Financial year report

Dear shareholders,
Ladies and gentlemen,

The Zug Estates Group achieved a gratifying result once again in 2014. The 2014 financial year was notable for a high level of investment activity and profitable growth overall. In addition, significant progress was made on the development of the Suurstoffi site.

Net income excluding income from revaluation up 16.1%

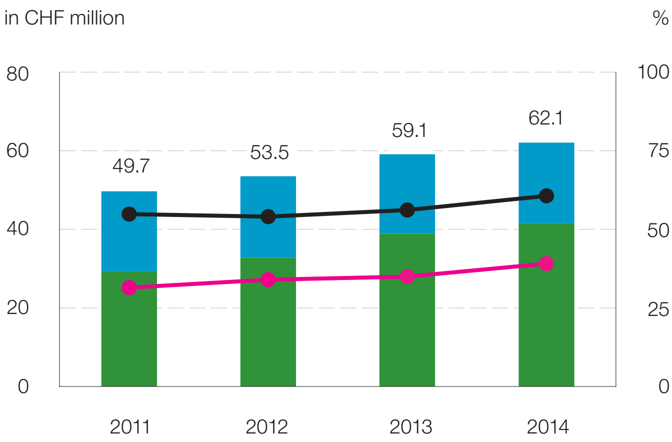
Zug Estates generated operating income of CHF 62.1 million in 2014. This represents a year-on-year increase of 5%. Property income rose by CHF 2.7 million to CHF 37.5 million, despite a decrease in residential rents resulting from the reductions in the reference rate. The main reason for the increase was that the apartments and commercial space completed in the previous year were included in the results for the full year. Income in the hotel & catering business unit rose to CHF 20.6 million in a persistently challenging market environment. Operating expenses fell by 5.8% compared with the previous year, to CHF 24.4 million. This is mainly attributable to significantly lower property expenses. In 2013 several periodic measures were implemented that did not have to be carried out in 2014. Operating income before depreciation and revaluation rose by 13.5% to CHF 37.7 million in the year under review (previous year: CHF 33.2 million).

As expected, the real estate market continued to flatten out. Income from the revaluation of investment properties (net) was well into positive figures at CHF 21.3 million, but was lower than the previous year's figure of CHF 26.9 million. The progress achieved in the existing development projects and the successful conclusion of new and repeat rental agreements contributed to the positive performance. In addition, there was a gain of CHF 0.5 million on the sale of an apartment in Baar. Operating profit (EBIT) of CHF 55.9 million was CHF 0.7 million below the figure for the previous year.

In 2014 Zug Estates sold the remaining securities acquired in the capital increase of 2012 and therefore no longer holds a stake in Metall Zug AG. At CHF 1.3 million, the financial result was below the previous year's figure. Tax expenditure fell by CHF 2.3 million compared with the previous year, helped in particular by a cut in the tax rate for deferred taxes from 15.0% to 14.6%.

Net income came to CHF 45.1 million, up 0.8% on the previous year. Excluding one-off and revaluation effects – i.e. the net result of income from the revaluation of investment properties, profit from the sale of investment properties, securities income and corresponding deferred taxes – income increased by 16.1% to CHF 24.0 million.

Operating income and result



Property income and other operating revenue (left-hand scale)
Hotel & catering income (left-hand scale)
Operating income before depreciation and revaluation in % operating income (right-hand scale)
Net income excluding income from revaluation, as a percentage of operating revenue (right-hand scale)

Earnings excluding revaluation rises to CHF 48.74 per series B registered share

Net income excluding income from revaluation, which is relevant to the payout to shareholders, rose by 17.5% to CHF 48.74 per series B registered share, thus significantly exceeding the prior-year figure. The net asset value (NAV) per series B registered share increased to CHF 1 351.15 (previous year: CHF 1 274.55). The EPRA NAV, which takes the operating properties into account, came to CHF 1 468.89 per series B registered share (previous year: CHF 1 387.29). The Zug Estates share closed at CHF 1 244 on December 31, 2014, below the NAV and the EPRA NAV. Overall earnings per share came to 8.5% in the 2014 financial year.

Fair value of overall portfolio rises to CHF 1 111.0 million

The Group energetically pursued its growth strategy in the year under review, investing CHF 92.5 million in expanding its portfolio further. On the one hand, a 5.5% stake was acquired in the Miteigentümergemeinschaft Metalli co-ownership association in Zug, thus increasing the total participation to 72.25%. On the other hand, the second phase of development in Risch Rotkreuz was largely completed. The book value of the entire portfolio stood at CHF 1 043.4 million at the end of the year, up 11.8% on the previous year. Operating properties are stated at cost less write-downs. The fair value of these properties is CHF 106.7 million, with the fair value of the entire portfolio thus amounting to CHF 1 111.0 million (previous year: CHF 998.7 million). No properties were acquired or disposed of, with the exception of the sale of a non-strategic apartment and the acquisition of the co-ownership stake mentioned previously.

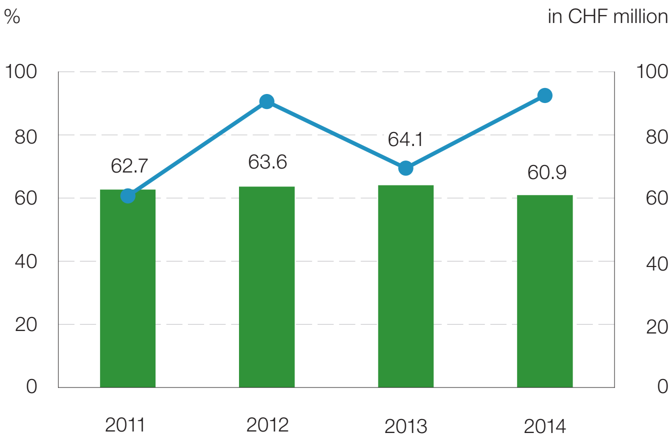
Vacancy rate remains low

As expected, the vacancy rate of 4.4% at December 31, 2014 was higher than in the previous year because the vacant space in the new office building at Suurstoffi 41 is reserved for the future use of the Lucerne University of Applied Sciences and Arts (HSLU). Adjusted for voids before initial renting, the vacancy rate of 1.6% remains at a low level (previous year: 0.8%).

Equity ratio still over 60% despite higher investment activity

The Zug Estates Group can build on a solid equity base offering long-term stability. As at December 31, 2014, equity capital totaled CHF 662.8 million, equivalent to an equity ratio of 60.9%. As at the end of December, borrowed capital stood at CHF 320 million, corresponding to 29.4% of total assets. The average residual term of the interest-bearing debt was 7.6 years, while the average interest rate was 2.2% (previous year: 2.6%). In addition, in the previous year the Group took out a long-term CHF 75 million forward mortgage maturing in May 2015. This, coupled with cash and cash equivalents of CHF 24.2 million as at year-end, provides the Group with adequate scope to fund the continuing expansion of its real estate portfolio.

Equity ratio



Equity ratio (left-hand scale)
Investment in the portfolio (right-hand scale)

Substantial progress in site development

In the year under review, Zug Estates achieved important progress both in Zug and in Risch Rotkreuz:

- The redevelopment of the outside space at the Metalli shopping mall was completed. The car park has been modernized and equipped with a user-friendly parking guidance system. New tenants were also gained, and these provide an attractive addition to the range of outlets on offer at Metalli.

- Progress on the construction projects on the Suurstoffi site is going according to plan. Construction work on the office building at Suurstoffi 41 was completed in mid-2014 and a section handed over to SIS Swiss International School. Central Switzerland's biggest timber housing estate with a total of 156 apartments was largely completed. All the apartments have been let since July 2014 and residents are due to move in during the first half of 2015.

- The Suurstoffi Ost development plan has been legally binding since spring 2014. This means that further development reserves totaling more than 80 000 square meters, of which about 40% is designated for residential use, have been officially secured. Zug Estates plans to invest around CHF 400 million in developing these reserves in stages over the next few years.

- In October 2014, HSLU decided to build its new IT Department at the Suurstoffi site in Risch Rotkreuz. The first students are expected to occupy temporary accommodation in existing buildings in Rotkreuz from 2016 onwards. By 2019, around 1 000 students should be occupying buildings constructed specially for HSLU at the site. In addition to the campus structure and the pioneering energy system, the excellent accessibility of the location was a key factor in Lucerne University's choice of location.

Business hotel segment stable

After several difficult years the Swiss tourist industry has recently experienced an upturn, with a year-on-year increase in the number of overnight stays. The business hotel segment was able to benefit from this recovery. Hotelbusiness Zug AG further strengthened its leading market position in the business hotel segment in Zug. Occupancy rates at its establishments rose slightly, with room prices remaining almost unchanged, while accommodation revenue increased by 3.6% to CHF 11.2 million and catering revenue remained steady. Overall income therefore rose 1.7% to CHF 20.6 million.

Positive outlook

We look forward to the future with confidence. We believe that demand for residential property will remain high and that tenants will therefore be found. However, the downturn in the commercial market that has been apparent for the past two years – especially for office space – is gathering pace, and this is likely to have an increasing impact on the available Zug Estates units. In terms of changes of tenants, the Group expects longer absorption times and a slight rise in vacancies overall. The long contract periods and good diversification of the portfolio with a high proportion of residential property should nevertheless ensure continuity.

Operationally, we are expecting high rental income in the real estate segment as another 145 rental apartments become occupied in the first half of 2015. Owing to the expected slowdown in market momentum, we assume that income from the revaluation of investment properties (net) will be below the figure for the previous year.

We take a cautious view of the earnings outlook for the hotel & catering segment. Increasing pressure on prices should be expected generally. Catering income is also expected to decline because of renovation work. All catering sales at the Theater Casino Zug will cease in 2016, since Hotelbusiness Zug AG has decided for strategic reasons not to extend its lease with the City of Zug when it expires at the end of 2015.

Overall, we expect operating income before depreciation and revaluation to increase by a mid-single-digit percentage in 2015.

The thoughtful development of the Suurstoffi site will continue to be an important priority. Planning for the next phase, with an investment volume of about CHF 110 million, has reached an advanced stage. The planning application is expected to be submitted in spring 2015, so we are assuming that we can begin construction during the second half of the year. Meanwhile, the planning work for the subsequent development phases, with an investment volume of a further CHF 150 million, is continuing apace. In 2015 we expect to make investments of CHF 30 to 50 million.

Zug, March 2015

Tobias Achermann
CEO

Gabriela Theus
CFO