ZugEstates

Annual Report

2016

At a glance

		2016	2015	%
Zug Estates Group				
Operating revenue (excluding income from revaluation of investment properties)	TCHF	61 232	62 904	– 2.7%
Operating expenses	TCHF	22 788	23 724	– 3.9%
Operating income before depreciation and revaluation	TCHF	38 444	39 180	– 1.9%
Revaluation of investment properties (net)	TCHF	28 065	50 477	– 44.4%
Income from sale of investment properties	TCHF	420	– 23	n.m.
EBIT	TCHF	63 796	86 325	– 26.1%
Net income	TCHF	48 353	67 139	– 28.0%
Net income excluding income from revaluation [1]	TCHF	24 027	24 051	– 0.1%
Total assets	TCHF	1 265 403	1 189 529	6.4%
Interest-bearing debt	TCHF	350 200	350 000	0.1%
– Interest-bearing debt in % of Total assets		27.7%	29.4%	
Shareholders' equity	TCHF	774 528	723 437	7.1%
– Equity ratio		61.2%	60.8%	
– Return on equity [2]		6.5%	9.7%	
Headcount	FTE	130.5	152.4	– 14.4%
Share				
Closing price	CHF	1 653	1 445	14.4%
Market capitalization [3]	TCHF	827 174	711 530	16.3%
Earnings per series B registered share [4]	CHF	98.06	136.69	– 28.3%
Earnings per series B registered share excluding revaluation [4]	CHF	48.73	48.97	– 0.5%
Distribution per series B registered share [5]	CHF	23.00	20.50	12.2%
NAV at market value per series B registered share [3]	CHF	1 683.49	1 600.45	5.2%
Portfolio				
Investment properties	TCHF	1 043 489	1 013 516	3.0%
Investment properties under construction	TCHF	128 519	57 723	122.6%
Undeveloped plots	TCHF	2 524	4 008	– 37.0%
Total real estate portfolio	**TCHF**	**1 174 532**	**1 075 247**	**9.2%**
Operating properties (market value)	TCHF	115 976	113 693	2.0%
Total portfolio	**TCHF**	**1 290 508**	**1 188 940**	**8.5%**
Property income [6]	TCHF	40 089	39 169	2.3%
Vacancy rate investment properties [7]		1.8%	5.4%	
Gross return investment properties [8]		4.3%	4.4%	
Gross return operating properties [9]		6.0%	6.2%	

The regulations of the Swiss GAAP FER 3 and 6 framework concept with regard to revenue collection (in force since January 1, 2016) were applied for the first time in the 2016 financial year. The previous year's figures were restated accordingly.

1 Equal to net income excluding income from revaluation of investment properties (net), excluding income from sale of investment properties and excluding income from securities and corresponding deferred taxes
2 In relation to average shareholders' equity
3 In relation to number of shares outstanding (series A registered shares converted)
4 In relation to number of shares on average outstanding (series A registered shares converted)
5 Proposed by board of directors, in form of cash distribution from reserves from capital contributions
6 Comprises rental income and income from Miteigentümergemeinschaft Metalli
7 As at the balance sheet date, as a percentage of projected rental income
8 Projected rental income (annualized) as a percentage of the market value on the balance sheet date
9 Projected rental income from point of view of real estate business unit (annualized) as a percentage of the market value on the balance sheet date

Letter to shareholders

«High visibility – a hallmark of Zug Estates.»

Dear shareholders

In the 2016 financial year, Zug Estates successfully consolidated the growth achieved in the past few years. At the same time, the board of directors gave the green light to several investment projects, setting the stage for further significant growth. Three of the four approved projects are already under construction, and building work on the fourth project is scheduled to commence in fall 2017. I would therefore like to use this foreword as an opportunity to place the exceptionally high past and future development momentum in the context of the company's long-term strategy.

Transformed in the space of a few years

Looking back, it is evident that Zug Estates already had a focus on sites and districts – not on individual properties – at the time of the listing in mid-2012. Viewed as somewhat unique within the industry, this approach initially met with a certain degree of skepticism. This specific strategic focus has been put to the test over the past five years, as the market environment has become more liquid across all real estate sectors, causing a gradual change in demand for retail and office space in particular.

The current annual report shows that this strategy has been the right one. Zug Estates has successfully tapped into the major growth seen over the last few years to establish a firm footing in the market, with full occupancy rates. Originally comprising mainly commercial and trade space, the portfolio has since been diversified and today contains a large proportion of residential units. The tenant mix has become more diverse, reducing the systemic risk of default. Zug Estates has achieved profitable growth on the back of an increase in property income of about 40% and a continual improvement in the operating margin. The hotel & catering business unit, which in 2012 represented almost 40% of total sales, today accounts for a little more than one quarter of total sales at a sustained margin. Despite the substantial investment volume, shareholders' equity is stable at over 60%, and the return on equity has been maintained at a solid 8%, in line with the multi-year average. The distribution has increased by approximately 10% annually. This equates to an above-average overall performance relative to comparable companies. In all, Zug Estates can boast an impressive balance sheet, which forms the solid foundation on which the next phase of the Group's development was ushered in during the previous financial year.

Proposed roadmap for the next few years

The board of directors is not only mandated to critically evaluate achievements to date, it is also required to focus its attention on corporate development prospects in the prevailing risk landscape. These include the decisions taken to invest some CHF 340 million in portfolio expansion and about CHF 100 million in promotional activities (Aglaya residential tower block), as well as the corporate strategy propositions and priorities. The following strategic objectives will determine the roadmap for corporate development over the next few years.

Forward-looking strategy

The strategic focus on sites and districts is to be further enhanced by adopting a positioning that offers a good locational fit and points the way forward. The main priority in the center of Zug over the following years will be on the constructional and functional remodeling and repurposing of a growing district comprising a mix of retail, service, hotel and residential uses. The relevant planning preparations have begun and an evaluation of consolidation options initiated. The envisaged timeframe for implementation is over the next few years.

Factoring in the investment projects already approved, the Suurstoffi site will be largely completed by 2021. The residential and service buildings scheduled for occupancy in 2017/2018, the Aglaya residential tower block (2018/2019) and the university campus currently under development (2019) will transition the site into a business and commercial location that offers a high degree of connectivity, and a Swiss-wide reach. The two sites encompass a broad and varied range of uses, and a mix of non-correlated tenant segments. Providing functionality and diversity, the floor space concepts are designed to meet future users' requirements as well.

User-centric innovation

In the property sector, innovation is frequently equated with spectacular architecture. Instead of architectural icons, Zug Estates focuses on integral districts that inspire a sense of identity. Importance is attached to functional, premium architecture offering a varied mix of uses and a diversified layout, as well as to an equally meticulously planned complementary external space of high quality. The variety of space use is not the only consideration. Living amenities, along with community, co-working and mobility services, are evaluated with a view to improving the functionality of the districts and to strengthening identities. This more functionality-based innovative leverage is to be used to continually optimize competitive space use concepts and make them adaptable to new user needs.

Sustainability in practice

The goal of operating the entire portfolio solely with renewable energy and without CO_2 emissions is in line with the forward-looking portfolio strategy. Verified by Lucerne University of Applied Sciences and Arts, the relevant measurements have been published since 2012. Current figures show Zug Estates to have by far the lowest CO_2 emission levels in its peer group. The Suurstoffi site meets all targets. Heating and cooling loads are fully sourced and stored on the site at competitive prices, making it one of the largest districts in Switzerland to achieve a high degree of autonomy and operate completely with renewable energy. The measures introduced at the City Center site mean that these same goals will be realized there too in the foreseeable future. Besides energy, resource efficiency is the bottom line for the near-natural external spaces and the choice of building materials.

The board of directors is confident that Zug Estates can grow as a company with these strategic propositions, and that the necessary creative power will evolve further. In turn, this will guarantee a particularly attractive and competitive portfolio in what looks set to remain a market with a surplus of available space. Group Management and employees alike are well prepared for the inherent challenges.

Financial guidance through to 2021

The defined portfolio strategy and a highly transparent corporate development vision permit shareholder guidance that goes well beyond the current financial year. If the approved investment projects are realized as planned, property income can be expected to grow in the region of 40% by 2021. As in past years, the company will also strive to use profitable growth to drive a suitable increase in the company's value and payout basis in future too.

The board of directors will propose to the forthcoming general meeting of shareholders that the payout be increased by a further 12%. The dividend of CHF 23.00 per series B registered share will be paid from the reserves from capital contributions and, as such, exempted from withholding tax. Furthermore, the election of Beat Schwab as chairman of the board of directors is to be proposed to the general meeting.

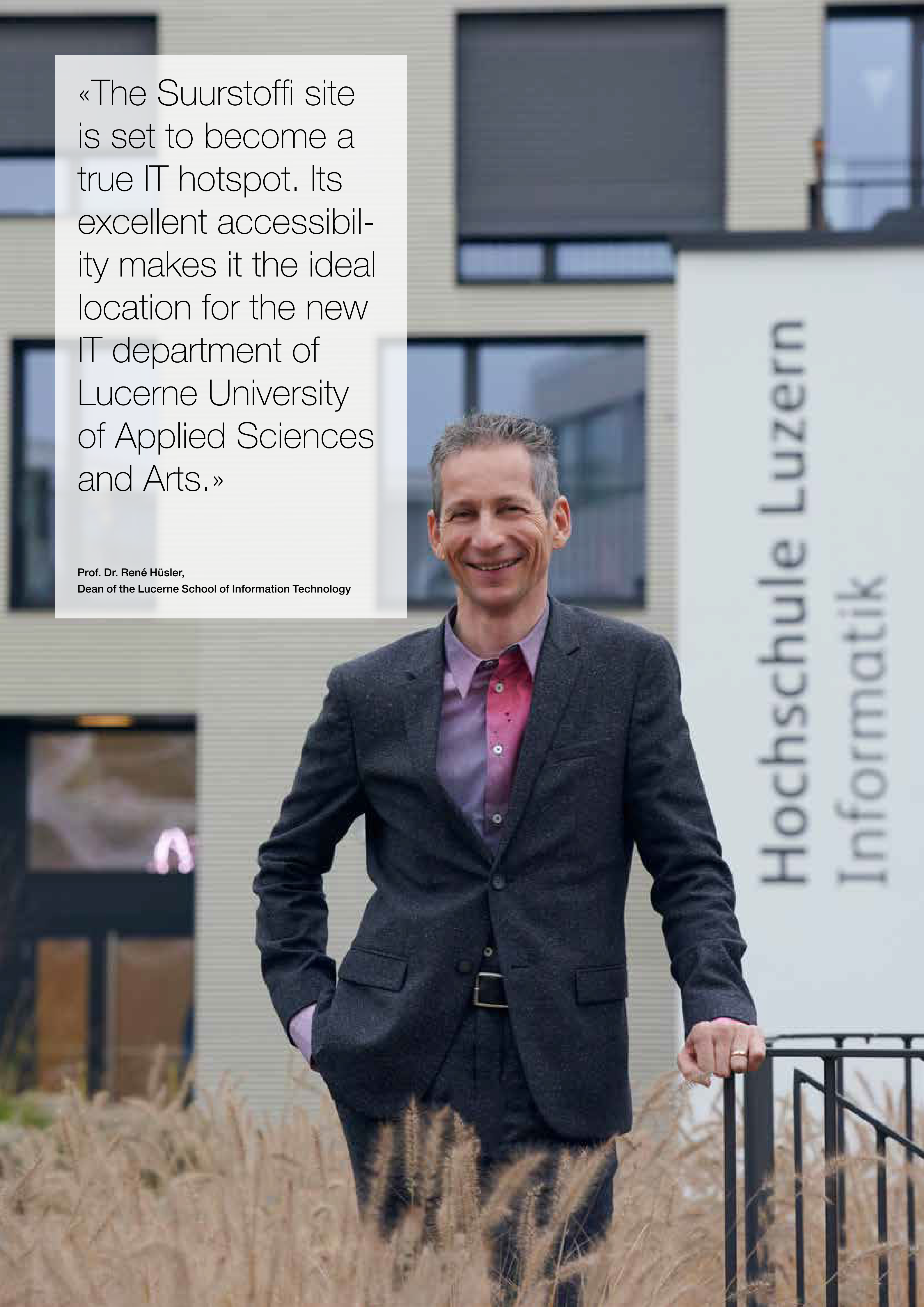
It is with a debt of deep and sincere gratitude that I will be stepping down from the board of directors. I have been greatly honored to serve on a body that has shaped the company's development with the utmost competence and effectiveness. On behalf of the board of directors, I wish to thank the employees and Group Management of Zug Estates for their dedication and commitment. I would also like to thank you, our shareholders, for the trust you place in the company.

Zug, March 2017

Hannes Wüest
Chairman of the board of directors

«The Suurstoffi site is set to become a true IT hotspot. Its excellent accessibility makes it the ideal location for the new IT department of Lucerne University of Applied Sciences and Arts.»

Prof. Dr. René Hüsler,
Dean of the Lucerne School of Information Technology



Financial year report

Dear shareholders
Ladies and gentlemen

The Zug Estates Group successfully consolidated the growth achieved in the past few years. Net income excluding income from revaluation was on a par with the prior-year level despite the disposal of two sizable properties in the previous year and the decision not to extend the lease on the Theater Casino Zug catering business as of end-2015. The vacancy rate was held at 1.8%, a record low level on an industry comparison. At the same time, we made headway with four major development projects that will generate a substantial increase in income as of 2018.

Property income higher

The Zug Estates Group generated operating income of CHF 61.2 million in 2016, representing a year-on-year decrease of 2.7%. Property income rose by 2.3% to CHF 40.1 million despite the sale of two sizable properties in the previous year. Like-for-like, income from hotel and catering activities was down by CHF 2.6 million to 16.5 million, owing mainly to the absence of catering revenue from the Theater Casino Zug following non-renewal of the lease at the end of 2015. The gross operating profit (GOP) of the hotel & catering business unit rose from 37.9% to 41.5%. Additional income from ordinary business activities, and other operating income were on a par with the previous year's level.

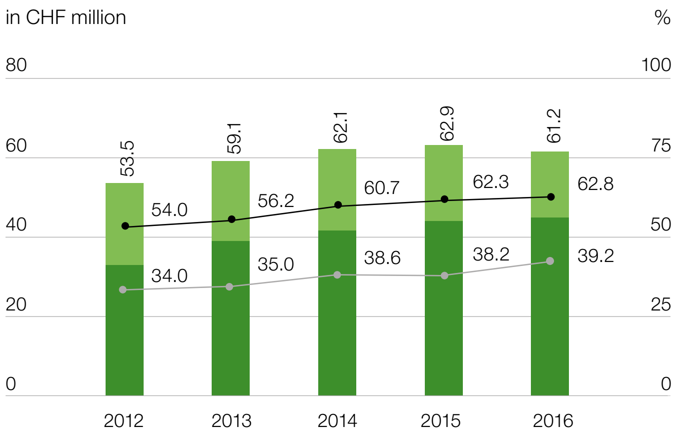
Operating expenses were 3.9% lower year-on-year. Operating income before depreciation and revaluation decreased by 1.9% to CHF 38.4 million (previous year: CHF 39.2 million).

In 2016, the Group invested a total of CHF 76.2 million in the further development, expansion and consolidation of its sites, in particular Suurstoffi in Risch Rotkreuz. In addition, the book value of investment properties increased by CHF 28.1 million net following revaluation. Income from the revaluation of investment properties (net) was thus considerably lower compared with the previous year's figure of CHF 50.5 million, but was still in positive territory. The contributing factors here were the above-average quality of the locations and properties in the portfolio (high proportion of residential property), and the continuous development and positioning of the Suurstoffi site as a preferred location for housing and business.

The financial result was CHF 0.4 million below the previous year's figure. Due to the lower level of income from the revaluation of investment properties (net), tax expenditure decreased by CHF 3.4 million year-on-year to CHF 8.3 million.

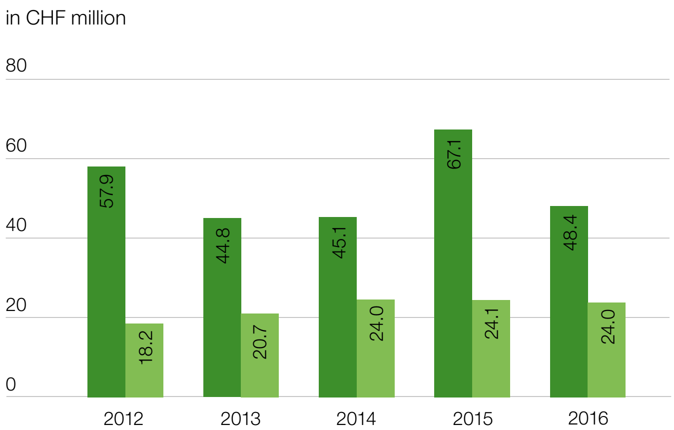
As a result of the fall in income from the revaluation of investment properties (net), EBIT and net income were down on the previous year's figures at CHF 63.8 million and CHF 48.4 million respectively. Net income excluding revaluation amounted to CHF 24.0 million (previous year: CHF 24.1 million), thus remaining on par year-on-year. The corresponding margin was increased from 38.2% to 39.2%.

Operating income and result



Hotel & catering income
Property income and other operating revenue
Net income before revaluation, as a percentage of operating revenue
Operating income before depreciation and revaluation in % of operating revenue

Net income and net income excluding revaluation



Net income
Net income excluding revaluation

12.2% increase in payout proposed

Net income excluding income from revaluation, which is relevant for the payout to shareholders, amounted to CHF 48.73 per series B registered share (previous year: CHF 48.97). In order to ensure that the payout to shareholders is in balanced proportion to re-investment, Zug Estates pays out up to 50% of net income excluding income from revaluation to shareholders. The solid result and intact future prospects allow the board of directors to propose that the payout be increased by 12.2% to CHF 23.00 per series B registered share. This is equivalent to a payout of 47.2%.

Total return per share at 15.8%

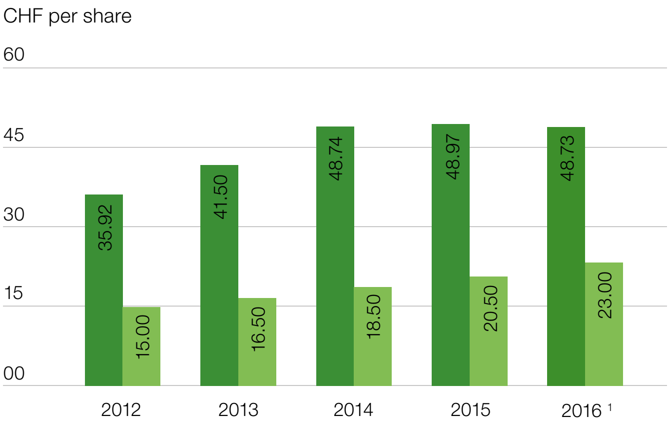
The NAV at market value, a measure including the fair value of properties used for operational purposes, came to CHF 1 683.49 per series B registered share (previous year: CHF 1 600.45). The Zug Estates share closed at CHF 1 653.00 on December 31, 2016, 14.4% higher than at the beginning of the year. Factoring in the payout of CHF 20.50 per series B registered share made in April 2016 from the reserves from capital contributions and, as such, exempted from withholding tax, total return per share came to 15.8% in the 2016 financial year (previous year: 17.6%).

Fair value of portfolio up by 8.5% to CHF 1.3 billion

The Group continued its growth strategy in 2016, investing CHF 76.2 million in further developing, expanding and consolidating its portfolio. In addition, expenses in the amount of CHF 16.9 million for the Aglaya promotional property were reported. In Risch Rotkreuz, construction projects with a total investment volume of over CHF 250 million continued as planned. Progress was also made on planning work for the other phases. A property was purchased in Zug as part of a consolidation acquisition.

The book value of the entire portfolio stood at CHF 1 211.0 million at the end of the year, up 8.8% on the previous year. Properties used for operational purposes are stated at cost less write-downs. The fair value of these properties was CHF 116.0 million (previous year: CHF 113.7 million), with the fair value of the entire portfolio thus amounting to CHF 1 290.5 million (previous year: CHF 1 188.9 million).

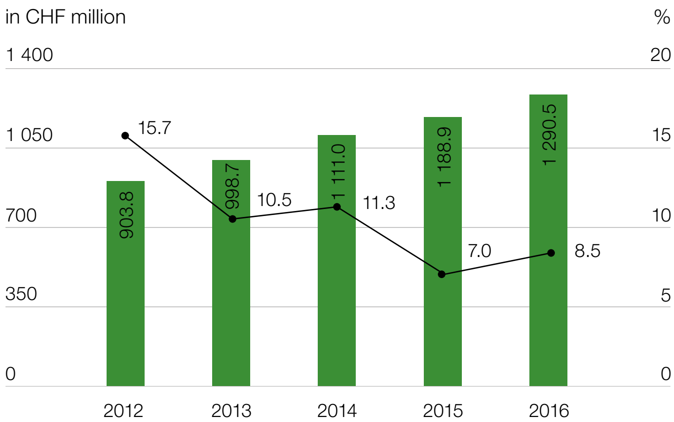
Net income excluding income from revaluation and payout per series B registered share



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

[1] Payable in the following year; 2016: 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 at 61.2%

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 774.5 million as at December 31, 2016, equivalent to a solid equity ratio of 61.2% (previous year: 60.8%).

Borrowed capital stood at CHF 350.2 million as at the end of December, corresponding to a low 27.7% (previous year: 29.4%) of total assets and well under the self-imposed limit of 40%. In relation to the overall value of the portfolio of CHF 1.3 billion, the loan-to-value ratio is 27.1%, which is also well under the Group limit of 40%. Zug Estates has a long-term hedge in place against interest rate risk. The average residual term of the interest-bearing debt was 8.2 years (previous year: 9.2 years), while the average interest rate remained unchanged at 2.5%.

The Group has undrawn credit lines of CHF 160 million, giving it enough scope to finance the planned expansion of its real estate portfolio.

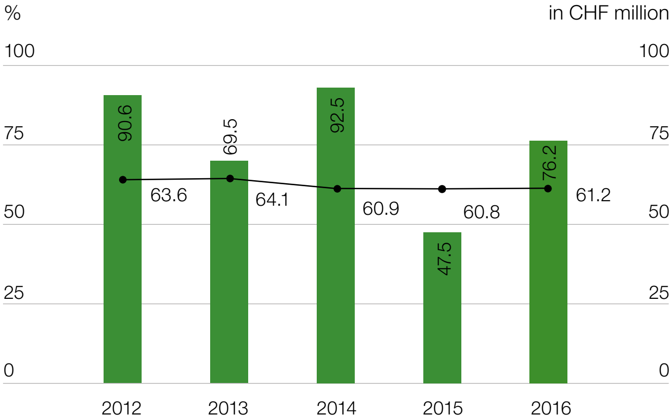
Portfolio vacancy rate down to 1.8%

The main usable floor area at the Suurstoffi site is fully let. Lucerne University of Applied Sciences and Arts and catering supplier CreaBeck commenced operations in the second half of 2016. A rental agreement for the remaining 1 000 m² of office space was concluded with a technology firm that will move in in the first half of 2017. The only remaining vacant area is for pre-invested sublevel parking spaces earmarked for further development.

The retail mix in the Zug City Center site has been enhanced by new brands, including Rituals and The Butcher. In addition, rental agreements for over 1 000 m² of office and retail space were extended or renewed. This will generate higher rental revenue in the retail segment in particular.

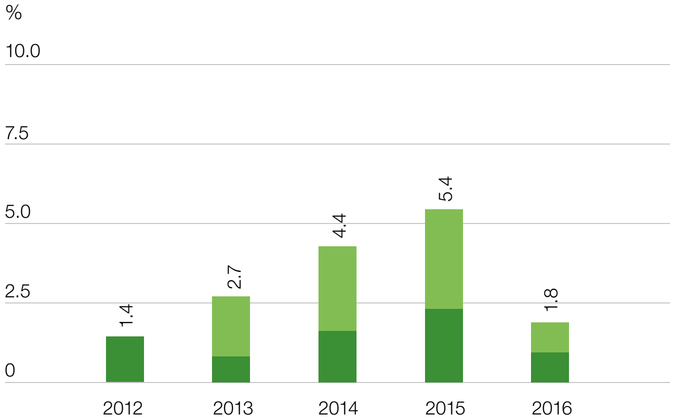
As at December 31, 2016 (reference date), the vacancy rate was 1.8%, representing a decrease of 3.6 percentage points compared with last year's figure of 5.4%. Adjusted for voids before initial renting (parking spaces in particular) and space for which rental agreements have been concluded but which will not take effect until 2017, the year-end vacancy rate came to 0.9%.

Equity and investments



Equity ratio (left-hand axis)
Investments (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

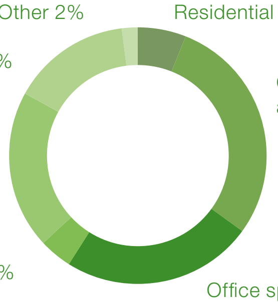
Development projects worth CHF 440 million under construction or at planning stage

2016 was another year of intensive construction and development activity. The project pipeline is bulging. Specific development projects worth a total of CHF 440 million are under construction or at the planning stage at the Suurstoffi site. These projects will generate a substantial increase in income as of 2018.

The year under review saw some major marketing successes: Long-term rental agreements for service business space were concluded with car sharing provider Mobility and biotechnology company Amgen.

At the beginning of 2018, Mobility will relocate with some 130 staff to a newbuild in the third development phase. This means that long-term tenants have been found for 70% of the commercial space in this development phase. In summer 2018, Amgen is scheduled to take up occupancy in newbuild Suurstoffi 22, where the company will be renting around one third of the space. A long-term agreement for the operation of student housing units was concluded with Zurich-based youth housing network JUWO. JUWO will take over the first 52 housing units in mid-2017, followed by a further 48 in 2019 at the latest.

Breakdown of vacancies as at December 31, 2016



In November 2016, Zug Estates began selling the 85 condominiums in the Aglaya tower block. At the same time, this marked the successful launch of the online housing configurator developed specifically for Zug Estates. As at end-2016, a total of 22 apartments had been reserved. The initial notarizations took place in early January 2017.

A master plan was also initiated to tap into the existing development potential of the Zug City Center site.

Business hotel segment sees improvement in profitability

Growth prospects for Switzerland's tourist industry became even more discouraging in 2016 owing to the persistent strength of the franc, the continuing weak economy, and fear of terror attacks in Europe. As a location geared to the needs of business visitors, Zug weathered the situation with comparative robustness, but reported a drop in the number of overnight stays. The business segment is nonetheless less susceptible to the strong franc than the leisure industry and can expect to continue seeing relatively stable revenues.

Hotelbusiness Zug AG maintained occupancy rates at its establishments virtually at the previous year's level despite a slight increase in room prices, while accommodation revenue was down CHF 0.3 million year-on-year at CHF 10.9 million. Catering income decreased by CHF 2.3 million, due mainly to the absence of revenue from the Theater Casino Zug following the decision at the end of 2015 not to extend the lease. Other revenue for the business area was stable at CHF 0.6 million, but overall income decreased to CHF 17.1 million (previous year: CHF 19.8 million).

The strategic focus on the core segment of business hotels with catering facilities resulted in an improvement in the GOP (gross operating profit) margin from 37.9% to 41.5%.

Stronger organization

In order to be able to support the targeted portfolio growth, Zug Estates has taken specific steps to strengthen and expand the organization in the areas of marketing and project development and created the necessary basis to successfully handle the huge upturn expected over the next few years. Headcount in the hotel & catering business unit was scaled back further on account of the strategic focus on core activities. At the end of 2016, the Group numbered 159 employees, or 130.5 full-time equivalents (previous year: 152.4).

Events after the balance sheet date

In order to finance the further expansion of the portfolio, a CHF 100 million 0.7% bond with a term from 2017 to 2022 was issued on January 24, 2017. Otherwise, no significant events occurred after the balance sheet date.

Outlook for 2017

We are cautiously optimistic about the future. The Canton of Zug continues to number among Switzerland's most attractive real estate markets. We believe that demand for residential units will remain stable and that we will find tenants for our property. However, the downturn in demand 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 rents. Attractive products, long contract periods, and the well-diversified portfolio with a high proportion of residential property should nevertheless still ensure continuity.

On the strength of the space rented by Lucerne University of Applied Sciences and Arts (taken to income over the full year) and the envisaged occupancy of newbuilds under the third development phase at the Suurstoffi site in the second half, we are looking to see an increase in rental income in the real estate segment. At the same time, costs will increase due both to the measures taken in the previous year to strengthen our organization as well as to higher maintenance expenditure.

We are predicting a consolidation of revenue and gross operating profit at the previous year's level in the hotel & catering business unit. The rooms at the Parkhotel Zug are to be renovated in the summer.

Overall, we expect operating income before depreciation and revaluation to match the previous year's level. However, due to the predicted slowdown in market momentum, we anticipate that income from the revaluation of investment properties (net) will be down on the previous year, and that this will similarly impact net income. We are expecting a year-on-year increase in net income excluding income from revaluation.

The carefully planned development of the Suurstoffi site will remain a priority. The third development phase is scheduled for completion in the fall and will be handed over to users in stages. Construction work on the Suurstoffi 22 building and the Aglaya residential tower block is progressing according to plan, along with the development of the western section of the plot. In 2017 we are projecting a total investment volume of approximately CHF 150 million, including promotional property.

Zug, March 2017

Tobias Achermann
CEO

Gabriela Theus
CFO

Portfolio

The Zug Estates Group develops, markets and manages sites in the Zug region. It focuses on central locations that allow sustainable, high-density development and which are suitable for a wide range of uses.

Zug Estates invests in sites in the Zug region. The majority of the real estate portfolio is located at the Metalli site in Zug and the Suurstoffi site in Risch Rotkreuz, and is broadly diversified by type of use. The Group also runs a city resort in Zug incorporating the leading four-star business hotels Parkhotel Zug and City Garden.

Investments are focused on centrally located sites in the Zug region that permit high development densities, a wide range of uses and a mix of environments. As an attractive business and residential location, the Zug region provides optimum conditions for the long-term sustainable development of the portfolio: centrality and accordingly easy reachability, access to a large talent pool, and business-friendly authorities.

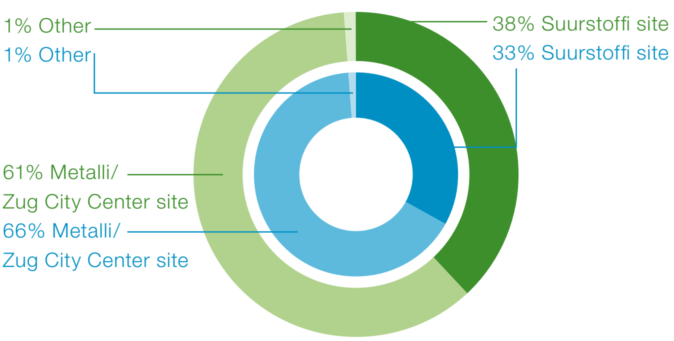
By concentrating on the Zug area, the Group is able to capitalize on its regional market intelligence and familiarity with the local business community.

Above-average property qualities with attractive market positioning

Zug Estates takes an integrated development approach geared to the specific locational features of its sites in order to create forward-looking environments. Thanks to their central location and excellent accessibility, both the busy Metalli shopping center in Zug and the university campus in Risch Rotkreuz will enjoy attractive long-term positioning as places of business.

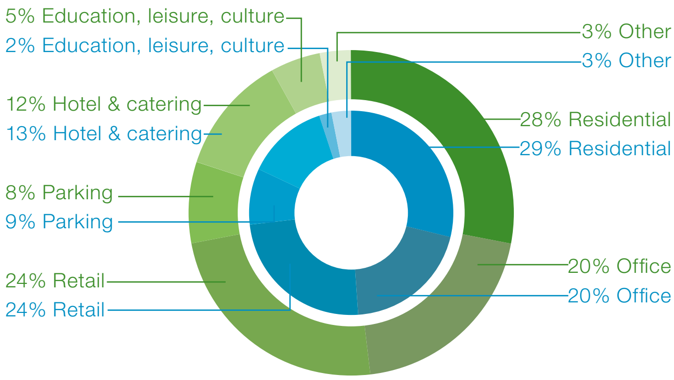
Portfolio by site

Based on fair value as at December 31, 2016 / December 31, 2015



Portfolio by use

Based on projected rental revenue[1] as at December 31, 2016 / December 31, 2015



[1] From point of view of real estate business unit

District-based services, superior green surroundings and resource-efficient energy systems explain why the sites are so sought-after – by both residential and commercial tenants.

Correspondingly, the locational and property qualities of the Zug Estates Group portfolio are above-average. Furthermore, the portfolio's usage mix is balanced, with 28% residential property and significant development reserves, which will be successively exploited over the next few years.

Growing real estate portfolio with defined development pipeline

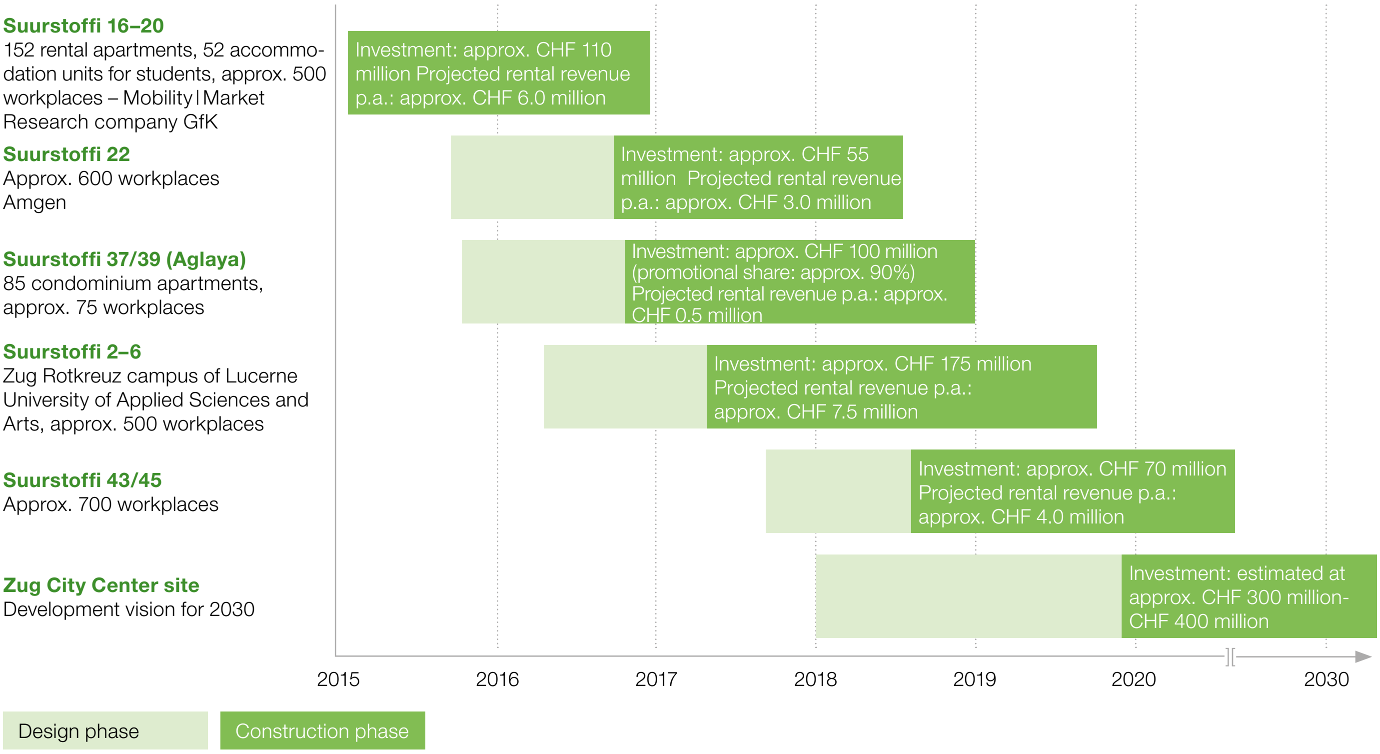
The portfolio currently has a fair value of almost CHF 1.3 billion, some 43% higher than at the time of the Zug Estates Group's stock exchange listing in 2012. In the same period, the proportion of residential property has risen from 25% to 28%.

Zug Estates pursues a policy of active growth. In the next four years, the focus will be on continuing the development of the Suurstoffi site in Risch Rotkreuz. Development projects for the Group's own portfolio, with a total investment volume of over CHF 400 million and rental revenue of approx. CHF 21.0 million per year, are in planning or already under construction. There are plans, from 2020 on, to invest a further CHF 300 million to CHF 400 million in the development of the Zug City Center site. Zug Estates also intends to acquire a further site in the medium to long term. Insofar as projects can be carried out as planned, the value of the portfolio will grow to approx. CHF 1.7 billion by 2020.

On-site business hotels

In Zug, the Zug Estates Group also operates a city resort geared to the needs of business clients. The total capacity runs to 250 accommodation units, as well as catering and conferencing facilities. The resort comprises the leading business hotels Parkhotel Zug and City Garden, in addition to long-stay apartments. Ideally integrated into the Zug City Center site and within walking distance of the train station, workplaces and shopping facilities, the resort benefits from numerous synergies with the rest of the site.

Development pipeline



Metalli/Zug City Center site

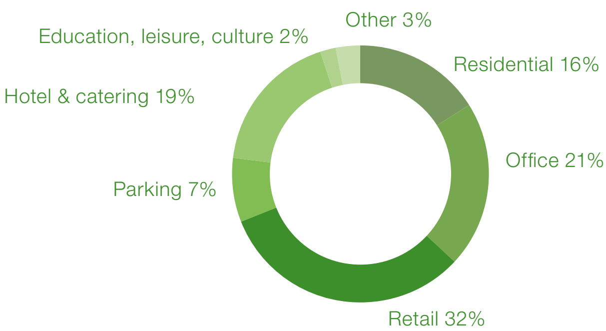
Located close to Zug train station and with excellent transport links, the site houses the Metalli Center complex – with more than 50 shops, offices and residential units – the two leading business hotels Parkhotel Zug and City Garden, as well as other residential and commercial properties.

Key data as at December 31, 2016

Site area	58 737 m^2
Market value [1, 2]	CHF 791.7 million
Projected rental income IP [1]	CHF 28.6 million
Gross yield IP	4.2%
Residents	approx. 700
Workplaces	approx. 2 000
Local amenities	Metalli shopping mall with approx. 16 000 m^2 of accessible sales area and annual turnover of about CHF 170 million, plus city resort with 250 accommodation units, a wide variety of catering, healthcare, childcare, educational, training and youth culture facilities

Mix of use

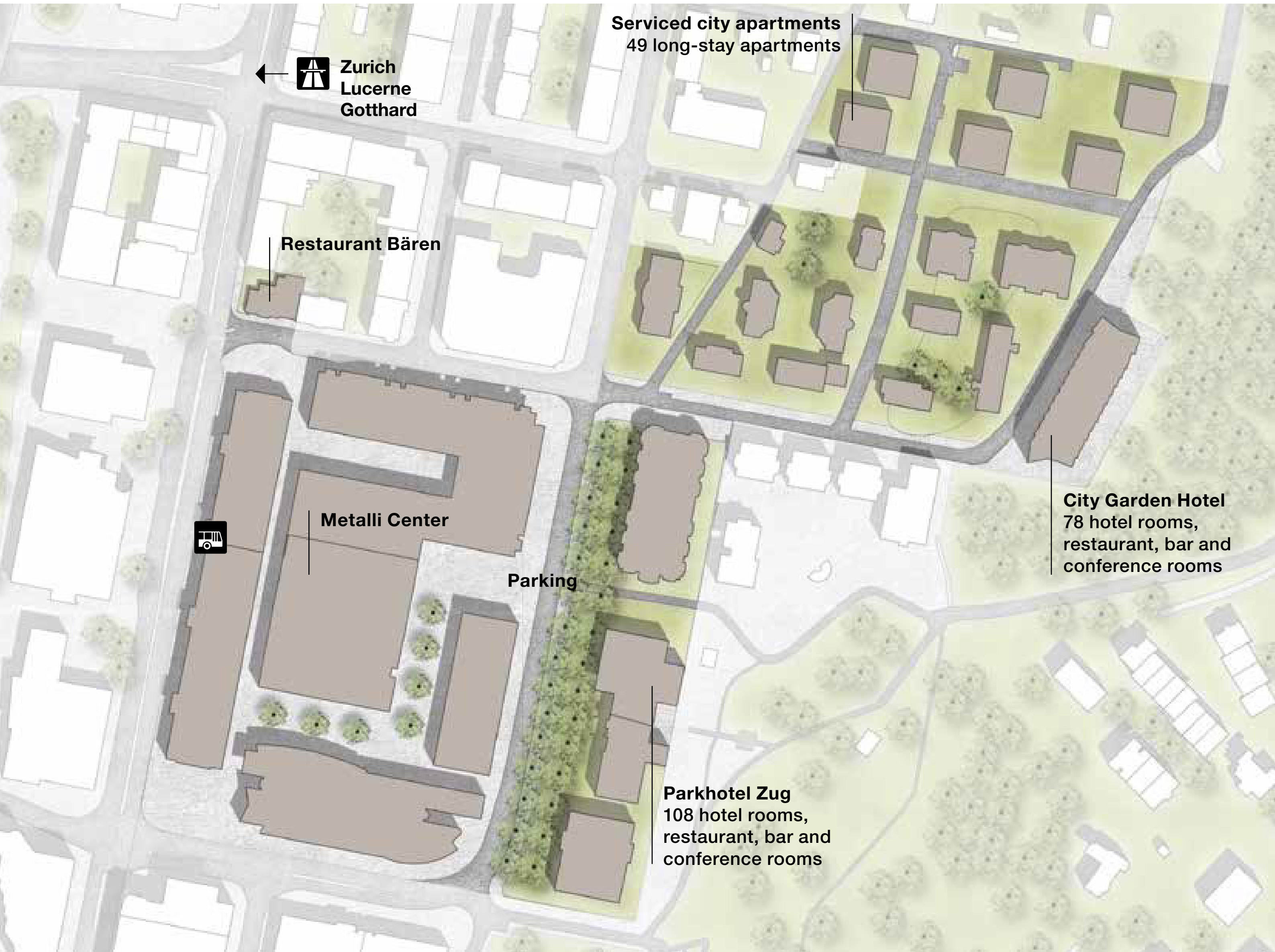
Based on projected rental revenue[3] as at December 31, 2016



[1] Due proportion of fair value and projected rental revenue for (co-owned) property at Baarerstrasse 20–22, Zug

[2] Includes fair value of operating properties

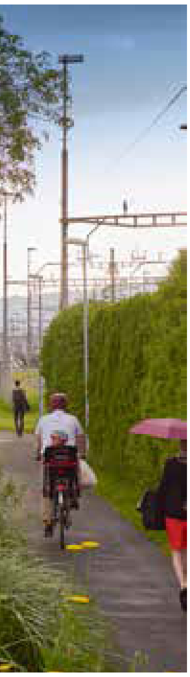
[3] From point of view of real estate business unit, i.e. incl. rents of hotel & catering business unit


Serviced city apartments
49 long-stay apartments
Zurich
Lucerne
Gotthard
Restaurant Bären
Metalli Center
Parking
City Garden Hotel
78 hotel rooms,
restaurant, bar and
conference rooms
Parkhotel Zug
108 hotel rooms,
restaurant, bar and
conference rooms


Zurich
Lucerne
Gotthard
2016–2018
85 condominium apartments
Approx. 75 workplaces
2017–2019
Zug Rotkreuz campus of Lucerne
University of Applied Sciences and Arts
Approx. 500 workplaces
SBB

Suurstoffi site Risch Rotkreuz

Since 2010, the Suurstoffi site in Risch Rotkreuz has been evolving into an integrated, traffic-free neighborhood with a combination of living, working and recreational facilities. Once completed, it will accommodate some 1 500 residents, nearly 2 000 students and about 2 500 workplaces.

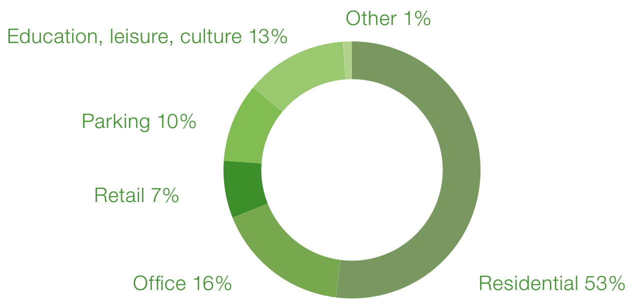


Key data as at December 31, 2016

Site area	105 439 m^2
Market value	CHF 486.1 million
Projected rental income IP	CHF 16.0 million
Gross yield IP	4.5%
Residents	approx. 650
Workplaces	approx. 800
Local amenities	Education (private bilingual school), university, childcare, fitness center, car sharing, catering, shops and other local facilities in town

Mix of use

Based on projected rental revenue as at December 31, 2016



List of properties

	Place	Form of ownership [1]	Ownership share in %	Year of construction	Year of refurbishment
Investment properties					
Zug City Center site					
Baarerstrasse 20–22 (Metalli I/II, Zug Estates share)	Zug	CO	72.25	1987/1991	
Baarerstrasse 14a (Metalli III)	Zug	SO	100	1995	
Industriestrasse 13a/c (Metalli IV)	Zug	SO	100	1995	
Industriestrasse 16 (leasehold) [2]	Zug	LHP	100	–	
Industriestrasse 18	Zug	SO	100	1992	
Haldenstrasse 12–16 (Haldenhof)	Zug	SO	100	2009	
Residential development Haldenstrasse/Metallstrasse	Zug	SO	100	1910–1991	1986–1989
Bleichimattweg 4	Zug	SO	100	–	
Total Zug City Center site					
Suurstoffi site					
Suurstoffi 5, 9, 13–17	Risch Rotkreuz	SO	100	2011/2012	
Suurstoffi 19–35	Risch Rotkreuz	SO	100	2014/2015	
Suurstoffi 7, 11 (Alte Suurstoffi)	Risch Rotkreuz	SO	100	approx. 1926	2012
Suurstoffi 8–12 (construction site 5, buildings A+B)	Risch Rotkreuz	SO	100	2013	
Suurstoffi 14 (construction site 5, building C)	Risch Rotkreuz	SO	100	2013	
Suurstoffi 41	Risch Rotkreuz	SO	100	2014	
Total Suurstoffi site					
Other					
Hofstrasse 1a/b	Zug	SO	100	1971	
Rote Trotte 14–16	Baar	C	100	2007	
Total other					
Total investment properties (excl. properties under construction)					
Investment properties under construction					
Suurstoffi 16–20	Risch Rotkreuz	SO	100	2017	
Suurstoffi 22	Risch Rotkreuz	SO	100	2018	
Suurstoffi 37/39	Risch Rotkreuz	SO	100	2018/2019	
Suurstoffi Rotkreuz campus of HSLU	Risch Rotkreuz	SO	100		
Total investment properties under construction					
Undeveloped plots					
Suurstoffi site	Risch Rotkreuz	SO	100		
Total undeveloped plots					
Total real estate portfolio [3]					
Operating properties [3, 4]	Zug	SO/C	100		
Total portfolio					

[1] SO: sole ownership; LHP: leasehold plot; CO: co-ownership; C: condominium

[2] Zug Estates AG is the ground lessor.

[3] Information on floor space and number of parking spaces excludes properties under construction

[4] The following properties located in Zug serve completely or partly as operating properties: Industriestrasse 14 (Parkhotel Zug), Industriestrasse 16 (Résidence), Metallstrasse 20 (Hotel City Garden), Haldenstrasse 9, 10, 11 (serviced city apartments), Baarerstrasse 30 (Restaurant Bären) and Industriestrasse 12 (Zug Estates offices)

Plot area m²	Residential m²	Office m²	Retail m²	Hotel/catering m²	Storage m²	Miscellaneous m²	Total rentable area m²	Total no. of parking spaces
16 419	8 130	12 169	17 886	862	4 520	762	44 329	519
4 843	270	5 375	2 916	149	3 277	8	11 995	121
2 155	1 965	1 634	381	461	755	0	5 196	93
3 200	–	–	–	–	–	–	–	–
1 637	0	1 713	0	0	360	0	2 073	30
3 615	3 148	0	0	0	0	59	3 207	54
13 589	8 222	0	0	0	11	38	8 271	68
408	200	0	0	0	0	0	200	1
45 866	**21 935**	**20 891**	**21 183**	**1 472**	**8 923**	**867**	**75 271**	**886**
15 503	11 336	0	0	0	0	19	11 355	224
12 417	10 278	0	0	0	35	0	10 313	394
2 680	0	0	0	0	0	520	520	0
15 237	10 095	86	0	334	297	3 405	14 217	314
8 359	0	8 527	0	0	621	0	9 148	48
3 496	0	1 014	0	0	16	5 467	6 497	65
57 692	**31 709**	**9 627**	**0**	**334**	**969**	**9 411**	**52 050**	**1 045**
2 806	503	698	0	0	33	0	1 234	29
1 687	273	0	0	0	0	31	304	4
4 493	**776**	**698**	**0**	**0**	**33**	**31**	**1 538**	**33**
108 051	**54 420**	**31 216**	**21 183**	**1 806**	**9 925**	**10 309**	**128 859**	**1 964**
14 098	11 861	7 418	0	0	493	3 419	23 191	234
6 863	0	11 131	0	0	86	668	11 885	132
7 858	–	–	–	–	–	–	–	–
8 591	–	–	–	–	–	–	–	–
37 410	**11 861**	**18 549**	**0**	**0**	**579**	**4 087**	**35 076**	**366**
10 337	–	–	–	–	–	–	–	–
10 337	–	–	–	–	–	–	–	–
155 798	**54 420**	**31 216**	**21 183**	**1 806**	**9 925**	**10 309**	**128 859**	**1 964**
12 871	1 879	873	0	13 002	277	0	16 031	178
168 669	**56 299**	**32 089**	**21 183**	**14 808**	**10 202**	**10 309**	**144 890**	**2 142**

Additional information

in CHF thousands or %	Book value 31.12.2016	Book value 31.12.2015	Projected rental revenue 31.12.2016	Projected rental revenue 31.12.2015	Vacancy rate 31.12.2016	Vacancy rate 31.12.2015
Zug City Center site, Zug [1]	675 517	665 797	28 640	28 598	1.0	1.8
Suurstoffi site, Risch Rotkreuz	355 319	334 573	16 041	15 348	3.2	12.3
Other	12 653	13 146	513	539	0.2	0.6
Investment properties	**1 043 489**	**1 013 516**	**45 194**	**44 485**	**1.8**	**5.4**
Investment properties under construction	128 519	57 723	–	–	–	–
Undeveloped plots	2 524	4 008				
Total real estate portfolio	**1 174 532**	**1 075 247**	**45 194**	**44 485**	**1.8**	**5.4**
Operating properties [2]	36 461	38 008	–	–	–	–
Total portfolio	**1 210 993**	**1 113 255**	**–**	**–**	**–**	**–**

[1] Due proportion of fair value and projected rental revenue for (co-owned) property at Baarerstrasse 20–22, Zug.

[2] Wüest & Partner AG estimated the fair value as at December 31, 2016 at TCHF 115 976 (December 31, 2015: TCHF 113 693).

Additional information on Suurstoffi development project, Risch Rotkreuz

Project description

A mixed-use development to accommodate approx. 1 000 residents, nearly 2 000 students and over 2 500 workplaces is to be built in several phases on the approx. 100 000 m² Suurstoffi site near Rotkreuz train station. The development will, essentially, become part of the Group portfolio. The first two construction phases have been completed, with some 19 000 m² of commercial space and 384 apartments built and handed over to users.

Project status

Work on the third phase in the eastern part of the Suurstoffi site is progressing according to plan. With a planned investment volume of approx. CHF 110 million, rental apartments and rooms for students of Lucerne University of Applied Sciences and Arts (HSLU) are being built, in addition to some 9 000 m² of commercial space. More than two-thirds of the commercial space has been leased to the market research company GfK and the car-sharing provider Mobility, which will have a presence on the Suurstoffi site with a total of about 300 employees from fall 2017 and January 2018 respectively. The marketing operation for the 152 rental apartments was successfully launched in January 2017.

Construction of the office building at Suurstoffi 22 at the eastern end of the site is progressing according to plan. Scheduled for completion by mid-2018, the composite timber/concrete structure will house some 12 000 m² of office and light-industrial space. One-third of the office accommodation will be occupied by biotechnology company Amgen on a long-term lease. Amgen will relocate to the site as of summer 2018, thereby strengthening the life science cluster in Risch Rotkreuz.

The second half of 2016 saw work commence on the Aglaya vertical garden high-rise (Suurstoffi 37/39) at the center of the site. In addition to some 2 000 m² of office space that will remain under the ownership of Zug Estates, the site will also feature 85 condominium apartments (recognized under current assets as promotional property). Occupation of the residential and office units is scheduled for the start of 2019.

Occupancy level by floor area (commercial units) or number (residential units)		31.12.2016	31.12.2015
Suurstoffi 16–20	Residential	0% [1]	0%
	Student accommodation	100%	0%
	Commercial	68%	38%
Suurstoffi 22	Commercial	31%	–
Suurstoffi 37/39	Commercial	0%	–

Completion	
Suurstoffi 16–20	Fall 2017
Suurstoffi 22	Summer 2018
Suurstoffi 37/39	Start of 2019

[1] Renting started in January 2017

Wüest Partner AG, Bleicherweg 5, 8001 Zürich

Zug Estates Holding AG
Industriestrasse 12
6300 Zug

Zurich, 15 Februar 2017

Report of the independent valuation expert Valuation as of December 31, 2016

To the Board of Directors of Zug Estates Holding AG

Commission
Acting on behalf of Zug Estates Holding AG for purposes of accounting as of the balance sheet date of December 31, 2016, Wüest Partner AG (Wüest Partner) valued the properties and sections of properties held by the Zug Estates Group. 16 investment properties, five properties under construction and six operating properties were valued.

Valuation standards
Wüest Partner hereby confirms that the valuations were performed in accordance with national and international standards and guidelines. The property values determined correspond to the current value (market value) as described in Swiss GAAP ARR 18, item 14.

Definition of market value
«Market value» is defined as the amount for which a property would most probably be exchanged on the open market on the valuation date between two independent and knowledgeable parties, willing to buy and sell respectively, with due allowance made for a reasonable marketing period.
Property transfer tax, property gains taxes, value added tax and other costs and commission fees that would be incurred if the property were sold are not included. Nor is any account taken of the Zug Estates Group's liabilities in respect of taxation (apart from ordinary property taxes) and financing costs.

Valuation method
In valuing Zug Estates Group Properties, Wüest Partner applied the discounted cash flow (DCF) method, by which the market value of a property is determined as the total of all projected future (100 years) net earnings discounted to the valuation date. Net income is discounted separately for each property with due allowance for specific opportunities and threats, and adjustment in line with market conditions and risks.

The properties under construction were also valued using the DCF method by means of reverse calculation (residual value method), inferring the project value on the balance sheet date in three steps:

1/3 wüestpartner

- Valuation of the property at the time of completion – taking account of the current occupancy/sales rate and the market and cost estimate on the balance sheet date;
- Calculation of the market value on the balance sheet date, taking account of the projected investments still to be undertaken;
- Estimate of the development risk according to the current project status and treatment as a separate cash flow of a cost position.

Basis of valuation
Wüest Partner is familiar with all the properties, having carried out inspections and examined the documentation provided. The properties have been analysed in detail in terms of their quality and risk profiles (attractiveness and lettability of rented premises, construction type and condition, micro- and macro-location etc.). Currently vacant premises are valued with due allowance made for a reasonable marketing period.

The value of the properties under construction could be reliably estimated. Sufficient documentation, such as construction permits, cost estimates, project plans, rent rolls/breakdowns of apartments, was available as a basis for such estimates.

Four investment properties were inspected in connection with the valuation as of the balance sheet date of December 31, 2016.

Results
As of December 31, 2016, Wüest Partner determined the market value of the total of 27 properties. These break down into 16 investment properties, five properties under construction and six operating properties. The market value (current value) of the properties as of the balance sheet date is assessed as follows:

16 Investment properties	CHF	1,043,489,325
5 Properties under construction	CHF	97,541,000
6 Operating properties	CHF	115,976,000
Total	CHF	**1,257,006,325**

Changes during reporting period
Within the review period from January 1, 2016 to December 31, 2016 the following changes took place:
- Property Rote Trotte 14, 16, Baar ZG: Sale of one apartment and two parking spots and one craft room;
- Property Bleichimattweg 4, Zug: Purchase of the property.

Independence and confidentiality
Wüest Partner performed the valuation of Zug Estates Group real estate properties independently and neutrally in conformity with its business policies. It was carried out solely for those purposes specified above; Wüest Partner shall accept no liability in respect of third parties.

Zurich, 15 Februar 2017
Wüest Partner AG

Marco Feusi MRICS
Partner

Michael Auf der Maur
Senior Consultant

2/3 wüestpartner

Annex: Valuation assumptions and notes

Investment properties and operating properties
Valuation of the investment properties is based on the following key assumptions:
- **Surface areas:** The lettable areas were factored into the valuations on the basis of the rent rolls of the Zug Estates Group and verbal information provided by the Zug Estates Group. Discrepancies between this information and the property plans were verified with the Zug Estates Group.
- **Rent rolls:** The rent rolls as of January 1, 2017, on which the valuation was based, were received by Wüest Partner in October 2016.
- **Calculation model:** The DCF model adopted is a one-period model. The valuation period extends for 100 years from the valuation date with an implicit residual value during the eleventh period. Exceptions are possible in the case of leasehold properties with a corresponding reversion scenario.
- **Discounting:** Discounting is based on a risk-adjusted interest rate. The applicable rate is determined separately for each property. Risk-free interest rate + property risk (immobility of capital) + premium for macro-location + premium for micro-location depending on use + premium for property quality and income risk + any other specific premiums. The discount rates of the property portfolio of Zug Estates Holding AG range from 2.90% to 4.60% (net real terms).
- **Increased costs:** Unless otherwise specified, the valuations assume an annual inflation rate of 0.50% for both income and expenses. When considered in nominal terms, the discount rate is adjusted accordingly. The cash flow trend and the discounting applied are presented in real terms.
- **Indexing of rental contracts:** Specific indexation of existing rental contracts is taken into account. 80% indexing (Swiss average) is assumed after contract expiry, with contracts adjusted to market rates every three to five years, depending on occupancy.
- **Tenant risks:** The valuation makes no explicit allowance for credit risks posed by any of the tenants.
- **Scheduling of payment flows:** In the case of existing rental contracts, individual payments are scheduled according to the contractually defined arrangements. After expiry of the contracts, cash flows are factored in quarterly in advance for commercial tenancies and monthly in advance for residential tenancies.
- **Recoverability of ancillary costs:** For the running costs, completely separate service charge accounts were assumed, with all tenancy-related ancillary costs passed on to tenants.
- **Maintenance costs:** Maintenance (repair and upkeep) costs were calculated using the building analysis tool. Based on an analysis of the condition and remaining lifespan of the various building elements and components, the software models periodic refurbishments and calculates the associated annual reserves for maintenance costs. The results were plausibility-tested using comparables and benchmarks derived from Wüest Partner surveys. The calculation factors in 100% of repair costs in the first 10 years and 60% to 80% (individual recoverable share) from year 11 onwards, in line with the assumed value-preserving investments.

Properties under construction
Wüest Partner also determined the current value (market value) of the properties under construction. These valuations are based on the following assumptions:
- **Partial plots:** Where appropriate, the Zug Estates Group divides the properties into partial plots. For reasons of transparency, this subdivision is taken over by Wüest Partner in the valuations.
- **Project development strategy:** Where deemed plausible by Wüest Partner, the strategy in relation to project development/promotion (e.g. sale vs. letting) has been taken over from the Zug Estates Group.
- **Background data:** The background data of the Zug Estates Group are verified and adjusted where appropriate (e.g. utilization, lettable areas, schedule/development process, rental/absorption).
- **Impartial view:** The valuations are subjected to an impartial assessment of income, costs and investment returns.
- **Design-and-build or general service contracts:** With regard to the service contracts of general and design-and-build contractors, it is assumed that construction costs have been secured.
- **Services provided by project developers:** The construction costs include the services of the Zug Estates Group as the developer's representative and the project developer.
- **Sale costs:** In the case of sections of properties earmarked for sale (e.g. condominiums), costs of sale have been taken into account in the valuations.
- **Preparatory work:** Where known, preparatory work is taken into account in construction costs (e.g. remediation of legacy contamination, demolition work, infrastructure).
- **Incidental costs:** Construction costs include the usual incidental costs such as construction finance, but exclude financing of the plot of land. These costs are implicitly included in the DCF model.
- **Services provided to date:** Where known, value-relevant services provided to date by third parties or by the Zug Estates Group in the form of investments made are taken into account.
- **VAT opt-in:** It is assumed that the income from the planned commercial properties is subject to VAT. The construction costs are therefore presented exclusive of VAT.
- **Deferred taxes:** The valuations do not include any deferred taxes.

3/3 wüestpartner

Sustainability

Sustainable action is an integral part of the corporate strategy of Zug Estates. Activities in 2016 focused on the subject of multi-faceted, high-quality external space.

Sustainable site development is an innovation driver – hence the commitment of Zug Estates to the application of new technologies to create efficient, networked and intelligent neighborhoods. The aim is to bolster the long-term appeal of the Zug City Center site and the Suurstoffi site in Risch Rotkreuz as residential and business locations. By developing sites itself and operating these over a long horizon, Zug Estates influences not only the architectural and functional quality of internal and external spaces, but also ecological, social and structural developments.

Quality and variety of external landscape

The denser a development, the greater the significance of outdoor space. This explains the key role played by external landscaping on the Suurstoffi project since the design phase: the completed scheme will incorporate a publicly accessible parkland area covering a total of five hectares. At the Zug City Center site, too, the existing surrounds have been upgraded by a series of interventions in recent years.

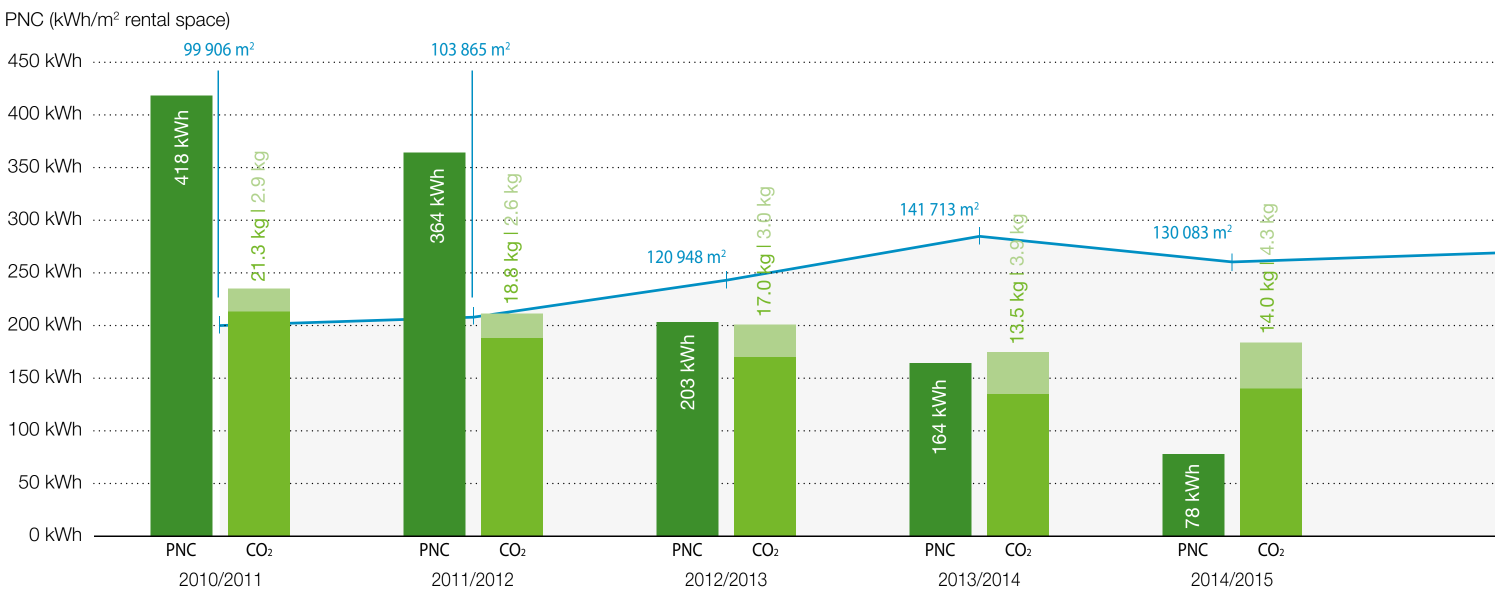
Having defined external landscaping as a strategic priority, Zug Estates last year drew up a raft of measures aimed at further enhancing the quality of outdoor spaces at the sites: the first step involved a survey of the various space types and their analysis at portfolio, site and building level. This analysis, together with the conclusions drawn as to positioning and roadmap, enabled Zug Estates to develop a set of external landscaping guidelines with varying provisions for the two sites. Specific targets and indicators were also established for monitoring purposes.

The external landscaping strategy adopted by Zug Estates has attracted nationwide acclaim. In June 2016, the Suurstoffi site was certified by the Swiss Stiftung Natur&Wirtschaft (Nature&Business Foundation).

Zero-zero as goal for all properties

In realizing its zero-zero vision, Zug Estates has set itself the target of operating its entire portfolio with only renewable energy and without CO_2 emissions. Since the project launch in

Portfolio's non-renewable primary energy consumption and CO_2 emissions



2010, efforts to meet this target at the Suurstoffi site in Risch Rotkreuz have focused on the use of solar energy, dynamic downhole heat exchanger arrays and an anergy network. The emphasis at the Zug City Center site is on measures related to the heating systems.

For the measurement period from April 1, 2015 to March 31, 2016, the operating data for the overall portfolio indicate a renewed cut in non-renewable primary energy consumption and greenhouse emissions. The non-renewable primary energy consumption of the portfolio is some 60% and greenhouse emissions 50% lower than the Swiss average, based on the Swiss building stock model (efficiency scenario). Various alternatives are being examined as a substitute for fossil fuels at the Zug City Center site. One option involves the potential connection to the district heating system planned by the City of Zug. This would allow the Zug Estates Group's entire building stock to dispense with fossil fuels as of the 2020 evaluation period.

Attractive location and new forms of mobility

Easy reachability is a key sustainability feature of development sites. Both the Suurstoffi and Zug City Center sites offer excellent links for both public and private transport. The attractive location is a major boon for residents, companies and university facilities. This has prompted the car-sharing company Mobility to relocate its headquarters to Risch Rotkreuz as of 2018. The new School of Information Technology at Lucerne University of Applied Sciences and Arts (HSLU) has been enjoying the benefits of the attractive setting since fall 2016. Moreover, partnerships with pioneering companies such as HitchHike provide opportunities to experiment with new forms of mobility.

2016 sustainability report

The 2016 sustainability report of the Zug Estates Group focuses on the subject of greening the city. It is available for download at www.zugestates.ch or can be ordered by sending an email to info@zugestates.ch.

Non-renewable primary energy consumption
PNC [kWh/m²] incl. tenants' electricity

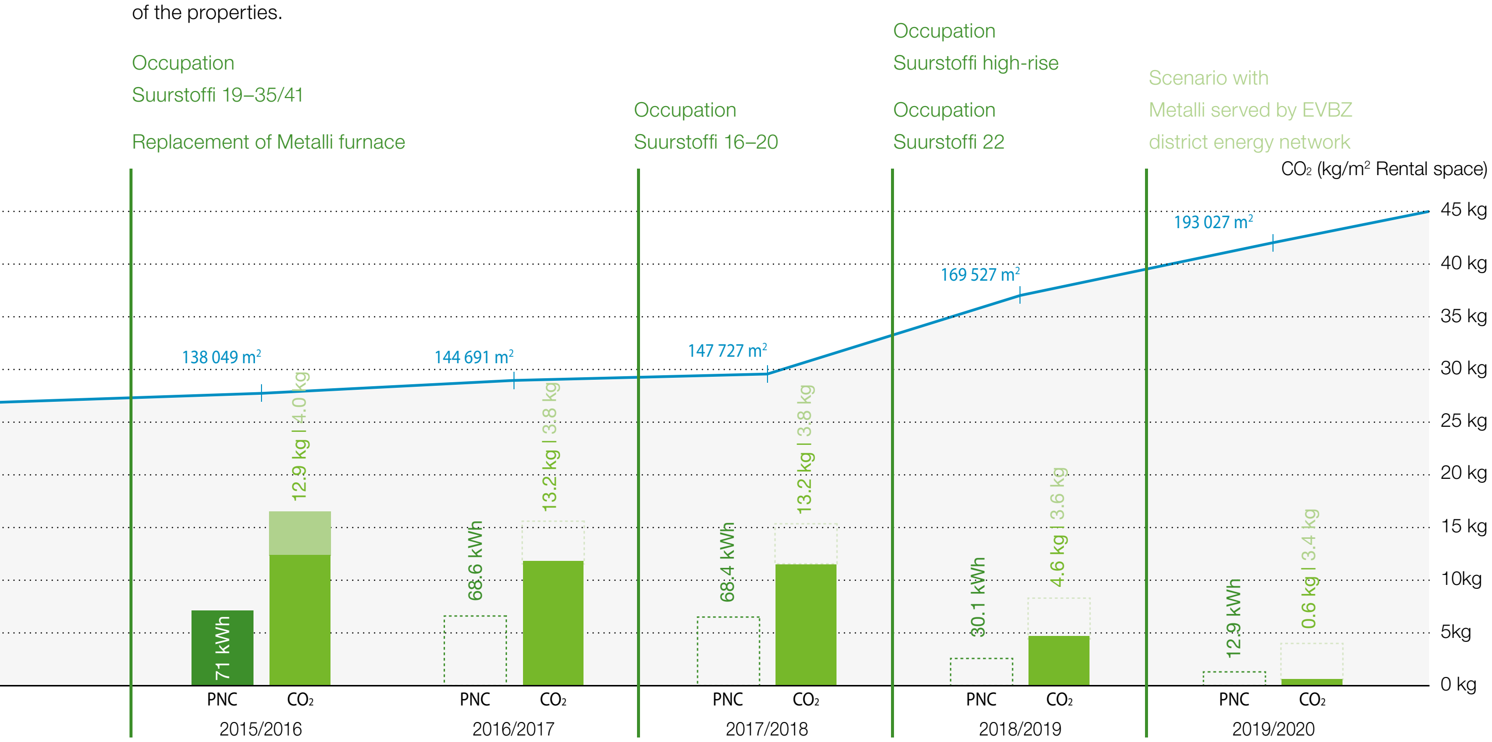
CO_2 emissions
CO_2 [kg/m²] for general and tenants' electricity

CO_2 emissions
CO_2 [kg/m²] for heating and hot water production, excl. general and tenants' electricity

Rental area in m²
Main rental area, heated, excl. parking

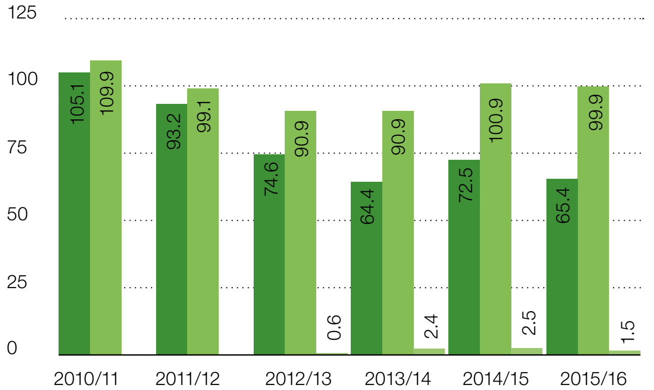
The figures for the period from 2017 to 2021 are based on a potential scenario. Future portfolio planning may lead to deviations from this model.

Even with the planned measures, the greenhouse gas emissions at the Zug City Center site remain more than double those at the Suurstoffi site. This is due to the different thermal insulation standard of the properties.



Primary energy consumption for heating and hot water production

kWh/m² rental space (adjusted for heating degree days)

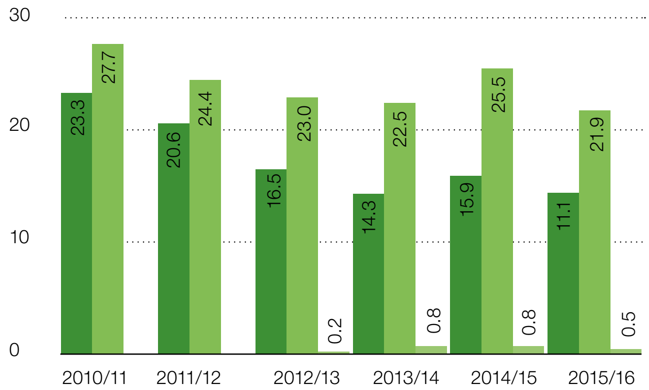


All properties
Metalli
Suurstoffi site

Primary energy consumption (non-renewable) for heating and hot water production. Due to the small share of non-renewable energies in the electricity mix of WWZ, the balance for the Suurstoffi site is much more favorable than for properties heated with fossil fuels.

Greenhouse gas emissions for heating and hot water production

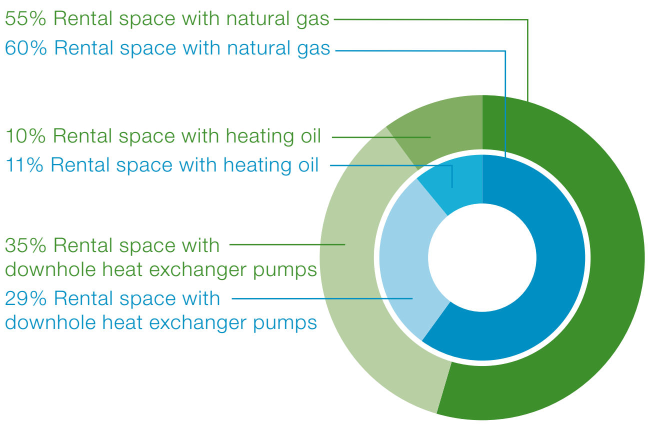
kg CO_2/m² rental space (adjusted for heating degree days)



All properties
Metalli
Suurstoffi site

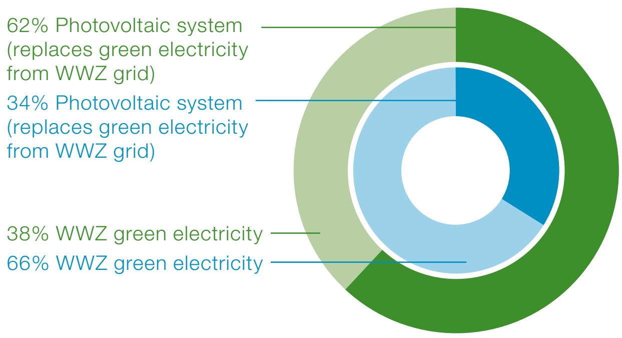
Space broken down by energy source for heating and hot water production

2016
2015



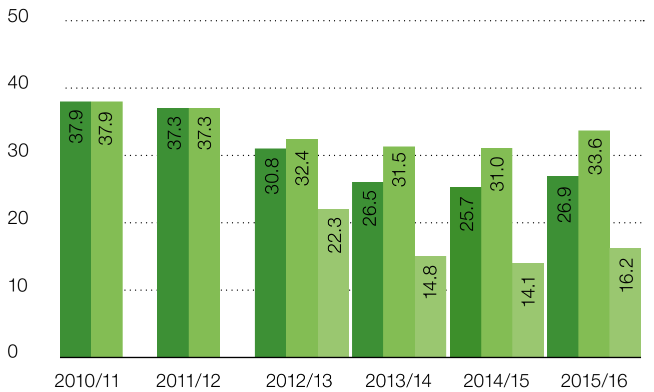
Operating current for heating and hot water production at Suurstoffi site

2016
2015



General electricity [1]

kWh/m² rental space

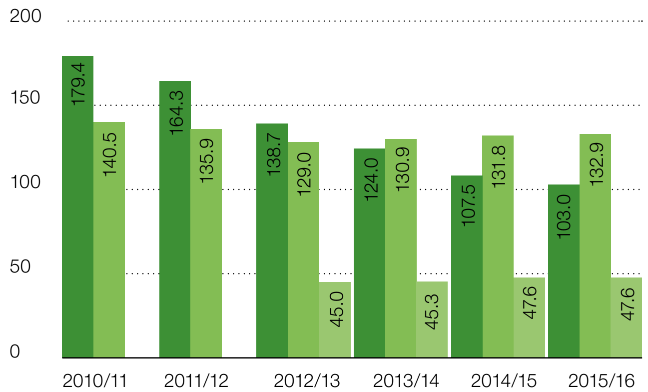


All properties
Metalli
Suurstoffi site

[1] Without operating current for heating and hot water production at Suurstoffi site

Final energy consumption electricity (incl. tenants)

kWh/m² rental space



All properties
Metalli
Suurstoffi site

Identity

Once a milk churn production site, now a place to eat sushi

The question of how cities function has long been a topic of debate. Despite masses of literature on the subject, fit-for-future planning models for districts and sites remain few and far between. In the meantime, however, the focus of urban design has been shifting away from a technocratic style of planning based on the division of labor – that is, a space with a dominant function, such as residential, commercial, industrial, etc. Settlement patterns that primarily reflect the organization of industrial production tend to be poor at eliciting a feeling of identification. Only by exploiting additional potential is it possible to create the emotional added value that can give users a sense of belonging.

The role of site identity in achieving this effect is amply illustrated by two urban districts of national renown: the Metalli quarter in Zug and the Suurstoffi neighborhood in Risch Rotkreuz. Even the names, with their manifold historic connotations, evoke strong associations for visitors, residents and employees. This echoing quality, which derives directly from the identity of a site to which its name, history and newly planned and evolving design all contribute, is also the source of its public aura.

Given that Metalli and Suurstoffi represent well-functioning urban districts, it is interesting to consider what specific features lend them their identity. The two sites – though otherwise very different – share a distinct and varied mix of uses. This variety makes them widely representative of our society. In the Metalli quarter, shops, restaurants and meeting places adjoin apartments and workplaces – all functions that are typical of our everyday life.

To be successful, however, this type of variety requires a strict spatial organization with regard to internal site layout and the considered and intelligent layering of stories. Project developers rather vaguely use the term «masterplan» to denote the interdependence between use mix and spatial arrangement. An awareness of the quality of an urban district can be further enhanced through additional design elements and careful marketing that highlights future-oriented features such as sustainability put into practice. Here too, the Zug Estates sites have set a shining example.

Metalli as a trendsetter

The interaction between the district planning criteria is impressively demonstrated by the Metalli Zug City Center site. The near-60 000 m2 site includes some 50 shops, offices, apartments and hotel rooms grouped around a subtly configured and discreetly orchestrated public space. At the same time, context plays an all-important role: the intermediate spaces actively engage with the surrounding facilities – not only those on the lower floors – to create streets and pathways with meaningful addresses instead of anonymous traffic ways. These public spaces are an integral part of the development concept and it is no coincidence that they serve not only as thoroughfares, but also as meeting places and promenades. The predominance of pedestrians and cyclists in the bright, colorful lanes also provides a glimpse of mobility in our urban future. Equally significant are the city's mainline train station and the Metalli bus stops, which are directly adjacent.

The Metalli facade has dominated Baarerstrasse since 1887

Sustainable districts

Mobility is a tangible aspect of the sustainable urban design concept for this urban district in the center of Zug. The objectives of social, economic and ecological sustainability are embodied in the buildings, down to their very foundations. Sustainability and identity are mutually reinforcing. Indeed, sustainable building design, a CO_2-free energy supply and eco-friendly access both comprise and create identity.

Intriguing analogy

In the long term, Zug Estates intends to implement a power, heating and cooling supply solution for its sites that involves no external energy procurement or CO_2 emissions. While such a plan is hardly viable at the level of individual buildings, it can be realized for entire sites through a combination of networked systems and smart technologies. The Metalli and Suurstoffi urban districts are powerful testaments to a striking analogy: extension of the system boundary – from building to district – not only increases the opportunities for a sustainable energy supply, but also for the improvement of living and working quality, eco-friendly access and a stronger presence in society. In this sense, districts can lend identity – in a way that is far more immediate and diverse than is the case with most architectural icons.


STARBUCKS COFFEE
ZUG
WERK 2


negishi

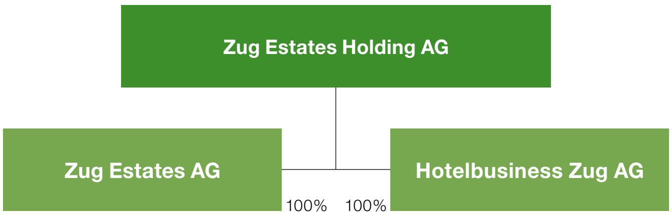
Corporate governance report

Zug Estates Holding AG is committed to the principles of good corporate governance. This is shown by its efficient management structure, extensive control mechanisms and transparent information policy.

The following information refers to the situation as at December 31, 2016, or to the year under review (2016) respectively, unless stated otherwise. No essential changes occurred between December 31, 2016, and the submission deadline for the annual report. The order and numbering of chapters are in line with those of the «Directive on Information relating to Corporate Governance» issued by SIX Swiss Exchange, Zurich.

1. Group structure and shareholders

1.1 Group structure



The list of consolidated companies can be found in the financial report on page 52.

1.2 Significant shareholders

All the significant shareholders known to Zug Estates Holding AG, together with information about the composition of shareholder groups, are listed in the financial report on page 62 (see «Significant shareholders»). Further information about the significant shareholders can also be seen on the website of the Disclosure Office of SIX Swiss Exchange, Zurich at www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

Heinz and Elisabeth Buhofer as well as Heinz M. Buhofer own a total of 66.0% of the voting rights together with the Buhofer Trust II, a fixed-interest trust according to the law of Liechtenstein. Via this trust, Zug Estates Holding AG is also indirectly owned by additional persons (see «Significant shareholders» on page 62, footnote 1). In accordance with a shareholder pooling agreement between the members of the Stöckli group, the members of the group coordinate the exercising of their voting rights. The agreement also contains provisions on the limitation of transferability. The pool owns a total of 15.8% of the voting rights.

Other than this, the company is not aware of any mutual agreements between shareholders subject to registration.

In the 2016 financial year, no disclosures were made pursuant to article 120 of the Swiss Financial Market Infrastructure Act (FMIA).

1.3 Cross-shareholdings

Zug Estates Holding AG has no cross-shareholdings.

2. Capital structure

2.1 Capital

The composition of the share capital is described in the financial report on page 60 (see «Shares issued»).

2.2 Authorized and conditional capital

The company has no authorized or conditional capital at its disposal.

2.3 Changes in capital

Information on the changes in capital in the reporting period is listed in the financial report on page 51 (see «Statement of changes in equity»).

2.4 Shares

Detailed information on the shares of Zug Estates Holding AG (number of shares, type and par value) is available in the financial report on page 60 (see «Shares issued»). Series A registered shares (privileged voting shares, par value CHF 2.50) are not listed. Series B registered shares (ordinary shares, par value CHF 25.00) are listed on the SIX Swiss Exchange, Zurich (securities number 14805212, ISIN CH0148052126).

2.5 Participation certificates and dividend-right certificates

The company has no outstanding participation certificates or dividend-right certificates.

2.6 Limitations on transferability, and nominee registration

In relation to the company, only those registered in the share register are recognized as registered shareholders or beneficiaries.

An entry is made in the share register:

- if, according to the information available to the company, recognition of an applicant as a shareholder does not and could not prevent the company and/or its subsidiaries from provision of legally required proof of the composition of its circle of shareholders and/or beneficial owners, particularly pursuant to the Federal Act on the Acquisition of Immovable Property in Switzerland by Foreign Non-Residents;

- if the applicant expressly declares that these registered shares have been acquired in the applicant's own name and on their own account.

Persons who do not expressly state in the application for registration that they hold the shares for their own account (nominees) may be entered in the share register as entitled to vote, provided that such persons have entered into an agreement with the board of directors concerning their status and are subject to a recognized bank or financial market supervision.

The transfer of series A registered shares is subject to approval by the board of directors in each instance. Approval can be denied for important reasons. The following count as important reasons:

- to ward off buyers who operate a business that competes with the purpose of the company, who have a participating interest in such a business or who are employed by such a business;

- to ensure that the company remains independent based on the voting rights-related control of the group of current registered shareholders. Spouses and descendants of the current circle of shareholders must, as a rule, be admitted;

- to acquire or to hold shares on behalf of third parties or in the interests of third parties.

Approval can be denied without giving reasons, provided that the board of directors acquires the shares (for the account of the company, specific shareholders or third parties) at their actual value at the time when the request was submitted.

After hearing the party concerned, the company may delete entries in the share register if these are based on false information provided by the buyer. Any such deletion must be communicated immediately to the buyer.

2.7 Convertible bonds and warrants/options

The company has no outstanding convertible bonds or warrants/options.

3. Board of directors

3.1 Members of the board of directors

	First appointed	End of term
Hannes Wüest, CH, 1946 Chairman of the board of directors (non-executive) Chairman of the Strategy and Investment Committee	2012	2017
Heinz M. Buhofer, CH, 1956 Member of the board of directors (non-executive)	2012	2017
Prof. Dr. Annelies Häcki Buhofer, CH, 1954 Member of the board of directors (non-executive) Member of the Audit Committee	2012	2017
Armin Meier, CH, 1958 Member of the board of directors (non-executive) Chairman of the Nomination and Compensation Committee	2013	2017
Dr. Beat Schwab, CH, 1966 Member of the board of directors (non-executive) Member of the Strategy and Investment Committee	2014	2017
Heinz Stübi, CH, 1954 Member of the board of directors (non-executive) Chairman of the Audit Committee	2012	2017
Martin Wipfli, CH, 1963 Member of the board of directors (non-executive) Member of the Strategy and Investment Committee as well as the Nomination and Compensation Committee	2012	2017

3.2 Other activities and vested interests

Hannes Wüest

Education Master of cultural engineering, Swiss Federal Institute of Technology (ETH), Zurich

Professional background Founder and managing director of Wüest & Partner AG, Zurich, 1985–2006

Previous activities for the Zug Estates Group Member of the board of directors of MZ-Immobilien AG, 2007–2012 (delegate to the board of directors 2009–2012)

Activities on governing and supervisory bodies None

Heinz M. Buhofer

Education Master of economics (lic. oec.), University of St. Gallen

Professional background Managing director of Metall Zug AG, Zug, 2002–2008

Previous activities for the Zug Estates Group Member of the board of directors of MZ-Immobilien AG, 1999–2012 (chairman 2000–2007 and 2009–2012; various operational functions at MZ-Immobilien AG, 1984–1997

Activities on governing and supervisory bodies Chairman of the board of directors of Metall Zug AG, Zug; vice-chairman of the board of directors of Wasserwerke Zug AG, Zug

Prof. Dr. Annelies Häcki Buhofer

Education PhD, University of Zurich

Professional background Management roles within the Faculty of Humanities at the University of Basel, 2002–2015; Professor of German Linguistics at the University of Basel, 1989–2015

Previous activities for the Zug Estates Group Member of the board of directors of MZ-Immobilien AG, 1997–2012

Activities on governing and supervisory bodies Chairman of the board of directors of BURU Holding AG, Cham, and Holmia Holding AG, Zug; member of the board of directors of V-Zug Immobilien AG, Zug; role in management bodies of national and international professional associations

Board of directors, left to right:
Armin Meier, Heinz M. Buhofer, Heinz Stübi, Annelies Häcki Buhofer, Martin Wipfli, Beat Schwab and Hannes Wüest

Armin Meier

Education IT engineer, Bern University of Applied Sciences, Executive MBA, University of St. Gallen

Professional background Managing Director of Boyden Switzerland, Zurich, since 2010; Chief Commercial Officer Travelport, London, 2008–2010; CEO Kuoni Travel Holding Ltd, Zurich, 2005–2007; member of the executive board of the Federation of Migros Cooperatives, Zurich, 2002–2005; President and CEO Atraxis AG, Zurich, 1998–2002; CEO ABB PTI AG, Baden, 1995–1998

Previous activities for the Zug Estates Group Chairman of the board of directors of Hotelbusiness Zug AG, 2012–2013

Activities on governing and supervisory bodies Member of the board of directors of KIBAG HOLDING AG, Zurich, and the Ameos Group AG, Zurich, and directorships at other unlisted companies

Dr. Beat Schwab

Education Dr. rer. pol., University of Bern; MBA Columbia University

Professional background Head Real Estate Investment Management of Credit Suisse AG, since 2012; CEO of Wincasa AG, 2006–2012; member of the management of ISS Schweiz AG, 2004–2006; director of SEVIS AG, 1999–2004; various positions in banking

Previous activities for the Zug Estates Group None

Activities on governing and supervisory bodies Member of the board of directors of Varia US Properties AG, Zug, Wincasa AG, Winterthur, Swiss Federal Railways SBB, Berne, various mandates at Credit Suisse AG and related companies/organizations

Heinz Stübi

Education Master of economics (lic. oec.), University of St. Gallen, chartered accountant

Professional background Independent entrepreneur, since 2006; deputy CFO, CIO and Head of Operations Latin America of the Bosch Packaging Division, Sigpack International AG, Neuhausen, 2004–2005; CFO SIG Pack Division, SIG Holding AG, Neuhausen, 2000–2004; Head of Finance and Administration Saurer Sticksysteme AG, Arbon, 1993–2000; various positions within Finance unit at Roche Group, Basel, 1980–1993

Previous activities for the Zug Estates Group None

Activities on governing and supervisory bodies Vice-chairman of the board of directors of Thurella AG, Egnach; member of the board of directors of 4B Holding AG, Zug; delegate to the board of directors of F. Aeschbach AG, Zurich

Martin Wipfli

Education Attorney, Master of law (lic. iur.), University of Bern

Professional background Executive partner at Baryon AG, since 1998; partner with Tax Partner AG, Zurich, 1997–1998; Head of the Tax Department of Bank Leu Ltd, Zurich, 1995–1997; tax advisor with ATAG Ernst & Young AG, Zurich, 1990–1995

Previous activities for the Zug Estates Group Member of the board of directors of MZ-Immobilien AG, 2011–2012

Activities on governing and supervisory bodies Chairman of the board of directors of ELMA Electronic AG, Wetzikon, and nebag ag, Zurich; member of the board of directors of Metall Zug AG, Zug, and directorships at other unlisted companies

3.3 Additional mandates
Pursuant to the company's articles of association, a member of the board of directors may hold no more than four additional mandates in listed companies and no more than 20 mandates in unlisted companies. For the purposes of calculating, the number of mandates in cases where several legal entities are associated with one another, one mandate is counted in full and the remaining mandates each count 10%. Mandates are deemed to comprise activities in the most senior executive and management bodies of legal entities that are obliged to obtain an entry in the commercial register or a corresponding foreign register and which are not controlled by the company. There is no limit on the number of other types of mandate that may be held provided these do not hinder the member of the board of directors in the performance of their duties toward the company and other enterprises associated with it.

The Nomination and Compensation Committee reviewed and verified compliance with the relevant provisions of the articles of association in the 2016 financial year.

3.4 Elections and terms of office
Members of the board of directors are elected by the general meeting of shareholders on an individual basis and for a period of one year or until the next ordinary general meeting. The general meeting of shareholders elects the chairman of the board of directors and the members of the Nomination and Compensation Committee on an individual basis. In all other respects, the board of directors constitutes itself. Members of the board of directors may be re-elected at any time, but must step down at the subsequent general meeting of shareholders after reaching the age of 70.

The general meeting of shareholders also elects an independent proxy on an annual basis. The term of office of the independent proxy ends at the closing of the next ordinary meeting of shareholders.

3.5 Internal organizational structure
In the year under review, the board of directors held four official meetings, which were also attended by the members of Group Management. These meetings typically last half a day. The agenda items for the meetings of the board of directors are specified by the chairman and prepared by Group Management. Every member of the board of directors and every member of Group Management is entitled to request that a meeting be convened, specifying the meeting's purpose. Ten days before a meeting of the board of directors, the members of the board of directors will receive documentation that allows them to prepare for the discussion of the agenda items. Decisions are made by the entire board of directors with the assistance of the following three committees: the Strategy and Investment Committee, the Nomination and Compensation Committee, and the Audit Committee.

Strategy and Investment Committee
The Strategy and Investment Committee drafts company strategy for the attention of the board of directors and steers the investment process. The committee receives investment proposals for preliminary evaluation and makes recommendations to the board of directors. It also initiates the implementation of approved projects depending on the marketing situation and monitors the execution of these transactions. The Strategy and Investment Committee usually meets once a month. In the year under review, nine meetings were held, each lasting approximately three hours. The committee consists of Hannes Wüest (chairman), Beat Schwab and Martin Wipfli. The Group Management also participates in the discussions.

Nomination and Compensation Committee
The Nomination and Compensation Committee develops and reviews the principles of the company's corporate governance. It regularly reviews the composition and size of the board of directors and its committees and the boards of the subsidiaries, and Group Management, and proposes suitable candidates for the various managing bodies to the board of directors. The committee also drafts, for the attention of the board of directors, the proposal to be submitted to the general meeting of shareholders regarding the amount of the total compensation and the additional compensation to be paid to the members of the board of directors and Group Management, as well as the compensation report. In keeping with the level of compensation approved by the general meeting of shareholders, the committee submits to the board of directors proposals regarding the remuneration of the board of directors and Management, and scrutinizes and reviews the targets and principles of the staffing policy on behalf of the board of directors.

Furthermore, it reviews the assessments put forward by the CEO in respect of members of the Management and monitors staff development and staff succession planning, along with the relevant development measures. The Nomination and Compensation Committee usually meets three times a year. In the year under review, three meetings were held, each lasting approximately two hours. Armin Meier (chairman) and Martin Wipfli serve on the Nomination and Compensation Committee. The CEO also participates in the discussions, except when his employment contract or remuneration are being discussed.

Audit Committee

The Audit Committee assists the board of directors in fulfilling its supervisory responsibility by reviewing the financial information provided to shareholders and third parties, the internal control systems and the auditing process. It makes an independent assessment of the quality of the annual financial statements, including the appraisal reports of estimated market values, and discusses these with Group Management and the auditors. The Audit Committee makes a proposal to the board of directors on whether the financial statements may be recommended for submission to the general meeting of shareholders. In addition, it specifies the plan and scope of the work conducted by the auditors, evaluates the auditors' performance and remuneration, ensures that the auditors are independent, and checks that the auditing is compatible with any other advisory mandates. The Audit Committee also assesses the efficiency of the internal control system with due consideration of risk management and evaluates compliance with laws, regulations, and accounting standards, as well as adherence to internal rules and directives. The Audit Committee usually meets quarterly. In the year under review, five meetings were held, each lasting three hours. Heinz Stübi (chairman) and Annelies Häcki Buhofer serve on the committee; the CEO, CFO and auditors also attend the meetings.

3.6 Definition of areas of responsibility

The board of directors has established organizational regulations regarding the distribution of areas of responsibility between Group Management and the board of directors. These can be found at http://www.zugestates.ch/de/home/main/investor-relations/corporate%20governance/organisationsreglement (German only). In principle, Group Management's mandate is comprehensive. Even if an area of responsibility lies with the board of directors, Group Management is expected to take the intellectual initiative and to address emerging business opportunities until they reach a stage at which a decision can be made.

3.7 Information and control instruments vis-à-vis Group Management

The board of directors controls Group Management and supervises its method of working. The Zug Estates Group has a comprehensive management information system. The Group companies report to Group Management once a month. The board of directors is informed of the Group's operational and financial performance every quarter. The results are compared with the same period of the previous year and with the budget. The achievability of budgets, which are integrated into rolling medium-term plans, is reviewed several times a year on the basis of extrapolations. Furthermore, Group Management keeps the board of directors fully informed at board meetings on the progress of business.

The board of directors has put in place a comprehensive system for monitoring and managing the risks associated with the company's activities, which involves risk identification, risk analysis, risk management and risk reporting. Risks are identified in the categories of environment, strategy, reputation, finance, IT/infrastructure, personnel/management/organization, products/services and processes, and evaluated in terms of their likelihood of occurrence and potential to cause damage. Group Management is responsible for monitoring and managing risk. In the case of major single risks, certain individuals are assigned responsibility for taking concrete measures to manage these risks and for monitoring their implementation. On behalf of the Audit Committee, Group Management draws up a risk report for the board of directors at regular intervals.

4. Group Management

4.1 Members of Group Management

	since
Tobias Achermann, CH, 1971, CEO	2014
Gabriela Theus, CH, 1973, CFO	2012

4.2 Other activities and vested interests

Tobias Achermann, CEO

Education Executive MBA, University of Applied Sciences HTW Chur; MAS Real Estate Management, Lucerne University of Applied Sciences and Arts; Swiss Federally Certified Real Estate Trustee

Professional background Managing Director of Clair AG, Cham, 2008–2014; Head of Real Estate, Arthur Waser Group, Lucerne, 2004–2008; Head Real Estate Accounting, BDO Visura, Aarau, 2001–2004; Department Head, Swiss Association of Home Owners Aargau, Baden, 1993–2001

Previous activities for the Zug Estates Group None

Activities on governing and supervisory bodies None

Gabriela Theus, CFO

Education Master of economics (lic. oec.), University of St. Gallen; Corporate Real Estate Manager (ebs), European Business School

Professional background Project leader for real estate transactions and valuation mandates (Vice President), Sal. Oppenheim jr. & Cie. Corporate Finance (Switzerland) AG, 2005–2010; Senior Associate Real Estate, Ernst & Young AG, 2002–2005

Previous activities for the Zug Estates Group Director of Finance and Portfolio Management (member of senior management), MZ-Immobilien AG, 2010–2012

Activities on governing and supervisory bodies Member of the board of directors of Pensimo Management AG

4.3 Additional mandates

Members of Group Management may hold a maximum of two additional mandates, one of which may be with a listed company. The acceptance of mandates by members of Group Management requires the approval of the board of directors. The Nomination and Compensation Committee reviewed and verified compliance with the relevant provisions of the articles of association in the 2016 financial year.

4.4 Management contracts

There are no management contracts with companies outside the Group.

5. Compensation, shareholdings and loans

Information on the procedure for determining the compensation of members of the board of directors and Group Management and on the compensation amounts paid to them is available in the compensation report on pages 41 to 44.

6. Shareholders' participation

6.1 Voting rights restrictions and representation of voting rights

Each share entitles the holder to one vote.

All shareholders may attend the general meeting of shareholders in person to exercise their rights or they may act at the general meeting of shareholders through written proxy to another shareholder entitled to vote or through the independent proxy.

Power of attorney and instructions may be given to the independent proxy in writing or electronically. There are no arrangements in place for electronic attendance of the general meeting of shareholders.

6.2 Statutory quorums

In addition to the cases listed in article 704 of the Swiss Code of Obligations (CO), resolutions on the conversion of registered shares into bearer shares (and vice versa), the restriction on transferability of registered shares and the relaxation or cancellation of the restriction require the approval of at least two-thirds of the voting shares represented and an absolute majority of the nominal share value represented. In all other instances, the general meeting of shareholders of Zug Estates Holding AG shall adopt resolutions and hold elections by the absolute majority of voting shares cast, irrespective of the number of shareholders present and of the number of voting shares represented.

6.3 Convocation of the general meeting of shareholders

Convocation of the general meeting of shareholders follows the legal provisions.

6.4 Agenda items

In principle, items are placed on the agenda in compliance with the legal provisions. Shareholders representing shares with a par value of at least CHF 1 million may request in writing, and on specification of the motion, inclusion of an item on the agenda within 40 days before the general meeting, unless the company issues a public notice specifying a different deadline. The written request must be accompanied by a bank statement, confirming that the shares are on deposit until after the general meeting.

6.5 Inscriptions into the share register

Registered shareholders who on the day when the invitation to the general meeting of shareholders is published in the Swiss Official Gazette of Commerce (SOGC) – i. e. usually about 20 days before the date of the meeting – are listed in the share register as shareholders entitled to vote receive the invitation to the ordinary general meeting directly. No entries will be made in the share register between this date and the day of the general meeting.

7. Changes of control and defense measures

7.1 Duty to make an offer

The duty to make a public offer to purchase according to articles 135 and 163 of the Swiss Financial Market Infrastructure Act (FMIA) is waived pursuant to article 125 para. 3 FMIA (opting out).

7.2 Clauses on changes of control

In the event of a change of control, Zug Estates Holding AG is not obliged to make any additional payments, either for the benefit of the members of the board of directors or for the benefit of members of Group Management or any other executives.

8. Auditing body

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

Ernst & Young AG, Zug, has been the auditor of the operating companies since 2006. The lead auditor has exercised this function since 2013.

8.2 Auditing fees

In the reporting period, Ernst & Young AG, Zug, invoiced Zug Estates Holding AG or the Zug Estates Group TCHF 123 (previous year: TCHF 109) for services in connection with the auditing of the annual financial statements of Zug Estates Holding AG and its subsidiaries and the consolidated financial statements of the Zug Estates Group.

8.3 Additional fees

In the reporting period, Ernst & Young AG received additional fees in the amount of TCHF 21 for audit-related services (previous year: TCHF 16 in connection with various accounting issues).

8.4 Information tools used for the external audit

The Audit Committee assesses the performance, the remuneration and the independence of the auditors on an annual basis and reports to the board of directors. The board of directors makes proposals to the general meeting of shareholders regarding the election of the auditor and monitors compliance with the rotation schedule for the lead auditor (seven-year period). On an annual basis, the Audit Committee and Group Management jointly review the external audit scope and the general conditions for any additional assignments. The Audit Committee also discusses the results of the audit with the external auditors.

9. Information policy

The Zug Estates Group has a transparent information policy vis-à-vis the public and the financial markets. The official medium of publication is the Swiss Official Gazette of Commerce (SOGC). Media releases are issued if an important event occurs. The Zug Estates Group publishes its figures twice a year in the half-year report and the annual report. The current media releases, important dates as well as general information about Zug Estates Holding AG or the Zug Estates Group can be viewed at www.zugestates.ch. Ad hoc releases can be subscribed at http://www.zugestates.ch/en/home/main/investor-relations/ad-hoc-publicity. Published ad hoc and press releases can be downloaded at http://www.zugestates.ch/en/home/main/media/press-releases, the corporate calendar at http://www.zugestates.ch/en/home/main/investor-relations/corporate-calendar and the half-year and annual reports at http://www.zugestates.ch/en/home/main/investor-relations/reports. Contact details, important dates and information about the shares of Zug Estates Holding AG may also be found on pages 82 to 84 of this annual report.

Compensation report

The Zug Estate Group's compensation policy provides a suitable basis for the remuneration of employees and managers that is both performance-based and in line with the market.

The Zug Estate Group's compensation policy provides a suitable basis for the remuneration of members of the board of directors, employees, and managers that is both performance-based and in line with the market. The compensation system is structured in such a way that the interests of these persons are compatible with the interests of the Group. It is built on the following guiding principles:

– The Group's compensation system is straightforward and transparent.
– Members of the board of directors receive fixed compensation only.
– The variable compensation for members of Group Management is set at a moderate level.

On an annual basis, the general meeting of shareholders votes separately on whether to approve the proposal of the board of directors for the total compensation to be paid to the board of directors for the period until the next ordinary general meeting, as well as for the total compensation to be paid to Group Management for the coming financial year (article 18 of the company's articles of association). The general meeting also acknowledges the compensation report by consultative vote.

The following remarks outline the principles of the compensation system and the details of the compensation received by the board of directors and Group Management for the 2016 financial year.

Board of directors

Pursuant to article 18 of the company's articles of association, members of the board of directors receive a fixed compensation in cash. They will, in principle, also be reimbursed for expenses incurred on behalf of the company, provided that any such reimbursement of further expenses is paid only in exceptional cases, and if evidenced by supporting documentation, within 60 days. In the reporting period, expenses in the amount of CHF 7 182 were paid out to members of the board of directors.

Acting on the proposal of the Nomination and Compensation Committee, the entire board of directors determines at its discretion, on an annual basis and within the limits of the total amount, the amount of the fixed cash compensation to be paid to the individual members for the period from the next ordinary general meeting of shareholders to the following ordinary general meeting. The total amount is submitted to the general meeting for approval. When determining said amount, particular consideration is given to the performance of additional functions and to work done on the committees of the board of directors (function bonus). External consultants are not engaged.

Compensation period up to the 2016 general meeting of shareholders

The general meeting of shareholders took a first vote on compensation on April 14, 2015 and approved a total amount for the board of directors of CHF 950 000 for the term of office up to the general meeting of shareholders on April 12, 2016.

Of this total, the sum of CHF 928 072 was effectively paid out (see detailed breakdown on the following page).

Compensation for the compensation period from April 14, 2015 to April 12, 2016
in CHF

Fixed compensation (net)	847 333
Variable compensation (net)	0
Pension contributions	80 739
Total compensation paid	**928 072**
Total amount approved	**950 000**
Difference	**-21 928**

Compensation period up to the 2017 general meeting of shareholders

The general meeting voted on compensation on April 12, 2016 and approved a total amount for the board of directors of CHF 1 000 000 for the term of office up to the next general meeting of shareholders in 2017. In the 2016 financial year, the compensation paid out to the board of directors amounted to a total of CHF 934 933. Of this sum, the amount of CHF 626 079 was paid out in the period from the 2016 general meeting of shareholders to December 31, 2016. Compared with the previous financial year (CHF 611 684), this represents an increase of 2.4%.

Proposal for the compensation period up to the 2018 general meeting of shareholders

At the 2017 general meeting of shareholders, the board of directors will propose that a total amount of CHF 900 000 be made available as the fixed compensation in cash payable to the members of the board of directors during the term of office until the next ordinary general meeting of shareholders.

Group Management

Pursuant to article 18 of the company's articles of association, the compensation paid to members of Group Management comprises a fixed cash compensation, a performance-based compensation in cash, and a reimbursement of expenses in accordance with the expenses regulations approved by the cantonal tax authorities.

The fixed cash compensation is determined according to the actual area of responsibility, professional profile and expertise of each individual member of Group Management and the amount of work performed.

The performance-based compensation paid to Group Management is intended to ensure that the interests of Group Management, the board of directors and the shareholders correspond as closely as possible. Pursuant to article 18 of the company's articles of association, it may be equivalent to a maximum of half the fixed cash compensation. The employment contracts of the members of Group Management stipulate that the performance-based compensation will amount to no more than one third of the fixed cash compensation.

When determining this amount, consideration is given mainly to the progress of business, as well as to individual performance, personal initiative and attainment of the agreed targets. The progress of business is evaluated in terms of economic success. This in turn is generally measured on the basis of earnings drivers – specifically, payout potential generated and earnings prospects – and other factors. Acting on the proposal of the Nomination and Compensation Committee, the board of directors determines at its discretion on an annual basis the fixed cash compensation and the performance-based compensation within the limits of the total amount approved by the general meeting of shareholders.

2016 compensation period (financial year)

On April 14, 2015, the general meeting of shareholders approved the total amount of CHF 1 200 000 as the compensation payable to the Group Management for the 2016 financial year. Of this total, the sum of CHF 1 016 340 was effectively paid out (see detailed breakdown below).

Compensation payments to Group Management for the 2016 financial year
in CHF

Fixed compensation (net)	536 881
Variable compensation (net)	193 180
Pension contributions	286 279
Total compensation paid	**1 016 340**
Total amount approved	**1 200 000**
Difference	**-183 660**

2017 compensation period (financial year)

On Tuesday, April 12, 2016, the general meeting of shareholders approved the total amount of CHF 1 200 000 as the compensation payable to the Group Management for the 2017 financial year.

Proposal for the 2018 compensation period (financial year)

At the 2017 general meeting of shareholders, the board of directors will propose that a total amount of CHF 1 200 000 (unchanged) be made available as the total compensation payable to the Group Management for the 2018 financial year.

Members of Group Management are, as a rule, not present at meetings of the Nomination and Compensation Committee or of the board of directors that deal with employment contracts of members of Group Management and, in particular, compensation received by the latter. External consultants are not engaged.

The employment contracts of the members of Group Management stipulate a period of notice of six months.

Shareholding programs

Pursuant to article 18 of the company's articles of association, Zug Estates Holding AG does not have any participation or option programs. In the reporting period, no shares, option rights or conversion rights were assigned to members of the board of directors, Group Management or associated persons.

Loans and credits

In the reporting period, no loans or credits were granted to members of the board of directors or Group Management or associated persons, and none are outstanding.

Former members

Zug Estates Holding AG paid no direct or indirect compensation to former members of the board of directors or Group Management or associated persons in the reporting period.

No loans or credit facilities are outstanding in relation to former members or associated persons.

Compensation payments to the board of directors and Group Management

The following compensation was paid to the members of the board of directors and the Group Management in the year under review.

Compensation for the 2016 financial year in CHF	**Fixed compensation (net)**	**Var. compensation (net)** [1]	**Pension contributions** [2]	**Total 2016**
Hannes Wüest	400 000	0	48 069	**448 069**
Heinz M. Buhofer	60 414	0	0	**60 414**
Prof. Dr. Annelies Häcki Buhofer	61 667	0	9 273	**70 940**
Armin Meier	65 000	0	9 774	**74 775**
Dr. Beat Schwab	86 845	0	0	**86 845**
Heinz Stübi	75 000	0	11 278	**86 278**
Martin Wipfli	107 613	0	0	**107 613**
Total board of directors	**856 539**	**0**	**78 394**	**934 933**
Tobias Achermann, CEO	319 549	115 427	169 384	**604 360**
Total Group Management	**536 881**	**193 180**	**286 279**	**1 016 340**

Compensation for the 2015 financial year in CHF	**Fixed compensation (net)**	**Var. compensation (net)** [1]	**Pension contributions** [2]	**Total 2015**
Hannes Wüest [3]	400 000	0	48 403	**448 403**
Heinz M. Buhofer	64 269	0	0	**64 269**
Prof. Dr. Annelies Häcki Buhofer	63 333	0	9 579	**72 912**
Armin Meier	81 667	0	12 359	**94 026**
Dr. Beat Schwab	56 667	0	0	**56 667**
Heinz Stübi	73 333	0	11 093	**84 426**
Martin Wipfli	107 667	0	0	**107 667**
Total board of directors	**846 936**	**0**	**81 434**	**928 370**
Tobias Achermann, CEO	302 618	81 869	153 857	**538 344**
Total Group Management	**497 552**	**119 794**	**252 647**	**869 993**

[1] In line with the accrual principle, the variable compensation payable to the Group Management for the 2016 business year is posted in the applicable year (same method as previous year), but not paid out until April 2017.

[2] Employer's and employee's contributions to pension schemes, health insurance, accident insurance, AHV (old age and survivors insurance), IV (invalidity insurance), EO (compensation for loss of earnings) and ALV (unemployment insurance); members of the board of directors receive AHV, IV, EO and ALV contributions only.

[3] In addition, social security contributions of CHF 40 276 were incurred in respect of 2013 and 2014.

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To the General Meeting of
Zug Estates Holding AG, Zug

Zug, 2 March 2017

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of Zug Estates Holding AG for the year ended 31 December 2016.The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 43 to 44 of the remuneration report.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility
Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the remuneration report for the year ended 31 December 2016 of Zug Estates Holding AG complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd

Daniel Zaugg	Beatrice Bieri
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

«Modern Metalli celebrates its 30th anniversary this year. Zug wouldn't be Zug without the shopping mall and its 50 or so outlets.»

Dominique Winter, Metalli Center Manager, Zug Estates AG

Consolidated financial statements

Annual financial statements of Zug Estates Holding AG

Consolidated balance sheet

Assets

in CHF thousands	Note	31.12.2016	31.12.2015
Cash and cash equivalents		18 440	55 235
Trade receivables	1	924	1 680
Other receivables	2	4 186	7 297
Inventories		187	277
Properties held for sale	3	1 946	2 426
Promotional properties	4	16 906	0
Prepaid expenses		2 351	3 044
Total current assets		**44 940**	**69 959**
Investment properties	5	1 043 489	1 013 516
Investment properties under construction	5	128 519	57 723
Undeveloped plots	5	2 524	4 008
Operating properties	6	36 461	38 008
Other tangible assets	7	7 485	4 571
Prepayments for tangible assets	8	171	178
Financial assets		1 710	1 543
Intangible assets	9	104	23
Total fixed assets		**1 220 463**	**1 119 570**
Total assets		**1 265 403**	**1 189 529**

Liabilities and shareholders' equity

in CHF thousands	Note	31.12.2016	31.12.2015
Trade payables	11	5 370	4 865
Other current liabilities		6 751	8 558
Accrued expenses		27 584	9 873
Total current liabilities		**39 705**	**23 296**
Long-term financial liabilities	10	350 200	350 000
Long-term provisions	12	967	38
Deferred tax liabilities	13	100 003	92 758
Total long-term liabilities		**451 170**	**442 796**
Total liabilities		**490 875**	**466 092**
Share capital	14	12 750	12 750
Capital reserves		527 458	534 181
Treasury shares		– 12 227	– 21 688
Retained earnings		246 547	198 194
Total shareholders' equity		**774 528**	**723 437**
Total liabilities and shareholders' equity		**1 265 403**	**1 189 529**

Consolidated income statement

in CHF thousands	Note	2016	2015 [1]
Property income	16	40 089	39 169
Hotel & catering income	17	16 458	19 027
Additional income from ordinary business operations	18	4 494	4 425
Net proceeds of trade payables and receivables		**61 041**	**62 621**
Other operating revenue		191	283
Total operating revenue		**61 232**	**62 904**
Property expenses		2 816	2 055
Cost of goods purchased for hotel & catering		1 594	2 087
Personnel expenses	19	13 080	13 869
Other operating expenses	20	5 298	5 713
Total operating expenses		**22 788**	**23 724**
Operating income before depreciation and revaluation		**38 444**	**39 180**
Revaluation of investment properties (net)	5	28 065	50 477
Result from sale of investment properties		420	– 23
Operating income before depreciation (EBITDA)		**66 929**	**89 634**
Depreciation	21	3 133	3 309
Operating income (EBIT)		**63 796**	**86 325**
Financial result	22	– 7 129	– 7 480
Income before taxes (EBT)		**56 667**	**78 845**
Tax expenditure	23	8 314	11 706
Net income		**48 353**	**67 139**

Earnings per share in CHF			
Earnings per series A registered, undiluted *	14	9.81	13.67
Earnings per series B registered share, undiluted *	14	98.06	136.69

* There are no potential dilutive effects to report. The diluted earnings per share correspond to the undiluted earnings per share.

[1] The regulations of the Swiss GAAP FER 3 and 6 framework concept with regard to revenue collection (in force since January 1, 2016) were applied for the first time in the 2016 financial year. The previous year's figures were restated accordingly, as described in the notes.

Cash flow statement

in CHF thousands	2016	2015
Net income for the period	48 353	67 139
Depreciation	3 133	3 309
Revaluation of investment properties (net)	– 28 065	– 50 477
Result from sale of investment properties	– 420	23
Changes in provisions/deferred tax liabilities	8 174	8 318
Other non-cash items	– 2 835	– 1 609
Cash flow before changes in working capital	**28 340**	**26 703**
Change in trade receivables	756	275
Change in other receivables	3 111	– 2 439
Change in accrued income and prepaid expenses	693	– 783
Change in inventories/properties for sale	1 973	4 870
Change in promotional properties	– 16 751	0
Change in trade payables	– 931	– 1 889
Change in other current liabilities	– 1 807	2 030
Change in accrued expenses and deferred income	– 6 317	– 5 476
Cash flow from operating activities	**9 067**	**23 291**
Investments in investment properties	– 47 998	– 29 139
Disposals of investment properties	0	23 883
Investments in operating properties	– 4	11
Investments in other tangible assets	– 414	– 136
Prepayments for tangible assets	0	– 241
Investments in financial assets	– 65	0
Investments in intangible assets	– 119	– 15
Acquisition of subsidiary	0	– 10 046
Cash flow from investing activities	**– 48 600**	**– 15 683**
Increase in current financial liabilities	0	– 45 000
Increase in long-term financial liabilities	0	75 000
Sale of treasury shares	12 832	2 543
Distribution to shareholders	– 10 094	– 9 075
Cash flow from financing activities	**2 738**	**23 468**
Change in cash and cash equivalents	**– 36 795**	**31 076**
Composition of net cash and cash equivalents		
Net cash and cash equivalents at the beginning of reporting period	55 235	24 159
Net cash and cash equivalents at the end of reporting period	18 440	55 235
Change in cash and cash equivalents	**– 36 795**	**31 076**

In the reporting period, non-cash investments of TCHF 28 197 (previous year: TCHF 8 785) were made. TCHF 200 (previous year: none) in non-cash financing was effected.

Statement of changes in equity

in CHF thousands	**Share capital**	**Capital reserve**	**Treasury shares**	**Retained earnings**	**Total share-holders' equity**
Balance on 01.01.2015	**12 750**	**543 159**	**– 24 134**	**131 055**	**662 830**
Treasury shares					
– Sale of treasury shares	–	97	2 446	–	2 543
Distribution from the reserves from capital contributions	–	– 9 075	–	–	– 9 075
Net income	–	–	–	67 139	67 139
Balance on 31.12.2015	**12 750**	**534 181**	**– 21 688**	**198 194**	**723 437**
Balance on 01.01.2016	**12 750**	**534 181**	**– 21 688**	**198 194**	**723 437**
Treasury shares					
– Sale of treasury shares [1]	–	3 371	9 461	–	12 832
Distribution from the reserves from capital contributions	–	– 10 094	–	–	– 10 094
Net income	–	–	–	48 353	48 353
Balance on 31.12.2016	**12 750**	**527 458**	**– 12 227**	**246 547**	**774 528**

[1] Profit from the sale of treasury shares and the associated tax payments were recognized as an increase in the capital reserves, without affecting net income.

Notes
to the consolidated financial statements

Principles

The consolidated financial statements of Zug Estates Holding AG were prepared in accordance with the Swiss GAAP FER Accounting and Reporting Regulations in their entirety as in force on December 31, 2016 as well as the special provisions for real estate companies (article 17 of the Directive on Financial Reporting) of the SIX Swiss Exchange, Zurich, and present a true and fair view of the financial position, the results of operations and the cash flows. The business year covered by these consolidated financial statements is equivalent to the calendar year.

The consolidated financial statements are based on the audited individual financial statements of the Zug Estates Group companies, prepared in accordance with consistent accounting principles. The relevant accounting principles are outlined below.

The regulations of the Swiss GAAP FER 3 and 6 framework concept with regard to revenue collection (in force since January 1, 2016) were applied for the first time. The changes led to a separate statement of «Additional income arising from ordinary business activities» amounting to TCHF 4 494 (previous year: TCHF 4 425) as part of «Net sales from goods and services». The corresponding income had previously been reported under «Hotel & catering income» and «Other operating income». In addition, the passing on of costs in the hotel & catering business unit is now assessed as intermediary activities, which means that under Swiss GAAP FER 3.19 only the value of self-performed services is reported as net sales. Swiss GAAP FER 6.8 also requires additional disclosures reported under «Significant accounting and valuation policies» on page 53 and 54.

The consolidated financial statements are denominated in Swiss francs (CHF). Unless otherwise indicated, all amounts are stated in thousands of Swiss francs (TCHF).

The board of directors approved the consolidated financial statements on March 2, 2017.

Scope of consolidation

Zug Estates Holding AG holds more than 50% of the votes and capital of all subsidiaries. The full consolidation method is therefore applied; i.e. assets and liabilities, expenses and revenue are consolidated at 100%. Any share of minority shareholders in net income and shareholders' equity is reported separately. Associated companies in which Zug Estates Holding AG holds direct or indirect participations of 20% to 50% are consolidated according to the equity accounting method. Participations below 20% are not consolidated. Real estate property is included in the consolidated financial statements on the basis of the applicable ownership share.

As at the time of acquisition, the assets and liabilities of the first-time consolidated companies or the acquired businesses are shown in the balance sheet in accordance with uniform principles. The excess of the acquisition price over the revalued net assets of the acquired company or the acquired business share is defined as goodwill. This goodwill is offset against retained earnings without affecting net income. The impact of a theoretical capitalization is presented in the notes to the consolidated financial statements. The useful life is determined at the time of the acquisition.

Changes to the scope of consolidation
The scope of consolidation is unchanged compared with the annual financial statements as of December 31, 2015. As at January 1, 2016, Zug Estates Holding AG merged the two wholly owned subsidiaries ZEW Immobilien AG and ZE Suurstoffi 1 AG into the wholly owned subsidiary Zug Estates AG.

Principles of consolidation

Consolidation method
Capital consolidation is performed to show the equity of the entire Group. In this context, the purchase method is applied.

List of investments

Company	Domicile	Business	Share capital in CHF	Share of capital and votes 31.12.2016	Share of capital and votes 31.12.2015
Hotelbusiness Zug AG	Zug, ZG	Hotel and catering operator	1 000 000	100%	100%
ZEW Immobilien AG [1]	Oberentfelden, AG	Real estate company	-	-	100%
ZE Suurstoffi 1 AG [1]	Zug, ZG	Real estate company	-	-	100%
Zug Estates AG	Zug, ZG	Real estate company	1 500 000	100%	100%

[1] Merger with Zug Estates AG as at January 1, 2016

Intercompany transactions

Intercompany receivables, liabilities and transactions are eliminated for fully consolidated companies. Depreciation and value adjustments for receivables and participations in respect of subsidiaries are reversed. The individual subsidiaries' intercompany profits on inventories and tangible assets are assessed and also eliminated.

Significant accounting and valuation policies

Cash and cash equivalents

Cash and cash equivalents include cash, postal and bank account balances and short-term monetary investments. These are reported at their nominal value.

Trade receivables

Trade receivables include in particular rent receivables, receivables from the hotel & catering activities and receivables from external management mandates, and are reported at the nominal value less any value adjustments necessary for commercial reasons.

Other receivables

Other receivables are reported at their nominal value less any value adjustments necessary for commercial reasons.

Inventories

In the inventories for the hotel & catering business unit, goods purchased are carried at the lower of acquisition price or fair value. In addition to specific value adjustments, general value adjustments of up to 10% for general valuation risks are made according to past experience.

Properties for sale

Properties available for sale, which were formerly carried at fair value, are carried at fair value less the expected cost of sale. Other properties held for sale are carried at acquisition or production cost (including interest charges) or at fair value if lower. Properties for sale are classified as current assets.

Promotional properties

Promotional properties are properties that are built for sale. Promotional properties are carried at acquisition or production cost or at fair value if lower. Promotional properties are recognized under current assets.

Investment properties, investment properties under construction and undeveloped plots

Residential and commercial properties that already exist or which are under construction (development properties) and undeveloped plots are used for long-term investment purposes and are carried at fair value in accordance with Swiss GAAP FER 18. This fair value is calculated and updated half-yearly by independent real estate valuers using the discounted cash flow (DCF) method. Pursuant to the provisions of Swiss GAAP FER, increases and decreases in fair value are recognized in profit or loss in the income statement, taking deferred taxes into account. The investment properties are not depreciated. Investment properties under construction (development properties) and undeveloped plots are recognized at fair value as of the date on which the fair value can be reliably calculated. Zug Estates has stipulated legally binding building permission and a concrete construction project for which costs and income can be reliably determined as mandatory conditions for a reliable fair market calculation. Where the conditions for making a reliable calculation of the fair value are not met, investment properties under construction and undeveloped plots are carried at cost. Investments and major maintenance are recognized as expense in the period in which they are incurred, provided that they do not lead to a rise in fair value.

Operating properties and operating properties under construction

Operating properties and operating properties under construction comprise buildings used by the Group itself and in its hotel & catering activities. They are valued at acquisition or production cost less accumulated depreciation and accumulated impairment. The straight-line depreciation method is applied on the basis of a useful life of 33 to 50 years.

Other tangible assets

Other tangible assets, which are mainly utilized in the hotel & catering business unit, are valued at acquisition or production cost less accumulated depreciation. The straight-line depreciation method is applied on the basis of a useful life of three to eight years, and up to 30 years in the case of infrastructure investments.

Financial assets

Financial assets comprise non-consolidated participations used for long-term investment purposes and are reported at fair value.

Intangible assets

Acquired intangible assets are recognized in the balance sheet if they are to bring measurable benefits to the company over several years. They comprise software and are valued at acquisition cost less straight-line depreciation over an economic life of three years. Self-developed intangible assets are not recognized in the balance sheet.

Liabilities

Trade payables and other liabilities are reported at their nominal value.

Financial liabilities
Mortgages generally concluded for the long term are recognized as non-current financial liabilities. Tranches due to mature within twelve months are reported as current financial liabilities.

Provisions
Provisions are obligations based on events in the past; their amount and/or due dates are uncertain but can be estimated. Provisions are reported as current or long-term according to their expected due dates.

Employee benefits
The Group has several employee benefit plans that are organized as independent foundations in conformity with the legal requirements in Switzerland. These plans cover the economic consequences of old age, death or disability. They are funded by employer and employee contributions. Contributions are calculated as a percentage of the insured salary. Changes in employer's contribution reserves and any economic impact on the Group of overcoverage or undercoverage of pension schemes are recorded as personnel expenses.

Income taxes
Current income taxes are calculated at the prevailing tax rates on the basis of the expected fiscal annual income as per commercial law and according to the respective tax assessment rules. They are included in accrued expenses.

Deferred tax liabilities
In accordance with Swiss GAAP FER 11, the consolidated financial statements must take due account of current and future tax effects. A distinction must be made between the calculation of current income taxes and the accrual of deferred income taxes. The latter are caused primarily by valuation differences between the fair values calculated using the discounted cash flow (DCF) method and the taxable values.

If the fair values are higher than the taxable values, this leads to a deferred tax liability for which provision must be made. Deferred taxes are calculated separately for each business period and each taxable entity. The individual company's current or expected tax rates are applied to calculate deferred taxes. Changes in deferred taxes are recorded as tax expenditure. Tax loss carry forwards that can be used for tax purposes are neither capitalized nor offset against the provisions for deferred taxes.

Contingent liabilities
Contingent liabilities are assessed according to the probability and the scope of future unilateral performance and costs, and are disclosed in the notes.

Borrowing costs
Borrowing costs on loans taken out to fund construction projects are capitalized until completion. Other borrowing costs are charged to the income statement.

Revenue collection
The Zug Estates Group operates in two segments: real estate and hotel & catering.

The real estate segment operates primarily in the areas of product development and management. The project development department develops and oversees its own construction projects, mainly for the Group portfolio. The management department provides facility management services for third parties and the Group portfolio. The main source of revenue is «Property income», which is made up of actual rental income and income from Miteigentümergemeinschaft Metalli. Actual rental income comprises net rent after deduction of vacancy losses and losses from receivables. Income from Miteigentümergemeinschaft Metalli is the gross profit earned by the Zug Estates Group on the income from Miteigentümergemeinschaft Metalli after recognition of the corresponding property expenses. Other income is generated by facility management and on the sale of self-produced energy. This income is recognized under «Additional income from ordinary business operations».

The hotel & catering segment comprises the subsidiary Hotelbusiness Zug AG. It operates two hotels, three restaurants, and serviced city apartments (including supplementary hotel and catering services) in Zug. The hotel & catering segment earns the large part of its income from catering, accommodation and minibar services, which are recognized under «Hotel & catering income». All hotel & and catering services are taken to income at the time of rendering.

Expense reductions
Discounts on purchased goods and property production costs are recognized as reductions in the acquisition cost.

Estimates
The preparation of the financial statements requires a number of estimates and assumptions to be made. These relate to the assets, liabilities and contingent liabilities at the time the balance sheet is being prepared, and income and expenses during the reporting period. If such estimates and assumptions, which were made to the best of the Group's knowledge at the time the balance sheet was prepared, later turn out to differ from the actual figures, the original estimates and assumptions are adjusted in the reporting year in which the figures changed.

1 | Trade receivables

in CHF thousands	31.12.2016	31.12.2015
Trade receivables from hotel and catering activities	452	835
Rent receivables	99	94
Other trade receivables	429	830
Provisions for doubtful receivables	– 56	– 79
Total trade receivables	**924**	**1 680**

2 | Other receivables

in CHF thousands	31.12.2016	31.12.2015
Withholding tax credits	32	15
Accounts for heating and service charge settlement	4 050	7 191
Other receivables	104	91
Total other receivables	**4 186**	**7 297**

3 | Properties held for sale

in CHF thousands	31.12.2016	31.12.2015
Acquisition value at the beginning of reporting period	**2 426**	**4 805**
Additions	983	2 426
Disposals	– 1 463	– 4 805
Acquisition value at the end of reporting period	**1 946**	**2 426**

The properties held for sale at the end of 2016 are two apartments with appurtenant parking spaces at the Baar property, Rote Trotte 14–16 (previous year: two apartments with appurtenant parking spaces and ancillary spaces at the Baar property, Rote Trotte 14–16).

4 | Promotional properties

in CHF thousands	31.12.2016	31.12.2015
Acquisition value at the beginning of reporting period	**0**	**0**
Additions	16 906	0
Disposals	0	0
Acquisition value at the end of reporting period	**16 906**	**0**

Promotional properties include the available-for-sale part of the Risch Rotkreuz property, Suurstoffi 37/39 (Aglaya residential tower block). They are carried at acquisition or production cost.

5 | Investment properties, investment properties under construction and undeveloped plots

in CHF thousands	Zug City Center site, Zug, investment properties	Suurstoffi site, Risch Rotkreuz, investment properties
Balance as at 01.01.2015	**621 948**	**255 738**
Investments	102	5 989
Acquisitions [3]	0	0
Disposals [4]	0	– 16 500
Reclassification of undeveloped plots to properties under construction [5]	0	0
Reclassification of properties under construction to investment properties [6]	0	85 934
Reclassification to properties for sale [7]	0	0
Reclassification to other tangible assets	0	– 681
Revaluation (net)	43 747	4 093
Balance as at 31.12.2015	**665 797**	**334 573**
Accumulated acquisition values as at 01.01.2015	339 188	210 381
Accumulated acquisition values as at 31.12.2015	339 290	269 139
Difference market values/acquisition values as at 01.01.2015	282 760	45 357
Difference market values/acquisition values as at 31.12.2015	326 507	65 434
Balance as at 01.01.2016	**665 797**	**334 573**
Investments	978	9 352
Acquisitions [8]	1 503	0
Reclassification of undeveloped plots to properties under construction [9]	0	0
Reclassification to properties for sale [10]	0	0
Reclassification to promotional properties [11]	0	0
Reclassification to other tangible assets	0	0
Revaluation (net)	7 239	11 394
Balance as at 31.12.2016	**675 517**	**355 319**
Accumulated acquisition values as at 01.01.2016	339 290	269 139
Accumulated acquisition values as at 31.12.2016	341 771	278 491
Difference market values/acquisition values as at 01.01.2016	326 507	65 434
Difference market values/acquisition values as at 31.12.2016	333 746	76 828

1 Comprises the properties under construction at the Suurstoffi site in Risch Rotkreuz (excluding promotional properties)
2 Comprises the undeveloped part of the Suurstoffi site in Risch Rotkreuz. The undeveloped plots are stated at cost less accumulated depreciation in accordance with the valuation principles.
3 Acquisition of the Birkenstrasse 6 site in Risch Rotkreuz
4 Disposal of properties at Industriestrasse 8 in Oberentfelden and Suurstoffi 3a–c in Risch Rotkreuz, and of a hobby room at the Baar property, Rote Trotte 14–16
5 Reclassification of the Risch Rotkreuz properties, Suurstoffi 16–20 to investment properties under construction
6 Reclassification of the Risch Rotkreuz properties, Suurstoffi 19–35 to investment properties
7 Reclassification of two apartments (incl. ancillary and parking spaces) at the Baar property, Rote Trotte 14–16
8 Consolidation acquisitions in Zug and Risch Rotkreuz
9 Reclassification of the Risch Rotkreuz properties, Suurstoffi 16–20 and site 1 plots to investment properties under construction
10 Reclassification of an apartment (incl. parking spaces) at the Baar property, Rote Trotte 14–16
11 Land belonging to Risch Rotkreuz property, Suurstoffi 37/39

Other investment properties	Total investment properties	Total investment properties under construction [1]	Undeveloped plots [2]	Total
22 590	**900 276**	**94 771**	**9 269**	**1 004 316**
130	6 221	30 665	0	36 886
0	0	10 581	0	10 581
– 7 406	– 23 906	0	0	– 23 906
0	0	5 261	– 5 261	0
0	85 934	– 85 934	0	0
– 2 426	– 2 426	0	0	– 2 426
0	– 681	0	0	– 681
258	48 098	2 379	0	50 477
13 146	**1 013 516**	**57 723**	**4 008**	**1 075 247**
21 460	571 029	81 785	9 269	662 083
7 909	616 338	57 607	4 008	677 953
1 130	329 247	12 986	0	342 233
5 237	397 178	116	0	397 294
13 146	**1 013 516**	**57 723**	**4 008**	**1 075 247**
6	10 336	64 261	0	74 597
0	1 503	101	0	1 604
0	0	1 484	– 1 484	0
– 983	– 983	0	0	– 983
0	0	– 155	0	– 155
0	0	– 3 843	0	– 3 843
484	19 117	8 948	0	28 065
12 653	**1 043 489**	**128 519**	**2 524**	**1 174 532**
7 909	616 338	57 607	4 008	677 953
7 338	627 600	119 455	2 524	749 579
5 237	397 178	116	0	397 294
5 315	415 889	9 064	0	424 953

The fair values are based on the market value assessments performed annually by a recognized independent real estate expert (Wüest & Partner AG) as at December 31 using the DCF (discounted cash flow) method. The discount rates applied for the valuation of the investment properties and the investment properties under construction as at the balance sheet date were within a range of 2.9% to 3.6% (previous year: 3.2% to 3.7%).

Additional information per property can be found on pages 18 and 19 of this report.

6 | Operating properties

in CHF thousands	2016	2015
Acquisition value at the beginning of reporting period	**62 769**	**61 963**
Additions	4	806
Disposals	0	0
Acquisition value at the end of reporting period	**62 773**	**62 769**
Accumulated depreciation at the beginning of reporting period	**– 24 761**	**– 22 873**
Disposals	0	0
Depreciation in the reporting period	– 1 551	– 1 888
Accumulated depreciation at the end of reporting period	**– 26 312**	**– 24 761**
Net book value at the beginning of reporting period	**38 008**	**39 090**
Net book value at the end of reporting period	**36 461**	**38 008**

The following properties located in Zug serve completely or partly as operating properties: Industriestrasse 14 (Parkhotel Zug), Industriestrasse 16 (Résidence), Metallstrasse 20 (Hotel City Garden), Haldenstrasse 9, 10, 11 (serviced city apartments), Baarerstrasse 30 (Restaurant Bären) and Industriestrasse 12 (Zug Estates offices).

The market value of the operating properties as at the balance sheet date was TCHF 115 976 (previous year: TCHF 113 693). It was determined by the independent real estate expert (Wüest & Partner AG) using the DCF method. For the valuation as at December 31, 2016, discount rates within a range of 3.4% to 4.6% (previous year: 3.6% to 4.7%) were applied.

7 | Other tangible assets

in CHF thousands	2016	2015
Acquisition value at the beginning of reporting period	**16 888**	**16 320**
Additions	4 458	302
Reclassification	0	681
Disposals	0	– 415
Acquisition value at the end of reporting period	**21 346**	**16 888**
Accumulated depreciation at the beginning of reporting period	**– 12 317**	**– 11 416**
Disposals	0	485
Depreciation in the reporting period	– 1 544	– 1 386
Accumulated depreciation at the end of reporting period	**– 13 861**	**– 12 317**
Net book value at the beginning of reporting period	**4 571**	**4 904**
Net book value at the end of reporting period	**7 485**	**4 571**

The additions reported in 2016 are mainly photovoltaic systems.

8 | Prepayments for tangible assets

Prepayments amounted to TCHF 171 (previous year: TCHF 178).

9 | Intangible assets

in CHF thousands	2016	2015
Acquisition value at the beginning of reporting period	**199**	**187**
Additions	119	15
Disposals	0	– 3
Acquisition value at the end of reporting period	**318**	**199**
Accumulated depreciation at the beginning of reporting period	**– 176**	**– 144**
Disposals	0	3
Depreciation in the reporting period	– 38	– 35
Accumulated depreciation at the end of reporting period	**– 214**	**– 176**
Net book value at the beginning of reporting period	**23**	**43**
Net book value at the end of reporting period	**104**	**23**

Intangible assets comprise software utilized in the business units.

10 | Financial liabilities

All financial liabilities are mortgage loans with financial institutions. They are structured as follows by maturity:

Residual term

in CHF thousands	31.12.2016	31.12.2015
Under 1 year	0	0
1 to 3 years	100 200	0
3 to 5 years	0	100 000
5 to 10 years	115 000	90 000
Over 10 years	135 000	160 000
Total financial liabilities	**350 200**	**350 000**
Of which current	0	0
Of which long-term	350 200	350 000

The average residual term of the interest-bearing debt was 8.2 years (previous year: 9.2 years). The average capital-weighted interest rate on all interest-bearing financial liabilities was 2.5% (unchanged). The long-term loans were taken out at fixed interest rates.

To secure the long-term financial liabilities, properties with a book value of TCHF 688 423 (previous year: TCHF 677 049) have been encumbered.

11 | Trade payables

in CHF thousands	31.12.2016	31.12.2015
Advance payments from tenants	1 545	1 747
Liabilities to third parties	3 825	3 118
Total trade payables	**5 370**	**4 865**

12 | Provisions

in CHF thousands	2016	2015
Provisions at the beginning of the reporting period	**38**	**320**
Increase	929	3
Utilization	0	– 285
Release	0	0
Provisions at the end of the reporting period	**967**	**38**
Of which current at the end of reporting period	0	0
Of which long-term at the end of reporting period	967	38

In the 2016 reporting year, long-term provisions for future levies in an amount of TCHF 925 were set aside in connection with the development projects in Risch Rotkreuz.

13 | Deferred tax liabilities

in CHF thousands	2016	2015
Deferred tax liabilities at the beginning of reporting period	**92 758**	**83 596**
Net creation recognized in the income statement in reporting period	7 245	8 600
Increase from acquisition	0	562
Deferred tax liabilities at the end of reporting period	**100 003**	**92 758**

The average tax rate for deferred income taxes amounted to 14.6% (unchanged).

14 | Shareholders' equity

Shares issued	**Security number**	**Par value CHF**	**Number of**	**Votes**	**Capital CHF**
Series A registered shares	14 805 211	2.50	1 948 640	1 948 640	4 871 600
Series B registered shares	14 805 212	25.00	315 136	315 136	7 878 400
Total				**2 263 776**	**12 750 000**

In the year under review, Zug Estates Holding AG sold no series A registered treasury shares (previous year: 18 400 registered shares at an average price of CHF 138.25) and 8 000 series B registered shares at an average price of CHF 1 640.00 (previous year: none).

As at December 31, 2016, Zug Estates Holding AG holds 9 592 series B registered treasury shares stated at historical acquisition costs of TCHF 12 227 (previous year: 17 592 series B registered shares at historical acquisition costs of TCHF 21 688).

Non-distributable statutory reserves as at December 31, 2016, amounted to TCHF 7 625 (previous year: TCHF 7 701).

Shareholders' equity per share

in CHF	31.12.2016	31.12.2015
Shareholders' equity per outstanding series B registered share, before deferred taxes	1 747.64	1 657.56
Shareholders' equity per outstanding series B registered share, after deferred taxes	1 547.79	1 469.18

NAV at market value per share

in CHF	31.12.2016	31.12.2015
NAV at market value per outstanding series B registered share	1 683.49	1 600.45

NAV at market value per share includes properties used for operational purposes at market value.

Earnings per share

Information on series A registered shares		**2016**	**2015**
Series A registered shares issued	Number of	1 948 640	1 948 640
Series A registered treasury shares (weighted average)	Number of	0	12 267
Average outstanding series A registered shares		**1 948 640**	**1 936 373**
Share in net income attributable to series A registered shares	TCHF	19 109	26 468
Applicable number of series A registered shares	Number of	1 948 640	1 936 373
Earnings per series A registered share, undiluted	CHF	9.81	13.67

Information on series B registered shares		**2016**	**2016**
Series B registered shares issued	Number of	315 136	315 136
Series B registered treasury shares (weighted average)	Number of	16 925	17 592
Average outstanding series B registered shares		**298 211**	**297 544**
Share in net income attributable to series B registered shares	TCHF	29 244	40 671
Applicable number of series B registered shares	Number of	298 211	297 544
Earnings per series B registered share, undiluted	CHF	98.06	136.69

There are no potential dilutive effects to report. The diluted earnings per share correspond to the undiluted earnings per share.

15 | Significant shareholders

As of December 31, 2016, the following shareholders owned more than 3% of total voting rights:

Number or %	Series A registered shares	Series B registered shares	Votes	Votes previous year
Heinz and Elisabeth Buhofer as well as Heinz M. Buhofer [1]	1 489 650	4 965	66.0%	66.0%
Stöckli Group [2]	340 800	17 486	15.8%	15.8%
Werner O. Weber, indirectly held through Wemaco Invest AG	82 000	46 600	5.7%	5.7%

[1] The Group also comprises Annelies Häcki Buhofer, Philipp Buhofer, Martin Buhofer and Julia Häcki, if acting in mutual agreement.

[2] The Group comprises Ursula Stöckli-Rubli, Walter Stöckli-Rubli, Elisabeth Stöckli Enzmann, Johannes Stöckli, Matthias Stöckli, Helen Jauch-Stöckli, Hubert Stöckli and Othmar Stöckli.

The shares held by current members of the corporate bodies are shown in the notes to the annual financial statements of Zug Estates Holding AG on page 77.

16 | Property income

The reported property income of TCHF 40 089 (previous year: TCHF 39 169) comprises actual rental income and income from Miteigentümergemeinschaft Metalli. This position contains rental revenue from all properties.

in CHF thousands	2016	2015
Actual rental income	27 365	26 427
Income from Miteigentümergemeinschaft Metalli [1]	12 724	12 742
Total property income	**40 089**	**39 169**

[1] Proportional gross profit

The individual contractual relationships with external tenants had the following terms as at the balance sheet date, based on the annualized projected rental revenue:

Term, share in %	31.12.2016	31.12.2015
Under 1 year, incl. unlimited rental contracts	47.4	45.2
Over 1 year	7.6	2.8
Over 2 years	7.9	7.8
Over 3 years	1.8	5.8
Over 4 years	4.7	1.8
Over 5 years	1.5	4.2
Over 6 years	13.9	1.6
Over 7 years	7.7	15.5
Over 8 years	0.0	7.9
Over 9 years	0.0	0.0
Over 10 years	7.5	7.4
Total	**100.0**	**100.0**

As at December 31, 2016, the five largest tenant groups together generated 27.3% (previous year: 26.9%) of annualized projected rental revenue.

Tenants, share in %	31.12.2016	Tenants, share in %	31.12.2015
Novartis	7.8	Novartis	8.2
Migros [1]	7.3	Migros [1]	7.2
UBS	5.5	UBS	5.7
Nord Stream	3.6	Dosenbach-Ochsner	3.0
Lucerne University of Applied Sciences and Arts	3.1	H&M	2.8

[1] Various companies of the Migros Group

17 | Hotel & catering income

in CHF thousands	2016	2015
Accommodation	10 890	11 173
Catering	5 488	7 782
Ancillary services	68	71
Release of provisions for doubtful receivables	12	1
Total hotel & catering income	**16 458**	**19 027**

The decrease in catering income is due mainly to the absence of revenue from the Theater Casino Zug following the decision in 2015 not to extend the lease.

18 | Additional income from ordinary business operations

in CHF thousands	2016	2015
Revenue from services	1 705	1 552
Revenue from own work	768	475
Revenue from leasing of personnel	1 381	1 756
Other revenue	640	642
Total additional income from ordinary business operations	**4 494**	**4 425**

19 | Personnel expenses

in CHF thousands	2016	2015
Wages and salaries	10 834	11 583
Pension expenses	1 516	1 679
Other personnel expenses	730	607
Total personnel expenses	**13 080**	**13 869**

20 | Other operating expenses

in CHF thousands	2016	2015
Marketing/sales promotion	1 245	1 101
Maintenance and repair	439	440
Administrative expenses	872	785
IT/software	433	396
Legal and consultancy costs	477	550
Hire, leasing	28	322
Other costs [1]	1 804	2 119
Total other operating expenses	**5 298**	**5 713**

[1] Other operating expenses mainly include costs incurred by the hotel & catering business unit for laundering services and for the operation of the properties.

21 | Depreciation

in CHF thousands	2016	2015
Depreciation of operating properties	1 551	1 888
Depreciation of other tangible assets	1 544	1 386
Amortization of intangible assets	38	35
Total depreciation	**3 133**	**3 309**

22 | Financial result

in CHF thousands	2016	2015
Interest income from banks	2	2
Gain on securities	50	42
Fair value of financial assets	102	129
Total financial income	**154**	**173**
Interest expense mortgage loans	7 251	7 626
Other financial expenses	32	27
Total financial expenses	**7 283**	**7 653**
Financial result	**– 7 129**	**– 7 480**

In the reporting period, borrowing costs in the amount of TCHF 1 965 (previous year: TCHF 1 063) were capitalized.

23 | Taxes

in CHF thousands	2016	2015
Income taxes	1 068	3 106
Deferred taxes	7 246	8 600
Total taxes	**8 314**	**11 706**

Average weighted tax rate

in CHF thousands or %	2016	2015
Income before taxes (EBT)	56 667	78 845
Average tax rate	14.67%	14.83%
Income taxes at average tax rate	8 314	11 690
Utilization of previously unrecognized tax losses	0	0
Change of tax rate	0	16
Total income taxes	**8 314**	**11 706**

Potential tax reductions resulting from loss carry forwards and temporary differences amounted to TCHF 0 (previous year: TCHF 0).

24 | Contingent liabilities and other off-balance sheet obligations

Zug Estates AG is the majority owner of Miteigentümergemeinschaft Metalli, Zug. For this reason, joint liability may apply in relations with third parties.

In relation to the construction and operation of City Garden Hotel, Zug Estates AG accepted a demolition obligation amounting to TCHF 490. This comes into effect in 2025 at the earliest, and then only if the land on which the hotel was built has to be vacated for construction of the access road to the Zug city tunnel. In a local referendum held on June 14, 2015, the population of Zug rejected the city tunnel scheme.

Zug Estates AG is owner and developer of the Suurstoffi development in Risch Rotkreuz. Under the terms of a rental contract for a property under construction, penalties amounting to a maximum of TCHF 290 in the event of delays were agreed with one tenant. In addition, the tenant is to be compensated for any damage incurred in excess of the penalty. Under the terms of a rental contract for a property under construction, penalties amounting to a maximum of TCHF 2 100 in the event of delays were agreed with another tenant. Compensation for any extra costs incurred owing to delayed completion of the premises was agreed with two other tenants. The tenants were also granted a right to withdraw from the rental contract if the commencement of the tenancy is delayed beyond the stipulated dates.

In connection with the adjustment of the development plan for Langweid, Zug Estates AG has given an undertaking to pay TCHF 2 000 toward the construction of eventual future pedestrian footbridge.

25 | Leasing liabilities

The liabilities from operating leasing that are not recognized in the balance sheet are structured as follows, according to maturity:

in CHF thousands	31.12.2016	31.12.2015
Up to 1 year	23	16
Up to 3 years	92	80
Over 3 years	0	10
Total	**115**	**106**

26 | Pension plan liabilities

The employee benefit plans of Zug Estates Holding AG and its subsidiaries take the form of independent foundations or, as the case may be, collective foundations in accordance with Swiss pensions legislation (BVG). In the financial year under review and the previous year, all payments were made to pension institutions that are themselves risk bearers.

Employer's contribution reserves (ECR)

As at December 31, 2016, there were no employer's contribution reserves (unchanged to prior period).

Economic benefits/economic liabilities and pension expenses

in CHF thousands	Deficit/ surplus of joint pension plans 31.12.2016	Economic share of company 31.12.2016	Economic share of company 31.12.2015	Change or impact on net income In financial period	Contributions for the period	Pension expenses in personnel expenses 2016	Pension expenses in personnel expenses 2015
Patronage funds/pension schemes	0	0	0	0	0	0	0
Pension plans without surplus/deficit	0	0	0	0	595	595	424
Pension plans with surplus	0	0	0	0	0	0	0
Pension plans with deficit	0	0	0	0	0	0	183
Total pension expenses	**0**	**0**	**0**	**0**	**595**	**595**	**607**

The pension plans are funded by employer and employee contributions. Contributions are calculated as a percentage of the insured salary.

Composition of pension expenses

in CHF thousands	2016	2015
Pension contributions at the company's expense	595	607
Contributions to pension plans from employer's contribution reserves	0	0
Total contributions	**595**	**607**
Change in ECR due to asset development, value adjustments, discounting, interest payments, etc.	0	0
Total contributions and changes in employer's contribution reserves	**595**	**607**
Change in economic benefits for the company from surplus	0	0
Change in economic liabilities for the company from deficit	0	0
Total change in economic impact of surplus/deficit	**0**	**0**
Total pension expenses in personnel expenses in the period	**595**	**607**

Total pension expenses in personnel expenses in the period under review amounted to TCHF 595 (previous year: TCHF 607). No extraordinary contributions were agreed or paid in the reporting period.

27 | Segment report

The Group's business activities comprise the business units real estate and hotel & catering.

01.01.2015–31.12.2015 in CHF thousands	**Real estate**	**Hotel & catering**	**Corporate & eliminations [1]**	**Total**
Operating revenue	49 104	19 854	– 6 054	62 904
Operating expenses	10 528	18 412	5 216	23 724
Revaluation of investment properties (net)	50 477	0	0	50 477
Result from sale of investment properties	– 23	0	0	– 23
Operating income before depreciation (EBITDA)	**89 030**	**1 442**	**– 838**	**89 634**
Operating income (EBIT)	**86 768**	**442**	**– 885**	**86 325**

01.01.2016–31.12.2016 in CHF thousands				
Operating revenue	50 096	17 115	– 5 979	61 232
Operating expenses	12 095	15 921	5 228	22 788
Revaluation of investment properties (net)	28 065	0	0	28 065
Result from sale of investment properties	420	0	0	420
Operating income before depreciation (EBITDA)	**66 486**	**1 194**	**– 751**	**66 929**
Operating income (EBIT)	**64 273**	**277**	**– 754**	**63 796**

[1] Holding company expenses and inter-segment revenues are eliminated in the «Corporate & eliminations» column.

All revenues were generated in the Canton of Zug (previous year: Cantons of Zug and Aargau).

Ownership of the entire portfolio – i.e. investment and operating properties – stays with the real estate business unit. Based on an integrated view of the hotel & catering business unit, i.e. factoring in all properties used by the unit as well as all associated expenses and credits arising from rent paid to the real estate business unit, in the year under review the hotel & catering business unit generated operating income of CHF 4.4 million (previous year: CHF 4.3 million) and an annualized EBITDA return of 6.0% (previous year: 6.4%) on the market values of these properties.

28 | Transactions with related parties

In the year under review, revenue of TCHF 173 (previous year: TCHF 185) from hotel, catering and property management services were received from companies of the Metall Zug Group. This was offset by expenses and investments of TCHF 129 (previous year: TCHF 111) for services and deliveries of equipment.

As at the balance sheet date, receivables due from Metall Zug Group companies amounted to TCHF 7 (previous year: TCHF 5) and liabilities to them TCHF 2 (previous year: TCHF 5).

Information on the procedure for determining the compensation of members of the board of directors and Group Management and on the compensation amounts paid to them is available in the compensation report on pages 41 to 44. As at the balance sheet date, there were no liabilities towards members of the board of directors (previous year: TCHF 37).

29 | Events after the balance sheet date

In order to finance the further expansion of the portfolio, a TCHF 100 000 0.7% bond with a term from 2017 to 2022 was issued on January 24, 2017. Otherwise, no significant events occurred after the balance sheet date (previous year: no events after the balance sheet date).

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To the General Meeting of
Zug Estates Holding AG, Zug

Zug, 2 March 2017

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Zug Estates Holding AG, which comprise the consolidated balance sheet, the consolidated statement of income, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements (pages 48 to 68), for the year ended 31 December 2016.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with Swiss GAAP FER, article 17 of the Directive on Financial Reporting (DFR) of SIX Swiss Exchange and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with article 17 of the Directive on Financial Reporting (DFR) of SIX Swiss Exchange as well as Swiss law.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Market valuation of investment properties and investment properties under construction

Risk	The market valuation of investment properties and investment properties under construction was a key audit matter, since this process featured significant areas of estimates and the assets valued in this way, at TCHF 1'043'489 and TCHF 128'519 respectively, were therefore a significant part of the group's balance sheet. As disclosed in the notes to the consolidated financial statements under "Investment properties, investment properties under construction and undeveloped plots" in the significant accounting and valuation policies (page 53) as well as under "5 Investment properties, investment properties under construction and undeveloped plots" (pages 56-57), market values were determined by an external real estate expert on the basis of the discounted cash flow method. These market value estimates are based on assumptions, in particular in terms of rental income, discount rates, vacancy rates as well as maintenance costs and development risks.
Our audit response	In addition to other audit procedures, we assessed the objectivity, independence and competence of the external real estate expert as well as the valuation model that was applied. Moreover, we performed sample tests to examine the correctness of property-specific data (amongst others rental income, maintenance costs) that were considered in the valuation. We also assessed the underlying key assumptions of the key real estate expert by discussing them with both management and the external expert and comparing them with market data.

Building a better
working world

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

B. Bieri

Daniel Zaugg	Beatrice Bieri
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

«The Bären is one of the oldest restaurants in the city of Zug. It has retained its down-to-earth atmosphere and sense of tradition to this very day.»

Marlis Widmer, host, Bären Restaurant, Zug

Balance sheet
of Zug Estates Holding AG

Assets in CHF thousands	Note	31.12.2016	31.12.2015
Cash and cash equivalents		2 936	5 044
Other receivables due from third parties		45	15
Other receivables due from Group companies	1	19	0
Expenses prepaid to third parties		21	19
Accrued income Group companies	2	11 700	17 000
Total current assets		**14 721**	**22 078**
Loans to Group companies	3	42 000	20 000
Financial assets with quoted price		1 645	1 543
Investments		13 892	13 892
Tangible assets		1	2
Intangible assets		0	2
Fixed assets		**57 538**	**35 439**
Total assets		**72 259**	**57 517**

Liabilities and shareholders' equity in CHF thousands	Note	31.12.2016	31.12.2015
Other current liabilities to third parties		54	89
Other current liabilities to Group companies		1	1
Other current liabilities to related parties	4	0	37
Accrued expenses due to third parties		810	378
Accrued expenses due to Group companies		1	0
Total current liabilities		**866**	**505**
Total liabilities		**866**	**505**
Share capital		12 750	12 750
Statutory reserves			
– Reserves from capital contributions		21 955	32 049
– Other capital contributions		4 979	1 320
– Legal retained earnings		1 445	615
Voluntarily retained earnings			
– Earnings carried forward from the previous year		31 136	15 379
– Net income for the year		11 355	16 587
Treasury shares	7	– 12 227	– 21 688
Total shareholders' equity		**71 393**	**57 012**
Total liabilities and shareholders' equity		**72 259**	**57 517**

Income statement
of Zug Estates Holding AG

in CHF thousands	Note	2016	2015
Dividend income	2	11 700	17 000
Other income		2 050	1 895
Total income		**13 750**	**18 895**
Personnel expenses		2 006	1 914
Other operating expenses		795	837
Total operating expenses		**2 801**	**2 751**
Operating income before depreciation (EBITDA)		**10 949**	**16 144**
Depreciation		3	28
Operating income (EBIT)		**10 946**	**16 116**
Financial expenses		29	21
Financial income	8	769	534
Income before taxes (EBT)		**11 686**	**16 629**
Direct taxes		331	42
Net income for the year		**11 355**	**16 587**

Notes
to the financial statements of Zug Estates Holding AG

General
Zug Estates Holding AG is an incorporated company; the shares have been listed on SIX Swiss Exchange, Zurich since July 2, 2012.

Its registered office is at Industriestrasse 12, Zug, Switzerland. Zug Estates Holding AG was registered in the Canton of Zug Commercial Register on March 1, 2012.

Financial reporting legislation and principles applied in the preparation of the present financial statements
(where these are not specified by law)

The financial statements presented here were prepared in accordance with the provisions on commercial accounting contained in the Swiss Code of Obligations (article 957–963b CO, in force since January 1, 2013). It must be noted in this connection that in order to ensure the long-term prosperity of the company, recourse is taken to the option of creating and dissolving hidden reserves.

Receivables and liabilities
Where applicable, receivables and liabilities are broken down on the balance sheet into third parties, related parties and Group companies. «Related parties» comprises receivables from and liabilities to directors, executives and shareholders. «Group companies» comprises receivables from and liabilities to companies in which direct or indirect participations are held.

A breakdown of «Related parties» is provided in the notes.
Securities/financial assets
Short-term securities and financial assets are stated at the quoted price as at the balance sheet date. No fluctuation reserves were established.

Loans to Group companies
Loans are reported at their nominal value. If there are indications that loans have been overvalued, the book values must be reviewed and adjusted if necessary.

Investments
Investments are recognized at cost and valued individually. If, based on calculations of the earnings value, the value in use of an investment falls below the previous book value over a lengthy period, a value adjustment is recorded. Earnings values are determined on the basis of estimates (income, expenses and discount rates).

Tangible assets
Tangible assets are valued at acquisition cost less accumulated depreciation for tax purposes. The position tangible assets comprises movables. The straight-line depreciation method is applied on the basis of a useful life of three to five years. If there are indications that loans have been overvalued, the book values must be reviewed and adjusted if necessary.

Intangible assets
Acquired intangible assets are recognized in the balance sheet if they are to bring measurable benefits to the company over several years. They comprise software and are valued at acquisition cost less straight-line depreciation over an economic life of three years. Self-developed intangible assets are not recognized in the balance sheet.

Treasury shares
Treasury shares are recognized at the time of purchase at acquisition cost as minus items under equity. In the event of a subsequent resale, the gain or loss is taken to equity.

List of investments

Company	Domicile	Business	Share capital in CHF	Share of capital and votes 31.12.2016	Share of capital and votes 31.12.2015
Hotelbusiness Zug AG	Zug, ZG	Hotel and catering operator	1 000 000	100%	100%
ZEW Immobilien AG [1]	Oberentfelden, AG	Real estate company	-	-	100%
ZE Suurstoffi 1 AG [1]	Zug, ZG	Real estate company	-	-	100%
Zug Estates AG	Zug, ZG	Real estate company	1 500 000	100%	100%

[1] Merger with Zug Estates AG as at January 1, 2016

1 | Other receivables due from Group companies

Other receivables due from Group companies include the current portion of loans graned to subsidiaries in an amount of TCHF 19 (previous year: TCHF 0).

2 | Accrued income Group companies

Dividends from subsidiaries totaling TCHF 11 700, which were distributed from the ordinary profits of the 2016 financial year, are recorded as dividend income (previous year: TCHF 17 000).

3 | Loans to Group companies

This position comprises long-term loans to finance their operations in the amount of TCHF 42 000 (previous year: TCHF 20 000).

4 | Other current liabilities to related parties

As at the balance sheet date, there were no current liabilities to related parties (previous year: TCHF 37).

5 | Significant shareholders

As at December 31, 2016, Zug Estates Holding AG was aware of the following significant shareholders within the meaning of article 663c of the Code of Obligations (shareholders with holdings greater than 5% of all voting rights):

Number or %	Series A registered shares	Series B registered shares	Votes	Votes previous year
Heinz and Elisabeth Buhofer as well as Heinz M. Buhofer [1]	1 489 650	4 965	66.0%	66.0%
Stöckli-Rubli Group [2]	340 800	17 486	15.8%	15.8%
Werner O. Weber, indirectly held through Wemaco Invest AG	82 000	46 600	5.7%	5.7%

[1] The Group also comprises Annelies Häcki Buhofer, Philipp Buhofer, Martin Buhofer and Julia Häcki, if acting in mutual agreement.

[2] The Group comprises Ursula Stöckli-Rubli, Walter Stöckli-Rubli, Elisabeth Stöckli Enzmann, Johannes Stöckli, Matthias Stöckli, Helen Jauch-Stöckli, Hubert Stöckli and Othmar Stöckli.

6 | Share ownership by current members of the corporate bodies

Number of	Series A registered shares as at 31.12.2016	Series B registered shares as at 31.12.2016	Series A registered shares as at 31.12.2015	Series B registered shares as at 31.12.2015
Hannes Wüest, chairman	0	500	0	500
Heinz M. Buhofer, member	563 040 [1]	1	563 040 [1]	1
Prof. Dr. Annelies Häcki Buhofer, member	161 206 [1]	10 762	161 206 [1]	10 762
Armin Meier, member	0	100	0	100
Dr. Beat Schwab, member	0	10	0	10
Heinz Stübi, member	0	110	0	110
Martin Wipfli, member	0	266	0	266
Tobias Achermann, CEO	0	0	0	0
Gabriela Theus, CFO	0	20	0	0

[1] For the most part held through Buhofer Trust II

No shares or options on such shares were allocated to members of the board of directors and Group Management or employees.

7 | Treasury shares

In the year under review, Zug Estates Holding AG sold no series A registered treasury shares (previous year: 18 400 series A registered shares at an average price of CHF 138.25) and 8 000 series B registered treasury shares at an average price of CHF 1 640.00 (previous year: no sales).

As at December 31, 2016, Zug Estates Holding AG held 9 592 series B registered treasury shares stated at historical acquisition costs of TCHF 12 227 (previous year: 17 592 series B registered shares at historical acquisition costs of TCHF 21 688).

8 | Financial income

Financial income comprises interest received on loans to Group companies and income from securities.

9 | Number of full-time equivalents

The number of full-time equivalents averaged fewer than 10 in the year under review (unchanged).

10 | Significant events after the balance sheet date

In order to finance the further expansion of the portfolio, a TCHF 100 000 0.7% bond with a term from 2017 to 2022 was issued on January 24, 2017. Otherwise, no significant events occurred after the balance sheet date (previous year: no events after the balance sheet date).

Proposal for the appropriation of available earnings

in CHF	31.12.2016	31.12.2015
Retained earnings carried forward	31 135 744	15 378 660
Net income	11 355 203	16 587 084
Retained earnings	**42 490 947**	**31 965 744**
Allocation to statutory retained earnings	568 000	830 000
Retained earnings to be carried forward	41 922 947	31 135 744

Furthermore, the board of directors proposes that CHF 11 509 384 from the reserves from capital contributions be reclassified as voluntary free reserves and that the subsequent distribution to shareholders, which is exempt from withholding tax, be made as follows:

in CHF	
For each series A registered share	2.30 net
For each series B registered share	23.00 net

Subject to approval by the general meeting of shareholders of the proposal put forward by the board of directors, distribution will be effected on Wednesday, April 19, 2017 (Payment Date).

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To the General Meeting of
Zug Estates Holding AG, Zug

Zug, 2 March 2017

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Zug Estates Holding AG, which comprise the balance sheet, income statement and notes (pages 73 to 78), for the year ended 31 December 2016.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of equity investments

Risk	The company's main purpose lies in the purchase, management and sale of equity investments. The valuation of equity investments was a key audit matter, since it is based on significant estimates (amongst others on future income, expenses and discount rates) and the equity investment position, at TCHF 13'892, was a significant part of the company's balance sheet. See the equity investment section in the notes to the financial statements.
Our audit approach	We chose a substantive audit approach to review this position. In our audit, we examined the company's process for evaluating equity investments and analyzed the data used to assess the impairment of equity investments.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Daniel Zaugg
Licensed audit expert
(Auditor in charge)

Beatrice Bieri
Licensed audit expert

Share information

Zug Estates Holding AG has two categories of share. Series A registered shares (securities number 14 805 211) are not listed; series B registered shares have been listed in the regulatory standard for real estate companies of SIX Swiss Exchange in Zurich since July 2, 2012 (securities number 14 805 212, ticker symbol ZUGN).

	Nominal value	Number of	Share of votes	Share of capital
Series A registered shares	2.50	1 948 640	86.1%	38.2%
Series B registered shares	25.00	315 136	13.9%	61.8%

Breakdown of shareholder structure of series B registered shares as at December 31, 2016

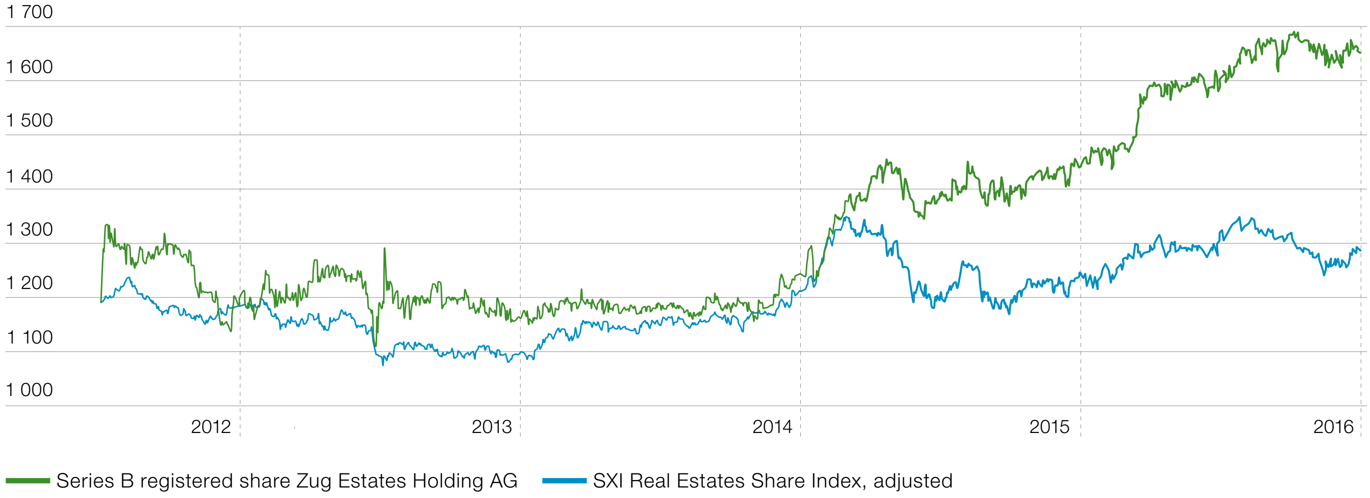
Series B registered shares by number	Number of registered shareholders	Registered shareholders in %	Number of registered shares	Registered shares in %
> 1 000	47	3.4	214 902	75.5
501–1 000	28	2.0	20 037	7.0
101–500	120	8.6	25 699	9.0
51–100	105	7.5	8 127	2.9
11–50	505	36.3	12 743	4.5
1–10	587	42.2	3 033	1.1
Total	**1 392**	**100.0**	**284 541**	**100.0**
Shares pending registration of transfer			30 595	
Total series B registered shares issued			**315 136**	

Series B registered shares by category of holder	Number of registered shareholders	Registered shareholders in %	Number of registered shares	Registered shares in %
Natural persons	1 166	83.8	95 785	33.7
Pension fund/employee benefits	76	5.5	54 201	19.1
Funds/banks/investment managers	61	4.4	27 425	9.6
Insurers	17	1.2	2 965	1.0
Other legal entities	72	5.2	104 165	36.6
Total	**1 392**	**100.0**	**284 541**	**100.0**

Series B registered shares by provenance of shareholder	Number of registered shareholders	Registered shareholders in %	Number of registered shares	Registered shares in %
Switzerland	1 353	97.2	278 766	98.0
Outside Switzerland	39	2.8	5 775	2.0
Total	**1 392**	**100.0**	**284 541**	**100.0**

Performance series B registered share

in CHF



Key figures per share

Figures per series A registered share

in CHF	2016	2015	2014	2013
Net income [1]	9.81	13.67	9.18	9.00
Net income excl. income from revaluation of investment properties [1, 3]	4.87	4.90	4.87	4.15
NAV at market value [2, 4]	168.35	160.04	146.89	138.73
Cash distribution [5]	2.30	2.05	1.85	1.65

Figures per series B registered share

in CHF		2016	2015	2014	2013
Net income [1]		98.06	136.69	91.75	89.99
Net income excl. income from revaluation of investment properties [1, 3]		48.73	48.97	48.74	41.50
NAV at market value [2, 4]		1 683.49	1 600.45	1 468.89	1 387.29
Cash distribution [5]		23.00	20.50	18.50	16.50
Stock market price	High	1 692	1 458	1 244	1 295
	Low	1 436	1 231	1 150	1 111
	At year-end	1 653	1 445	1 244	1 162

Total capitalization

in CHF million		2016	2015	2014	2013
Market capitalization [2, 6]	At year-end	827.2	711.5	610.3	573.5

[1] In relation to number of shares on average outstanding
[2] In relation to number of shares outstanding
[3] Corresponds to net income excluding income from the revaluation of investment properties (net) and the resulting deferred taxes
[4] NAV at market value per share includes properties used for operational purposes at market value and corresponding deferred taxes
[5] Proposal of the board of directors
[6] Conversion of series A registered shares on the basis of the year-end rate applicable to series B registered shares

Upcoming events

April 11, 2017	General meeting of shareholders
April 19, 2017	Cash distribution to shareholders (Payment Date)
September 1, 2017	Publication of half-year results

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This annual report is published in German and English. The German print version shall prevail and be binding.

The electronic PDF version of the report can be downloaded from www.zugestates.ch. A copy of the printed report can be ordered by mail from ir@zugestates.ch.

Notes on possible forward-looking statements:
The present annual report of Zug Estates Group may contain forward-looking statements. Such statements can be identified by expressions such as «shall», «assume», «expect», «anticipate», «intend», «aim», «future» or similar terms, as well as by discussions of strategies, goals, plans or intentions, etc. They are subject to known or unknown risks and uncertainties that could cause actual results and occurrences to differ materially from the expectations contained or implied in the forward-looking statements.

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