased Theater Casino Zug. The company has therefore decided to focus in future on the core segment of business hotels with catering facilities and not to extend the lease on the Theater Casino catering business after expiry at the end of 2015. Overall revenue for the business area was 3.9% lower at CHF 19.8 million, and the GOP (Gross Operating Profit) margin improved from 36.5% to 37.9%.

Stronger organization

To be able to support the targeted portfolio growth, Zug Estates has begun recruiting the necessary additional personnel in the areas of project development, marketing and energy technology/building automation and control systems. This will continue in 2016. Headcount in the hotel & catering business unit was scaled back to take account of the strategic focus on core activities. The Group's full-time equivalent count stood at 152.4 at the end of 2015.

Hotel & catering income

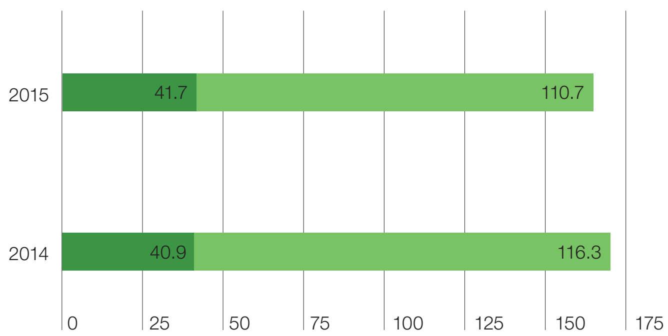
in CHF million



Ancillary services
Catering
Accommodation
GOP margin (right-hand axis)

FTEs by business unit

Headcount (full-time equivalents)



Real estate business unit
Hotel & catering business unit

Outlook for 2016

We are cautiously optimistic about the future. The Canton of Zug numbers among Switzerland's most sought-after residential markets. We believe that demand for residential units will remain stable and that we will find tenants for our properties. However, the downturn in the commercial market that has been apparent for the past three years or so – especially for office space – continues to gather pace and put pressure on prices. The long contract periods and the well-diversified portfolio with a high proportion of residential property should nevertheless still ensure continuity.

Overall, we expect operating income before depreciation and revaluation to match the previous year's level. On the strength of the apartments completed in 2015, the newly concluded rental agreements, and declining vacancies, we anticipate higher rental income in the real estate segment. On the other hand, careful preparations for the imminent, major growth drive will result in higher costs.

Owing to the absence of revenue from the Theater Casino Zug, catering income in the hotel & catering business unit is expected to be about CHF 2.0 million lower than in the previous year. Thanks to the focus on the segment's core business, however, we anticipate a further rise in profitability.

Continuing demand for property investment means we can expect to generate income from the revaluation of investment properties (net) in 2016 as well, but we are predicting a year-on-year decline. The development of the Suurstoffi site will remain a key priority. Construction of the third phase (investment volume: approx. CHF 110 million) is progressing on schedule. At the same time, planning work continues for the further development of the western section of the plot (investment volume: more than CHF 100 million), for the Suurstoffi 22 office building and for the residential tower block.

Zug, March 2016

Tobias Achermann
CEO

Gabriela Theus
CFO