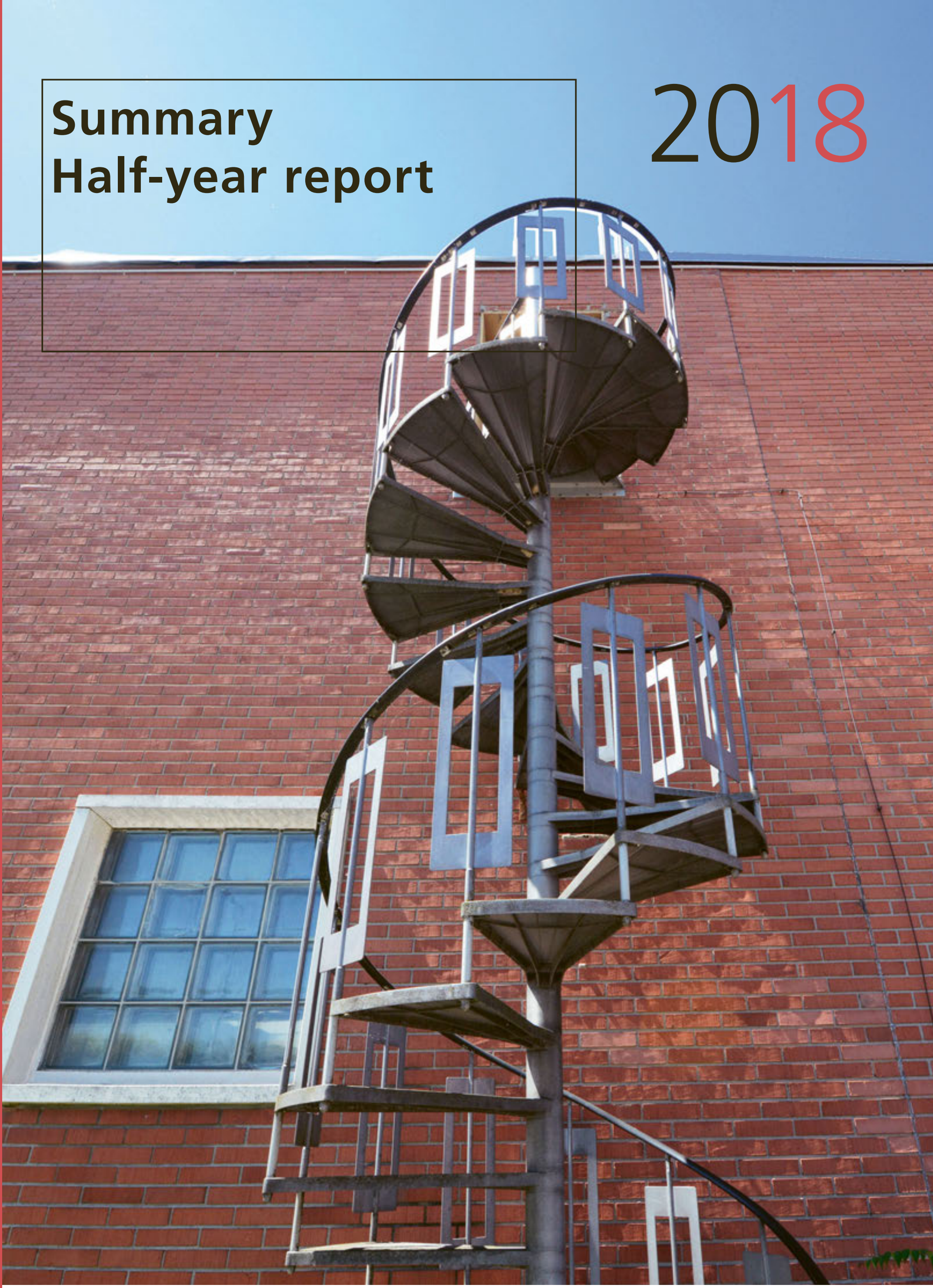
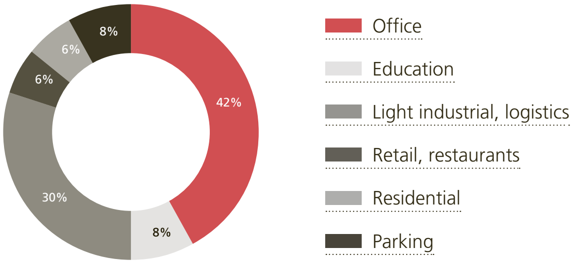
Summary
Half-year report

2018

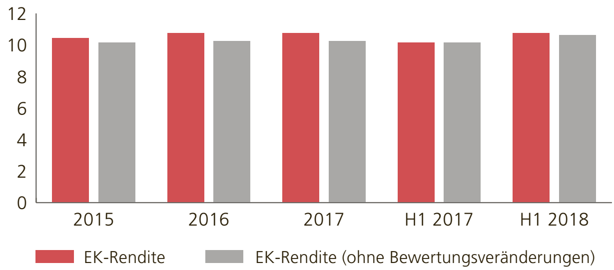


intershop

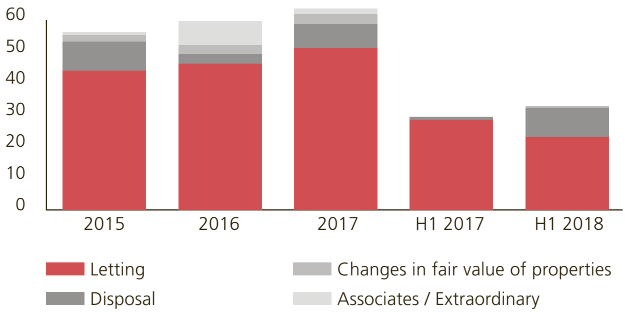
Portfolio by use
(in CHF)



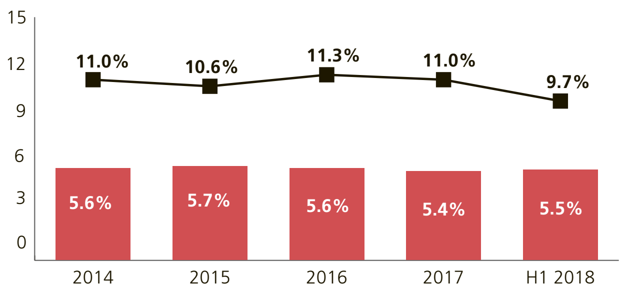
Return on equity
(in percent)



Net income
(in CHF m)



Net yield and vacancy rate
(in percent)



Key figures Intershop Group

		1st HY 2018	1st HY 2017
Financials			
Net rental income	m CHF	39.0	39.6
Net gains from property disposal	m CHF	12.1	1.1
Changes in fair value of properties	m CHF	0.6	0.1
Operating result (EBIT)	m CHF	46.9	36.4
Earnings before taxes (EBT)	m CHF	40.7	31.4
Net income	m CHF	32.7	29.4
Cash flow from operations	m CHF	31.5	22.1
Investments in properties	m CHF	12.1	6.3
Total assets[2)]	m CHF	1'386.5	1'413.0
Total properties[2)]	m CHF	1'361.9	1'362.9
Financial liabilities[2)]	m CHF	599.0	607.0
Shareholders' equity[2)]	m CHF	610.5	619.2
Return on equity[1)]		10.7%	10.1%
Return on equity excluding changes in fair value of properties[1) 6)]		10.6%	10.1%
Portfolio			
Number of investment properties[2)]		47	47
Number of development properties[2) 7)]		8	9
Lettable area[2)]	in m^2	585'377	585'141
Gross yield[2) 3) 4)]		6.3%	6.3%
Net yield[2) 3) 5)]		5.5%	5.4%
Vacancy rate[2) 3)]		9.7%	11.0%
Personnel			
Number of employees[2)]		72	68
Share			
Earnings per share	CHF	16.35	14.69
Earnings per share excluding changes in fair value of properties[6)]	CHF	16.12	14.67
Net asset value per share (NAV)[2)]	CHF	305.24	309.93
Share price at balance sheet date[2)]	CHF	505.00	487.00

1) Based on the average shareholders' equity during the period
2) Figures as per 30.6.2018 and per 31.12.2017
3) Figures relate to investment properties at the balance sheet date
4) Effective annual gross rental income in proportion to the market value of the properties at the balance sheet date
5) Effective annual gross rental income less directly attributable property costs (excluding interest expense) in proportion to the market value of the properties at the balance sheet date
6) After deducting changes in fair value of properties and associated deferred tax
7) Including promotional properties

Letter to shareholders

Dear shareholders, businesspartners and employees

Intershop has concluded a very successful first half-year 2018. Net income amounts to CHF 32.7 million or CHF 16.35 per share, and thus exceeds the result achieved in the same period last year by 11.2%. This represents a return on equity of over 10%. The increase in profits resulted from the successful sale of commonhold apartments and commercial units at the promotional property «eden7» in Zurich after deducting a disproportionate increase in the tax expense. The previous year's tax expense was positively affected by a reduction in deferred taxes.

In terms of acquisitions, Intershop could not identify any buying opportunities with which added value could have been generated in a sustainable manner. The letting market remained challenging, particularly for office space. Although demand for office space has slightly recovered, this is rather due to the increasing number of tenants willing to move than to an additional demand for space. Moreover, the rental apartment segment faces rising vacancy rates; whereby this especially affects the luxury segment as well as new buildings in more peripheral locations.

Intershop was successfully able to reduce the investment properties' vacancy rate in this challenging environment. Although the probability of a turnaround in interest rates has increased during the past months, an environment of low interest rates prevails. Therefore, the properties' fair value has barely changed. Positive differences in fair value are mainly based on successful lettings, while challenging properties tended to depreciate.

According to expectations, rental income lies under the previous year's figure. This is due to the sale of two investment properties in the past year, and to increasing vacancies in development or promotional properties. The investment properties' vacancy rate fell to 9.7%. The net yield of the portfolio remained high and reached an attractive 5.5%.

At the end of the reporting period, shareholders' equity amounted to CHF 610.5 million; thus, CHF 9 million less compared to the beginning of the year, after a dividend payment of CHF 44 million. Net asset value per share amounted to CHF 305.24.

Business review

During the reporting period, the 10-year swap rate showed a slight upward trend despite the sharp increase in volatility brought about by the Italian elections, and the uncertainty regarding new trade barriers. At the end of June, it was 12 basis points higher compared to the beginning of the year. There are growing signs that the interest-rate turning point has been reached.

Since the yield differential between the long-term, risk-free interest rate and the properties' net yield continues to be large, the demand for allegedly low-risk investments remained high. Investors continue to favour residential properties and commercial properties in very good locations with long-term leases. Accordingly, their prices have risen even more. The extent to which the aforementioned yield differential will have a dampening effect on the adjustment of discount rates, in particular in view of increasing interest rates, and thus, on the development of the properties' market value, remains to be seen. There are no clear price trends for more challenging commercial properties. Transactions are being postponed or conducted at prices which, according to Intershop, do not account for inherent risk, or do so in an inadequate manner.

Therefore, Intershop once again focused its efforts on developing its own portfolio. All commonhold apartments and studios in the promotional property «eden7» were sold upon completion, as well as some underground parking spaces which had been previously built. Earnings before taxes exceeded expectations at over CHF 11 million.

The focus once more was on letting as well as own developments.

As in the previous year, one of the key operational goals was to reduce vacancies. Many investors consider regular, ideally long-term, secure rental income to be highly important when choosing indirect property investments. Fortunately, there were various successful lettings and a tenancy agreement signed in the previous year has become legally effective with the approval of the Government Council of the Canton of Zurich. Overall, the vacancy rate visibly declined from 11% as of December 31st, 2017 to 9.7%.

The second focus was on the development projects. An additional milestone was reached in terms of the design plan for the «AuPark» site in Wädenswil. The Parliament of the Canton of Zurich unanimously authorised the establishment of a secondary school in Wädenswil in April 2018. Planning work for the conversion of the property at Römerstrasse in Baden is proceeding according to plan. Furthermore, the project «Albanteichpromenade» in Basel is on track to increase the construction density of the high-rise buildings and the replacement of three multi-family dwellings.

The planned extension to the properties at Rue de Lausanne 42/44 in Geneva required additional examinations, so the construction work will probably start in autumn this year. Moreover, renovation work on «Building S» at the Arova site in Flurlingen is making good progress.

Organisation

Dr Michael Dober did not stand for re-candidacy at the 55th Annual General Meeting on March 28th, 2018. Ernst Schaufelberger was elected to replace him on the Board of Directors and the Remuneration Committee. Both Dieter Marmet, as president, and Charles Stettler were reelected.

Outlook

The strong economy, particularly in North America, but also in Europe, has led to the first bottlenecks; this may potentially result in higher demands for salary increases, thus, a rise in inflation. Following several interest-rate raises by the US Federal Reserve (FED), interest-rate hikes now seem likely in Europe as well, at least in the medium term.

It is difficult to estimate how directly rising interest rates will increase the discount rate to determine market value of the properties, and to which extent such an increase would be compensated by increments in rental income due to inflation. Nevertheless, the positive economic development led to a certain stimulation of demand for commercial space, although the large amount of new buildings being constructed does not allow a noticeable easing of the letting market.

In spite of this, Intershop expects a further slight decrease in vacancy rates during the second half-year. Since a major tenant will vacate its' premises during the first half-year 2019, the vacancy rate will probably rise again to well over 10% during the course of the next year. Intershop will continue to closely follow the transaction market and seize opportunities for acquisitions, provided they help to generate sustainable added value. Intershop also intends to exploit the current sellers' market for the disposal of properties whose development has been completed, and thereby realise the generated added value.

It is not possible to predict the impact of property revaluations at the end of the current year. However, excluding this, Intershop once again expects a pleasing operating result, which should make it possible to maintain the attractive dividend policy.

Dieter Marmet Chairman of the Board of Directors	Cyrill Schneuwly Chief Executive Officer

Zurich, 22th August 2018

Consolidated balance sheet

(in CHF 1,000)

Assets	**30.6.2018**	31.12.2017
Current assets		
Cash	15,958	46,148
Trade receivables	374	370
Other receivables	4,183	463
Promotional properties	7,574	16,975
Accrued income and prepaid expenses	2,284	1,498
Total current assets	**30,373**	65,454
Non-current assets		
Investment properties	1,237,343	1,232,859
Development properties	117,009	113,056
Other equipment	269	172
Intangible assets	63	101
Deferred tax assets	119	113
Assets from pension benefits	1,330	1,255
Total non-current assets	**1,356,133**	1,347,556
Total assets	**1,386,506**	1,413,010

Shareholders' equity and liabilities		
Current liabilities		
Short term financial liabilities	150,828	23,850
Trade payables	3,637	12,474
Tax liabilities	6,258	7,931
Short term provisions	1,153	1,278
Accrued expenses and deferred income	26,195	25,382
Total current liabilities	**188,071**	70,915
Non-current liabilities		
Long term financial liabilities	448,198	583,179
Derivative financial instruments	12,902	14,875
Deferred tax liabilities	124,005	122,171
Long term provisions	2,849	2,637
Total non-current liabilities	**587,954**	722,862
Total liabilities	**776,025**	793,777
Shareholders' equity		
Share capital	20,000	20,000
Capital reserves	6,035	6,047
Retained earnings	584,446	593,186
Total shareholders' equity	**610,481**	619,233
Total shareholders' equity and liabilities	**1,386,506**	1,413,010

Consolidated income statement

(in CHF 1,000)

	1st HY 2018	1st HY 2017
Rental income	43,724	44,411
Net gains from property disposal	12,119	1,118
Other income	2,026	2,057
Total operating income	**57,869**	47,586
Property expense	4,678	4,826
Personnel expense	5,473	4,988
Administrative expense	1,431	1,464
Total operating expense	**11,582**	11,278
Changes in fair value of properties	595	61
Operating result (EBIT)	**46,882**	36,369
Financial income	82	2,076
Financial expense	–6,294	–7,001
Profit before taxes	**40,670**	31,444
Tax expense	–7,991	–2,066
Net income	**32,679**	29,378
Earnings per share (CHF)	**16.35**	14.69

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Annual General Meeting 2019

Thursday, 4th April 2019
Cigarettenfabrik Eventhalle 268
Sihlquai 268, 8005 Zurich

Reporting

Presentation of Annual Report	28th February 2019
Presentation of Half-Year Report 2019	29th August 2019

Investment products	**Security number**	**Ticker**	**Tax value**
Registered share	27’377’479	ISN	CHF 487.00
1.5% bond 2014–2019	23’483’367	ISH14	101.64
1.125% bond 2015–2023	27’577’643	ISH15	103.90

Investor Relations

Cyrill Schneuwly
Thomas Kaul

This Summary is a translation of the Summary of the Half-Year Report 2018 in German. Only the Half-Year Report 2018 in German which is available on www.intershop.ch is legally binding.