# Annual Report 1999

Our vision is the Digital Economy – a world in which every company conducts its transactions with suppliers, distributors, and customers via the Internet

INTERSHOP
Creating the Digital Economy

## Financial Summary (U.S. GAAP)

in millions €, except employee, share and per share data

| | 1997 | 1998 | 1999 | 99 vs. 98 in % |
|---|---|---|---|---|
| **REVENUES AND INCOME** | | | | |
| Revenues | 5.0 | 17.9 | 46.3 | 159 |
| Licenses | 2.9 | 11.3 | 29.5 | 161 |
| Services, maintenance and other | 2.1 | 6.6 | 16.7 | 153 |
| Gross profit | 2.3 | 12.4 | 33.0 | 167 |
| Gross margin in % | 47 | 69 | 71 | 3 |
| Research and development expenses | 1.0 | 4.4 | 7.1 | 63 |
| Sales and marketing expenses | 4.7 | 18.4 | 34.8 | 89 |
| General and administrative expenses | 3.5 | 6.7 | 11.2 | 67 |
| Operating loss | (6.8) | (19.0) | (20.1) | 6 |
| Operating margin in % | (135) | (106) | (43) | (59) |
| Net loss | (7.0) | (17.3) | (18.4) | 6 |
| **CASH FLOWS** | | | | |
| Cash flows from operating activities | 2.6 | (21.0) | (24.4) | 16 |
| Cash flows from investing activities | (2.0) | (3.8) | (7.5) | 98 |
| Cash flows from financing activities | 4.1 | 52.7 | 9.8 | (81) |
| **BALANCE SHEET AS OF DEC. 31** | | | | |
| Cash and cash equivalents | 5.1 | 34.2 | 12.1 | (65) |
| Total assets | 10.7 | 47.2 | 53.8 | 14 |
| Total liabilities | 15.3 | 13.0 | 30.9 | 138 |
| Total shareholders´ equity | (4.6) | 34.2 | 22.9 | (33) |
| in % of total liabilities and shareholders´ equity | (43) | 72 | 43 | (41) |
| **SHARE** | | | | |
| Net loss per share in € | (1.19) | (1.44) | (0.97) | (33) |
| Share price as of Dec. 31 in € | – | 41.93 | 280.0 | 568 |
| **EMPLOYEES** | | | | |
| Employees as of Dec. 31 | 179 | 353 | 544 | 54 |

**INTERSHOP** provides »state of the art« **e-commerce** software for the enterprise. We enable our customers to **Sell Anywhere** in the Digital Economy by supporting the widest range of current and rapidly emerging e-commerce business models.

## Dear Investors, Customers, Employees and Partners,

Imagine a world where every company conducts all common business transactions with suppliers, distributors and customers via the Internet. It has been called the Digital Economy. »Business as usual« in INTERSHOP´s vision of the Digital Economy means transacting business via the Internet, selling anywhere, conducting »silent commerce« – sending orders automatically from machine to machine without human intervention – and using smart, wireless consumer devices to conduct electronic commerce.

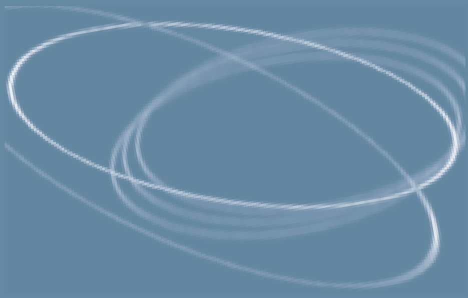
Researchers forecast that the billions of dollars spent on goods and services over the Internet soon will turn into trillions. As one of the world´s leading providers of electronic commerce solutions, it is INTERSHOP´s mission to develop products that will enable this Digital Economy with power, functionality and support existing as well as emerging business models. Our products are targeted at companies that either sell products and services to other businesses or consumers and companies that enable others to sell products and services online.

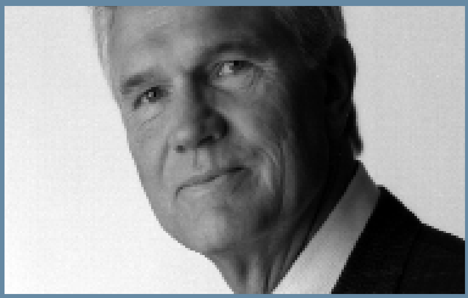
We are pleased to report that 1999 was the most successful year in INTERSHOP´s history. During 1999, INTERSHOP fulfilled the market´s high expectations for growth and successfully introduced new products.

At more than €46 million, our annual revenue grew 159% over 1998. Our customer base grew substantially and the number of store licenses sold increased by a factor of 10, surpassing 100,000 by the end of the year. Also INTERSHOP continued global expansion by establishing new offices to better serve some of the world´s strongest and most promising markets.

Public awareness of INTERSHOP grew through new strategic alliances and key customer wins in the enterprise space. We attracted top talent and strengthened our management team so it comes as no surprise that leading market research firms have named INTERSHOP the fastest growing provider of sell-side e-commerce software. A significant milestone was the INTERSHOP Open 99 in New York, our first worldwide conference that attracted more than 1,300 attendees, including prominent members of the press and influential industry analysts who cover leading e-commerce technologies and strategies.

INTERSHOP offers a comprehensive suite of products that addresses the diverse e-commerce needs of businesses and consumers now and in the future. INTERSHOP ePages and Hosting are popular products for Internet and application service providers that enable small- and medium-sized businesses with sophisticated e-commerce solutions that are quickly deployable, rich in features and affordably priced.





INTERSHOP enfinity, introduced in October 1999 and shipped in November, represents a major milestone for the company. It is the first sell-side e-commerce solution to use object-oriented Java technology and industry-leading standards such as the Extensible Markup Language (XML). With INTERSHOP enfinity, customers can sell anywhere through traditional online stores, affiliate Web sites and buyside networks as well as market-places and portals, and can even run their own marketplace. Enfinity´s support of the Wireless Application Protocol (WAP) enables mobile commerce via cell phones and Personal Digital Assistants (PDAs). With pre-configured and customizable pipelines, enfinity is easy to integrate with external and internal business systems including Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), and custom mainframe applications. Enfinity was an instant success in the marketplace. To date, more than 50 enfinity licenses have been sold and many sites are already live.

Now that 1999 has come to a close, we are focusing on 2000 and beyond, and expect continued demand for electronic commerce solutions. In addition to serving the consumer-oriented markets, INTERSHOP is offering enterprise-class products to help companies sell goods and services to each other.

INTERSHOP´s mission has not changed. In 2000 we will continue to extend our leadership in the market for electronic commerce solutions by developing, marketing and selling software products that enable the Digital Economy. It is INTERSHOP´s goal to provide

- leading-edge technology that helps our customers deploy successful electronic commerce solutions
- support for our partners to help them be successful with our products and services
- a world-class working environment for our employees that challenges and rewards them for defining and developing solutions for the Digital Economy
- outstanding shareholder value.

To maintain our global leadership and benefit from the strong demand for e-commerce solutions, INTERSHOP will continue to invest heavily in product development, sales and marketing as well as physical expansion. Our immediate priorities are strengthening our technology leadership in all product categories, recruiting top talent and increasing the company´s market visibility, especially in the U.S.A. and Asia. INTERSHOP will also consider making strategic investments where appropriate.

We would like to thank our shareholders, employees, partners and customers for their confidence, their support and their loyalty. We are convinced that we can substantially increase business in 2000 through strong sales in the enterprise market and, as a company, we are focused to achieve our ambitious goals.

Eckhard Pfeiffer
Chairman of the
Supervisory Board

Stephan Schambach
Chief
Executive Officer

# Company and Products

**INTERSHOP is creating the Digital Economy as one of the world´s leading providers of e-commerce software. Providing state-of-the-art technology and supporting the widest range of e-commerce models, we make the »Sell Anywhere«-philosophy a reality for our customers.**

# Creating the Digital Economy

INTERSHOP is one of the world´s leading providers of state-of-the-art e-commerce software solutions, and one of the fastest growing players in the e-commerce industry. INTERSHOP is committed to creating the Digital Economy, in which the Internet is used to implement all kinds of business processes and to link businesses, partners, and customers all around the world. INTERSHOP software solutions are specifically designed for selling products and services online, and offer the power, functionality, and flexibility required to support the widest range of e-commerce models and make our vision of the Digital Economy a reality.

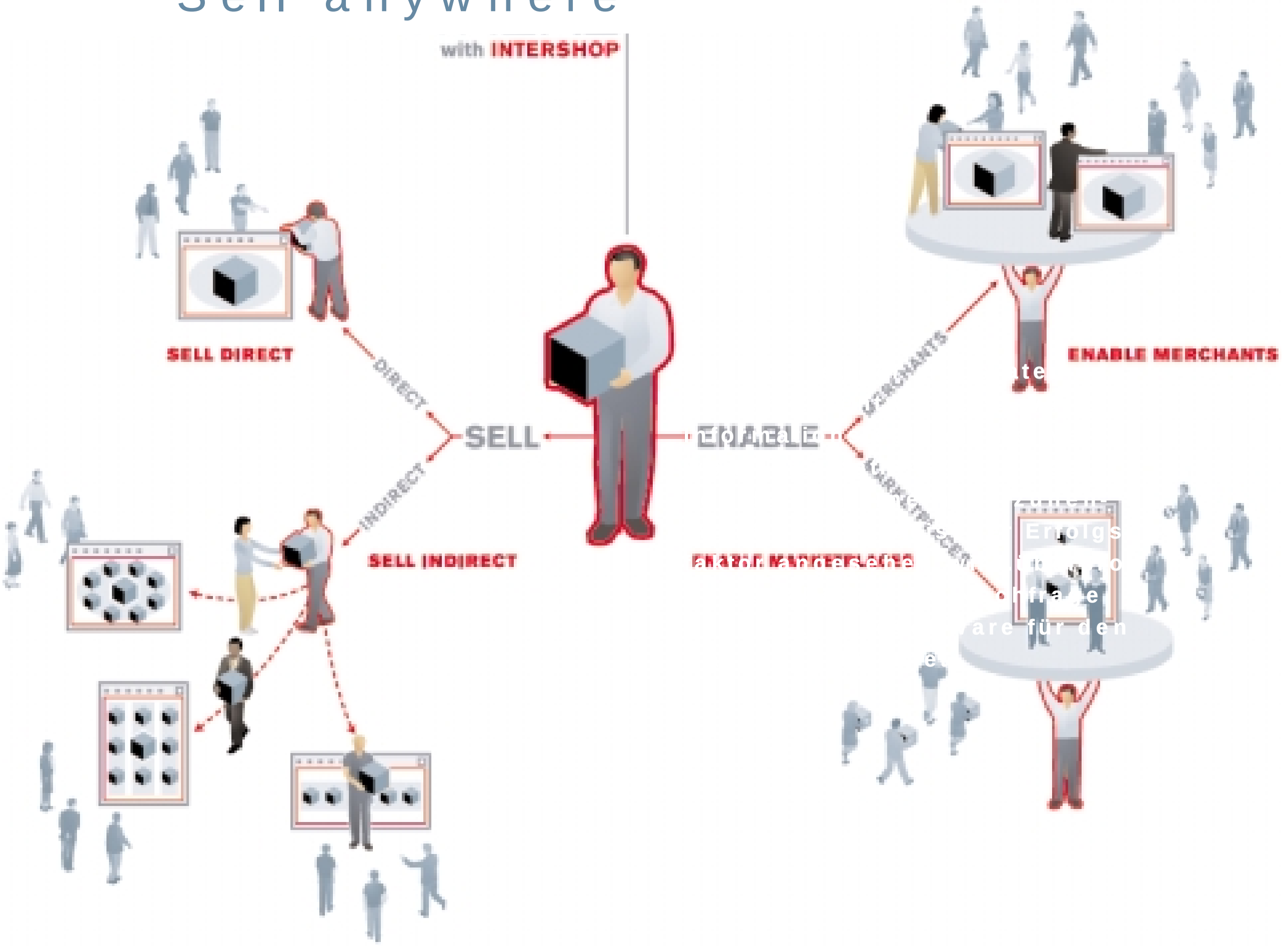
INTERSHOP has been a pioneer of e-commerce since 1994. Today, it is one of the major driving forces in the development of Internet-based business. With its wealth of industry experience, we are ideally positioned to identify and respond to developments in customer demand. Thanks to the latest in e-commerce technology as well as support for a wide range of visionary business models, our customers enjoy a decisive competitive advantage. With 23 office locations around the world, INTERSHOP is a truly global provider, delivering business-to-business and business-to-consumer solutions to more than 3,000 leading international companies in all sectors of commerce and industry. Our customers include many large-scale corporations operating their own e-commerce presence as well as Commerce Service Provider (CSPs) and Application Service Providers (ASPs) hosting e-commerce sites for others. With over 100,000 licenses sold, INTERSHOP has the world´s largest installed base of e-commerce sites.

In order to provide the best possible implementation of our customers´ e-commerce strategies, INTERSHOP has developed a network of more than 800 strategic partners worldwide. These partners include global-scale system integrators, IT service providers, and multimedia agencies, as well as independent technology partners and leading providers of hardware and software platforms.

## The e-commerce revolution

The Internet has long since reached critical mass. With the growing importance of e-commerce and the global networking of businesses and consumers, the Internet is no longer regarded solely as a means of communicating and disseminating information, but is revolutionizing the way we all do business. The potential offered by e-commerce for increasing efficiency, productivity, and marketing effectiveness, as well as for developing and strengthening customer relations, is creating a whole new set of criteria for measuring business success. As more and more business processes go online, totally new market forces are being unleashed on new and traditional industries alike. Those businesses that fail to utilize the potential offered by e-commerce today risk losing their competitive ability in the future.

# Sell anywhere




And the potential is enormous. In the B2C sector, e-commerce is already regarded as a mainstream business tool, generating revenues of $22 billion in 1999. Within five years, e-commerce sales are expected to multiply to around $380 billion. The volume of B2B transactions is even greater, with the market set to top $2,000 billion by 2004, compared with around $90 billion in 1999.

Gaining a share of this growing market demands technology that offers power, functionality, and compatibility with both existing and emerging protocols and standards, as well as software solutions that are capable of seamless integration with legacy corporate systems. Yet despite the enormous technological developments that have made e-commerce a possibility, the key to online selling is as old as commerce itself: establishing a successful relationship between buyer and seller.

Hence the importance of choosing the right e-commerce model – a model that, to be effective, has to be more than a mere reworking of traditional business processes in digital form. New developments such as mobile commerce, distributed commerce and silent commerce, and new technologies such as XML, WAP and Java, are redefining the possibilities of e-commerce today. INTERSHOP was quick to recognize these emerging trends and to develop software solutions capable of supporting these and future business models. The result is an open and highly flexible architecture that provides customers with the flexibility, scalability, and investment protection needed to guarantee successful e-commerce in the years ahead.

### Sell Anywhere philosophy

INTERSHOP software supports two principal e-commerce concepts: selling products and services online, and enabling others to sell products and services online.

In order to maximize the potential of the Internet as a distribution and marketing channel, companies have to look beyond selling products and services on their own Web sites alone. In addition to selling direct to businesses and consumers, the Internet offers ample opportunity for indirect selling via affiliate sites, online marketplaces, and e-commerce enabled channel partners. Online selling via multiple channels is a key feature of the Digital Economy, which is why INTERSHOP software is specifically designed to allow businesses to Sell Anywhere.

The Internet also offers a range of possibilities for enabling third-party merchants to sell products and services via outsourced commerce sites. Merchants benefit from fast and easy access to e-commerce, without the level of investment required for an independent e-commerce solution. Hosting providers – including Commerce Service Providers (CSPs) and Application Service Providers (ASPs) – benefit from a lucrative revenue source with enormous potential for growth. E-commerce hosting also offers an important competitive advantage for service providers, with the added benefits of greater customer loyalty and increased interest among new customers attracted by scalable products capable of supporting business growth.

INTERSHOP´s Sell Anywhere philosophy comprises four e-commerce models:

### Sell Direct

The Sell Direct model defines the selling of products and services direct to businesses or consumers. In B2B e-commerce, INTERSHOP software can integrate seamlessly with existing business systems. In B2C applications, it is possible to create commerce sites with powerful personalization and marketing features that not only impress customers first time around, but also keep them coming back for more.

### Sell Indirect

In addition to selling goods and services via their own Web sites, businesses can also generate additional revenue by reaching out to customers via other online channels. INTERSHOP supports three main ways of selling indirect: affiliate selling, selling on online marketplaces, and e-commerce enabling existing »brick-and-mortar« distribution channel partners.

### Enable Merchants

The Enable Merchants model allows CSPs and ASPs to host e-commerce applications for small and medium-sized enterprises. There are two key business models for enabling merchants: store hosting (installation and administration of multiple e-commerce sites) and application hosting (outsourcing of high-end e-commerce functionality, up to and including all aspects of order processing). The INTERSHOP 4 product line is a comprehensive software platform that supports every form of e-commerce hosting and offers a smooth upgrade path for merchants as online business grows.

### Enable Marketplaces

The Internet is ideally suited for the development of online marketplaces in which large numbers of independent merchants can display their goods and services for customers to browse and buy. Customers enjoy much greater diversity and choice, while merchants benefit from the much greater volume of traffic to the site. With INTERSHOP´s best-in-class e-commerce software, various marketplace scenarios can be readily implemented.



## Products for the Digital Economy

Our product lines INTERSHOP 4 and INTERSHOP enfinity support a wide range of Sell Anywhere business models.

### INTERSHOP 4

The INTERSHOP 4 product line has been specially developed for Application Service Providers (ASPs) to enable merchants to engage in e-commerce. With its three-tier approach, INTERSHOP 4 offers maximum flexibility and a clearly defined upgrade path.

### INTERSHOP ePages

INTERSHOP ePages allows ASPs to sell inexpensive, entry-level online stores to a mass audience. Merchants can configure their e-commerce sites independently using automated features, and can add more sophisticated functionality as business grows.

### INTERSHOP Hosting

INTERSHOP Hosting provides merchants with more of the customized features they need, including more robust business management functionalities and greater flexibility in store design. Because ASPs can host multiple merchant customers on a single server, INTERSHOP Hosting is an extremely cost-effective solution that also offers the ability to vary class of service and system performance.

### INTERSHOP Merchant

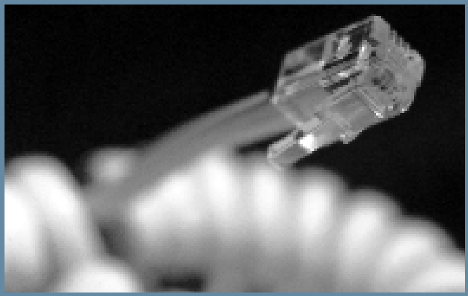
INTERSHOP Merchant is a dedicated server solution that enables ASPs to provide customers with all the performance, memory, and database power that a high-traffic commerce site requires. INTERSHOP Merchant allows ASPs to customize and integrate for specific customer needs.

### INTERSHOP enfinity

INTERSHOP enfinity is a complete, powerful, sell-side e-commerce application that supports the latest e-commerce models and can integrate with existing corporate systems (including ERP and CRM systems). This unique solution can be used for both direct and indirect online selling. The open XML and Java-based architecture offers almost limitless potential for expansion and customization in the future. With INTERSHOP´s state-of-the-art Intelligent Merchandising functionality built in, INTERSHOP enfinity offers the ideal foundation for successful online selling.

### INTERSHOP Services

With our comprehensive support network comprising INTERSHOP Professional Services, our global Support Team, and our network of over 600 resellers and system integrators, all INTERSHOP customers are assured of comprehensive service across all INTERSHOP products before, during and after implementation.



# e-commerce Stories

For more than four years we help our customers with the realization of their e-commerce strategy. We provide software that supports innovative e-commerce business models with fastest time-to-market as well as a maximum in flexibility and return on investment, today and tomorrow. Over 3,000 clients worldwide benefit from our extensive experience in development and implementation of e-commerce solutions.

# Sell Direct to Consumers: Waterstone´s

**»People will buy more and more over the Internet and books are the darling category. So the time was right to upgrade our e-commerce capacities. It is our goal to be the most profitable bookstore in the world without forgetting our heritage. The store extends our unique appearance to the Web.«**

**Andrew Hatton**
**Waterstone´s**

Waterstone´s is an example of a successful Sell Direct implementation in the business-to-consumer sector. When the UK´s leading bookstore decided to upgrade its Internet presence and increase the benefits for all of its 180 branches, it chose INTERSHOP solutions to create a flexible and scalable e-commerce solution.

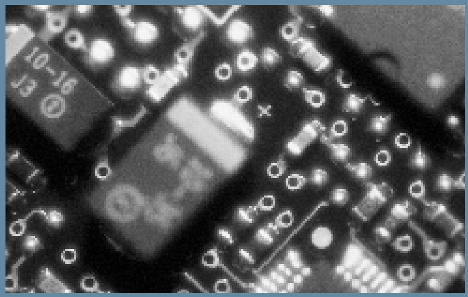
The Waterstone´s project was not only extremely tough in terms of its technical requirements, it also presented some extremely demanding time-to-market and budget limitations. Waterstone´s Web site was also required to replicate the look and feel of the company´s traditional corporate identity.

Waterstone´s has a well-developed profile as a chain of bookshops with the onus on literature, and has no intention of neglecting its traditional brick-and-mortar outlets. In the end, the entire solution was fully implemented in barely four months – an achievement that would have hardly been possible without INTERSHOP technology.

The key technical requirements specified by the customer included support for a minimum of 50,000 page impressions per day, over one million titles in the database, five full text searches per second, and solid 24x7 hours availability. INTERSHOP´s powerful and user-friendly standard features – including back office functionality, sophisticated reporting, and the extensible technology framework – were essential when it came to delivering the project on schedule. The solution provides tight content management and a staging process for proofing and updating pages on a daily basis. INTERSHOP´s flexible architecture allowed the integration of AltaVista´s complex search logic – including fuzzy logic and phonetic matching – to locate titles in the integrated Oracle 8 database. In the next phase of development, Waterstone´s plans to focus on one-to-one marketing and order fulfillment by integrating its INTERSHOP-based e-commerce solution with its legacy IBM AS/400-based order management system.

**»Our motto is 'No Fuss'. We want to offer our channel the tools to stay competitive through scalable and user-friendly electronic commerce applications. INTERSHOP and Deutsche Telekom have the products and expertise to serve the needs of our partners.«**

**Dirk Roesener**
**e-commerce program manager, Compaq**



# Sell Indirect: Compaq

Compaq Germany, the German operation of the world´s biggest computer manufacturer, used INTERSHOP Hosting to implement a Sell Indirect business model. By e-commerce enabling its traditional retail channel, Compaq has integrated it into the company´s overall e-commerce strategy. With over 3,000 e-commerce enabled authorized dealers in Germany and a highly popular Web site, Compaq has created the ideal environment for successful online selling.

Compaq was keen to exploit the potential of e-commerce without impacting its existing dealer network, and therefore chose to help them evolve from retailers to e-tailers. Compaq opted for an e-commerce solution based on INTERSHOP technology, with hosting, implementation and user training being handled by Deutsche Telekom AG. Choosing INTERSHOP standard software meant that the first Compaq Partner OnlineShop went live just three months after the initial scoping exercise.

Using INTERSHOP Hosting allows Compaq dealers to establish a professional e-commerce presence within just two days. With INTERSHOP´s store design templates, dealers can create a blend of their own individual corporate identity and the Compaq look and feel. In this model, Compaq dealers operate their own online stores using the latest catalog data provided by Compaq. Visitors to the main Compaq Web site are forwarded to their local dealer. Dealers can choose from two classes of service: the basic StartShop option or the more advanced FullShop.

Compaq manages product selection as well as catalog and price details on a staging site before content is delivered automatically to all storefronts. The FullShop option enables dealers to add 5,000 additional products to their store, provided they do not compete directly with Compaq´s offerings. With the dealers´ permission, Compaq uses aggregated store data taken from the statistics in the INTERSHOP back office to help fine-tune its marketing activity.

Dealers pay a set-up fee and a nominal monthly rent for their online store. Optionally, Deutsche Telekom offers electronic payment for the FullShop, based on the SET standard. Dealers also benefit from the traffic on Compaq´s busy corporate Web site. Visitors can order all the open distribution products online and use the partner search function to pick the dealer of their choice to deliver their order. Encouraged by the enthusiastic response from dealers, Compaq now plans to take advantage of INTERSHOP´s open and flexible architecture by integrating electronic storefronts with ERP systems.

**»We knew that we had to select a leading vendor with flexible standard technology to be successful. INTERSHOP has the experience and offers a product with INTERSHOP enfinity that is developed in 100 percent Java and has the open architecture that is necessary to integrate ERP systems.«**

**John Fisher**
**Director of EDP, Würth Holding**

# Sell Direct to Business: Würth

Würth´s Automotive Division implemented a Sell Direct e-commerce solution in North America in a business-to-business environment. With more than 30,000 employees worldwide and total revenues of approximately $4 billion, the Würth Group is the world´s leading supplier of fasteners and assembly technology. Würth´s integrated INTERSHOP enfinity-based solution is designed around the needs of the direct sales force, and includes mobile commerce functionality.

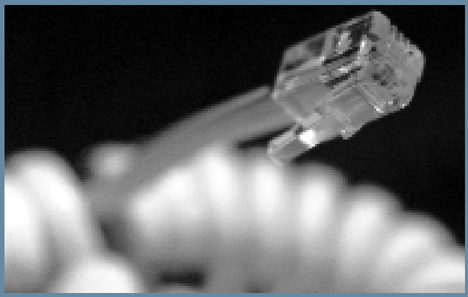
For Würth, the most important objectives were to integrate its external sales force more effectively and to improve customer relations. The direct sales force makes up more than 50 percent of the entire staff, and these employees are critical for the success of Würth. The previous solution involved transmitting orders by fax or using proprietary communications software. Orders were frequently delayed due to incomplete or incorrect data, with on average one out of every four orders being held up in the system.

To help resolve this problem, Würth opted for an integrated e-commerce solution based on INTERSHOP enfinity. Würth Illinois, one of Würth´s five businesses in North America, which together serve a grand total of 100,000 customers, was the first to implement the INTERSHOP enfinity solution, aided by INTERSHOP Professional Services. With the introduction of online ordering, every stage of the purchasing process has been optimized, from ordering through to shipping. Orders are now placed online, replacing the traditional system. 80 percent of manual order entering has been eliminated, since the data supplied via INTERSHOP enfinity is of extremely high quality thanks to integrated checking procedures, which means that orders are only processed after they have been validated.

To support outside sales, Würth also offers customers a convenient tool to place orders online and is aiming to establish a strong Web presence that helps win new business. Selecting from 15,000 automotive products online, new customers use an electronic shopping cart to make purchases. Their new customer orders are forwarded to a sales representative, who then establishes contact with the new account.

INTERSHOP enfinity´s built-in WAP (Wireless Application Protocol) support has also enabled Würth to integrate mobile commerce functionality. Although this feature was not included in the original project specifications, the traveling sales force can now connect to the enfinity application at any time and from any location using browser-enabled cell phones to check current order status and account information as well as to track shipments. The benefits for Würth and its customers are a much higher quality of service – which can only be good for customer relations. The INTERSHOP enfinity-based solution is also integrated with Würth´s SAP 4.6-based ERP system, which was regarded as a key requirement for the efficient deployment of electronic commerce.

# Enable Merchants: PSINet



**»We have thousands of corporate clients who need three things: peace of mind, performance and reliable global access. INTERSHOP provides the products that enable us to serve the entire customer spectrum in a shared or dedicated hosting environment. Whether companies use e-commerce for business-to-consumer or business-to-business sales or for supply chain management, the solutions are easy to implement and operate, and as powerful and customized as the customer demands.«**

**Michael Mael**
**VP, Applications and Web Services Division, PSINet**

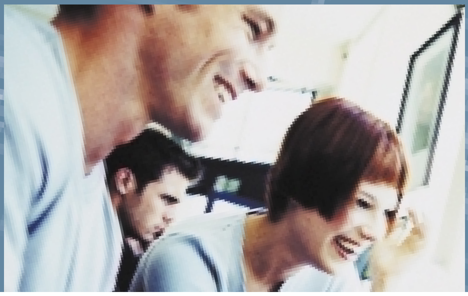
PSINet, one of the world´s leading ISPs (Internet Service Provider), implements e-commerce hosting applications for its customers in its state-of-the-art centers in the U.S.A., Europe and Asia using INTERSHOP Hosting Edition and the Enable Merchants business model.

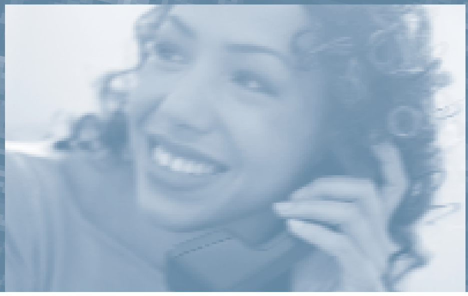
Flexible, scalable, and versatile electronic commerce technology is a key factor in developing PSINet´s global presence. With its sophisticated Global Internet Hosting Centers, a high-speed data network, and INTERSHOP software, PSINet is able to pursue its global business strategy focusing on web hosting and electronic commerce, and to profit from the growing demand for shared and dedicated e-commerce hosting services.

INTERSHOP´s compatibility with all major payment systems together with its genuine global presence make it the ideal partner in PSINet´s strategy for worldwide expansion. Services start at $400 per month for a PSINet e-commerce storefront. This entry-level offering includes an INTERSHOP Hosting Edition site, a payment system to handle credit card transactions, 24/7 support, redundant network service and back-up power supplies, data and physical security. Higher service classes feature advanced hardware configurations and custom integration with existing IT infrastructures.

One of PSINet´s customers is PlanetLearn, a retailer of self-study computer training programs. PlanetLearn chose to replace uneconomic traditional sales models with PSINet´s hosting service. PlanetLearn now profits from INTERSHOP´s powerful range of features and back office functionality, especially its catalog management and integration of CyberCash® payment. PlanetLearn has an online catalog totaling several thousand products and welcomes approximately 1,000 visitors to its site each day.

# Employees





## The Freedom to Be Creative

At INTERSHOP, our most valuable asset has always been our highly skilled and highly motivated workforce. In the booming e-commerce industry – and in a company that is now growing faster than the market – the levels of flexibility and innovation offered by that workforce are essential for success. With the world of e-commerce still in flux, lateral thinking is the key in an industry where today´s vision is tomorrow´s business model; where inspiration and intuition are the means of evolving radical new ways of doing business for our customers. To make that possible, INTERSHOP has developed an open corporate culture that gives each employee maximum freedom to organize their own tasks and pursue their natural strengths and instincts. As a result, employees can bring their own unique and personal wealth of experience and know-how to each and every task. Greater freedom also encourages employees to shoulder responsibility and contribute more directly and more effectively to our continued success.

### A future of opportunity

In order to implement our ambitious strategy for expansion, INTERSHOP is actively seeking new and highly skilled employees who share our vision of the future. In 1999 alone, INTERSHOP recruited an additional 200 technical, sales and managerial staff. Here too, the Internet is playing an increasingly important role, with details of the latest job opportunities being published on the INTERSHOP Web site first. A high proportion of candidates also use our online application forms to submit their personal details and résumés. Other methods of recruitment include the traditional print media, as well as university/college events and trade fairs.

Before joining, many of the people who now work at INTERSHOP were already well acquainted with the company and the range of career opportunities on offer for specialist technical and managerial staff. For many, the first experience of the unique working environment at INTERSHOP was as a student trainee in one of our technical departments or when researching a thesis or other course work. For INTERSHOP, working with the widest variety of students is both an investment in the future and a unique opportunity to win new employees fresh from university or college – employees who are both highly qualified and able to integrate easily into our corporate structure. In addition to supporting conventional subjects such as information technology and business administration, INTERSHOP provides opportunities for students specializing in less obviously e-commerce related subjects such as physics, mathematics, law and arts. Today, INTERSHOP employs people from a wide range of nationalities and ethnic backgrounds.

### Training for success

Ensuring the continued growth of our company calls for more than recruitment alone. At INTERSHOP, we also place enormous value on advanced vocational training and gaining new qualifications. On joining, every new INTERSHOP employee completes a special »start-up« course designed to familiarize them with INTERSHOP philosophy and product line and key internal business processes, as well as the INTERSHOP´s internal digital communications systems. In our technical departments, new employees complete a five-week intensive boot camp in which they train the latest programming languages and acquire important methodology skills. Other features of our future-oriented human resources policy include language courses for all employees and the INTERSHOP University, which is also open to all employees and offers a forum for exchanging information on the latest developments in e-commerce. Employees are also free to discuss and arrange vocational training on an individual basis with their immediate supervisors, thereby dispensing with the long drawn-out application procedures commonly encountered in other companies. This kind of unconventional approach is valued by INTERSHOP employees just as much as the flat hierarchies that facilitate international exchanges between INTERSHOP offices around the world – and that have helped to create a global and culturally flexible INTERSHOP team. Other important elements in our active personnel management strategy include yearly offsite meetings, weekly meetings for all employees at each of our locations, regular one-to-one assessments, and specialist training for managerial staff with particular emphasis on »soft skills«.

### Sharing performance

Another key factor when it comes to enabling employees to identify with corporate objectives is the INTERSHOP employee stock option plan. At INTERSHOP, stock options represent a significant proportion of employee remuneration. Since INTERSHOP was floated on the stock market back in July 1998, our share price has risen dramatically, making stock ownership a highly attractive proposition for our employees. As well as fostering long-term loyalty to the company, stock ownership also allows employees to view the company and its development from an investor´s point of view. As a result, individual performance, innovation, and productivity are seen not just as important for customers and shareholders, but as directly beneficial to the entire INTERSHOP workforce.

# The Share

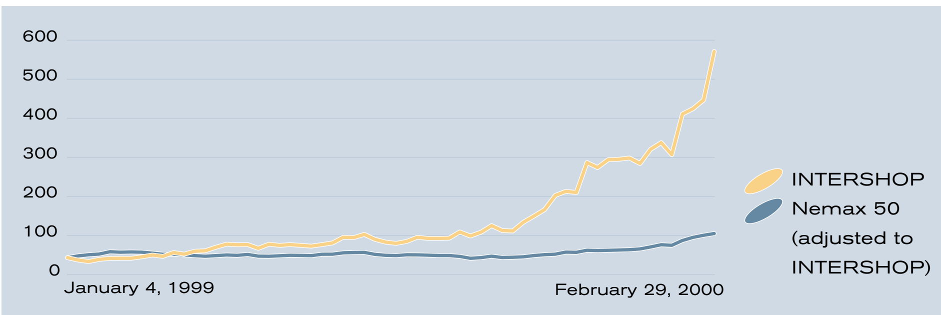
## Commitment to Investors

In addition to the need to attract the best employees, customers, and partners, INTERSHOP´s continued success depends on positive relations with investors. INTERSHOP investors share our vision of the Digital Economy as well as the conviction that INTERSHOP will continue to be one of the major driving forces in global e-commerce in the years to come. Without the support of our investors, INTERSHOP would be unable to turn its plans into reality. In return we offer exceptional transparency and openness in terms of corporate information and take strategic decisions that will secure our long-term leadership in the booming e-commerce market.

### Fastest growing German stock in 1999

The continued success and development of INTERSHOP over the course of 1999 has consolidated investor confidence in both our business strategy and our management. During this period, the price of INTERSHOP shares rose steadily by a total of 568% to €280, making it not only the fastest growing security on the Neuer Markt, the trading segment of the Frankfurt Stock Exchange for high growth, but also the best performing stock of any German company. The relative strength of INTERSHOP shares measured against the Nemax 50, the index of the top 50 companies listed on the Neuer Markt, was

Stock price (€)




approximately 460%. INTERSHOP shares ended the year as one of the leading securities on the Neuer Markt, not only in terms of market cap, but also as regards liquidity. The average volume of transactions per day increased over the year to €25.5 million. This upward trend has continued into the first quarter of 2000. In a market that is extremely receptive to new technologies, the INTERSHOP share price rose to a new high of €540 at an increased average daily trading volume of €37.2 million by the end of February 2000.

## Active investor relations

Active investor relations are a fundamental aspect of the INTERSHOP corporate strategy. Since going public in July 1998, our comprehensive investor relations program has kept both existing and potential investors fully informed of our plans, strategies, activities, and performance. The Management Board uses quarterly reports and telephone conferences to communicate regularly with investors. Another important ingredient in our continuous reporting strategy is the monthly newsletter. In 1999, the company also met with institutional investors and analysts at four separate analyst conferences, over 20 technology conferences, more than 10 roadshows in Europe and the U.S.A., and at a further 50 one-on-one meetings. In keeping with our growing profile among the financial community, 1999 saw a significant increase in interest among analysts attached to leading independent financial institutions, who play a key role in shaping the opinion of investors. So far, analysts from more than 20 major banks and institutions have published research on INTERSHOP.

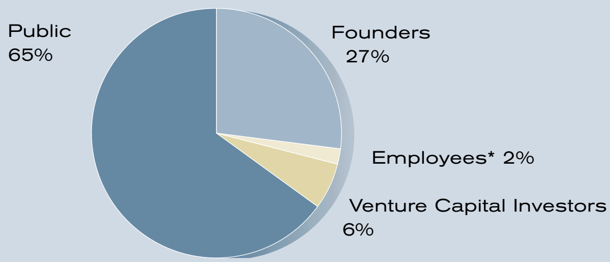
## The Internet as our primary means of communication

In addition to personal contact with investors, INTERSHOP makes extensive use of the Internet as a key medium for the rapid dissemination of information and for effective communications with shareholders. All available corporate information – including all the latest publications – can be downloaded by investors throughout the world direct from the INTERSHOP Web site. Our automated e-mail service keeps investors informed of breaking news, while our online query system offers a fast and reliable response. Last year, the Investor Relations pages on the INTERSHOP Web site were chosen by two leading financial publications as the best IR presence on the web among all Neuer Markt-listed companies. An average of around 6,000 visitors access these pages every month.

| | Frankfurt Stock Exchange Price per Share High | Low | Average Daily Trading Volume (in 1,000) |
|---|---|---|---|
| III/1998 | 41.24 | 31.10 | 36.32 |
| IV/1998 | 42.44 | 26.42 | 34.79 |
| I/1999 | 60.50 | 33.20 | 44.45 |
| II/1999 | 82.67 | 58.67 | 72.42 |
| III/1999 | 104.50 | 73.67 | 88.77 |
| IV/1999 | 308.00 | 100.40 | 89.25 |
| I/2000* | 540.00 | 241.00 | 75.09 |

(* as of February 29, 2000)

## Shareholder Structure as of Dec. 31, 1999 (fully diluted)




* Issued but not vested stock options

## Share Data

| | |
|---|---|
| Type of Stock | Ordinary shares of no par value |
| SIN | 622700 |
| Symbol | ISH |
| Stock Exchange | Frankfurt Stock Exchange (Neuer Markt) |
| Indices | Nemax 50, Nemax All Share, Dow Jones STOXX℠, EURO.NM All-Share Index |
| No. of shares outstanding as of Dec. 31, 1999 | 16,878,104 |
| No. of shares (fully diluted) as of Dec. 31, 1999 | 20,016,501 |
| | |
| Offering price IPO July 16, 1998 | €1.04 |
| Closing Price July 16, 1998 | €40.90 |
| Year end closing price 1998 | €41.93 |
| Year end closing price 1999 | €280.00 |
| Stock performance 1999 | €540.00 |
| Share price as of February 29, 2000 | 568 % |
| Stock performance since IPO | 1,220 % |
| Average daily trading volume (February 2000) | €37.2 million |

### Shareholder base expanded

In 1999, the shareholder base was again expanded as a result of the growing interest in INTERSHOP stock. In the course of the changeover to the Euro agreed at the annual general meeting on June 21, 1999, the total number of INTERSHOP shares was increased by €2.4 million and split on a 3-for-1 basis effective August 23, 1999. This, coupled with the conversion of options from the conditional capital, saw the number of outstanding shares as at December 31, 1999, climb to 16,868,104; on a fully diluted basis (including conditional capital II and III) the number of shares increased to 20,016,501. With the ongoing scheduled reduction in venture capital investment, as well as the conversion of employee-held options, the proportion of publicly owned shares rose to around 65% on a fully diluted basis.

# Financials



INTERSHOP Communications reports consolidated financial statements according to U.S. GAAP and financial statements for the German holding company, INTERSHOP Communications AG, according to German GAAP (HGB).

# Consolidated Management Report and Management Report of INTERSHOP Communications AG

## OVERALL ECONOMIC SITUATION

### IT Investment Remains High

Although 1999 was a year of only modest growth or even stagnation for most of the world´s economies, the information and communication technology (ITC) industry continued to expand worldwide. Total world ITC sales were up 9.3% to €1.6 billion (Source: EITO) despite the fact that many companies delayed or reduced investment in new IT systems due to issues surrounding Y2K.

### E-Commerce Continues to Boom

On the other hand, the dynamic development of the Internet, which is well on its way to becoming a mass medium, represented a source of considerable momentum for the economy. The world´s wired population increased by 40% to over 200 million in 1999 (Source: IDC), and people everywhere are starting to purchase products and services online. Consumers continue to appreciate convenient 24 hour per day access to a worldwide marketplace and attractive pricing. At the same time, companies are also finding the Internet ideal for doing business with one another. The Internet gives them a unique way to enhance their business processes, take advantage of new distribution channels and broaden new customer potential while reducing distribution costs and improving customer relationships. As a result, the tendency to shift business processes to the Internet is continuing on a dramatic scale. The total volume of transactions carried out through the Internet came to €100 billion in 1999, up 121% from the previous year (Source: Merrill Lynch). New companies that have specialized in e-commerce from the early stages of the Internet are increasingly becoming serious competition for conventional brick-and-mortar retailers. Due to the explosive dynamics of the »new economy« and pressure coming from new »dot.com« competitors, more and more companies view e-commerce as a strategic necessity.

### High Demand for E-Commerce Software

As a result of the climate described above, the demand for high-performance standardized software for e-commerce applications continued to increase in 1999. Whereas most companies tended to develop their own e-commerce systems in house in the past, the trend in 1999 continued to be toward high-performance standard software that enables companies to go live with an e-commerce site customized to meet their specific needs within only a few weeks. IDC estimates that the world market for e-commerce software grew 282% to €1.7 billion in 1999. According to market analysts sell-side solutions are expected to grow substantially faster than buy-side solutions. In addition to the market for self-hosted enterprise e-commerce software, systems hosted by Commerce Service Providers that give small and medium-sized companies an easy way to enter the digital economy also became more and more popular during the course of the year. In 1999, the most important providers of e-commerce software were specialized companies that offer products that allow their customers to go online with sophisticated business solutions that can also be quickly and reliably customized as a function of specific customer needs.

## 1999 INTERSHOP GROUP HIGHLIGHTS

### Market Position Strengthened

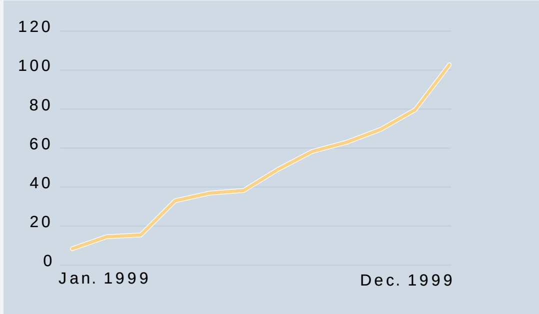
In 1999, INTERSHOP was once again able to reinforce its position as one of the world´s leading providers of standard software for sell-side e-commerce applications. The company´s declared goals for 1999 were worldwide expansion and market leadership, and the year saw considerable progress in the direction of achieving these strategic objectives. The year was marked by organic growth, the development and introduction of new benchmark products and a substantial increase in both the company´s customer base and the number of licenses sold. In the course of the year, INTERSHOP also raised its profile in the marketplace, added new locations worldwide and entered into new strategic alliances. In the area of human resources, the company attracted many new highly qualified employees and strengthened its managerial team. All in all, we were not only able to achieve a substantial improvement in our strategic position vis-à-vis our competitors, but also managed to assert ourselves again as one of the world´s fastest growing providers of sell-side e-commerce software. In 1999, the number of licenses sold for the operation of e-commerce Web sites increased more than tenfold to over 100,000.

### New Products for Internet Business Models

INTERSHOP focuses on the development and introduction of technologically superior products that support sophisticated e-commerce business models. In July 1999, our next-generation INTERSHOP 4 product line, which features enhanced performance, expanded functionality and simplified back-office management, was successfully launched.

The introduction of the INTERSHOP enfinity product, which was presented at the inaugural INTERSHOP OPEN in October 1999 and was shipped in November, represented a major milestone for the company. INTERSHOP enfinity is the first sell-side e-commerce solution to use object-oriented Java technology and industry-leading standards such as XML to meet the highest possible requirements for online operation. Its unique features allow companies with complex business needs to market and sell their products through the Internet using either their own or external business platforms after only a short period of time. In addition, businesses can integrate e-commerce applications into their existing IT environments and adapt them to accommodate changes in their business requirements quickly and easily. The technological superiority of INTERSHOP enfinity

**No. of Licences Sold** in thousands




over competing products was confirmed by the results of a comparative study released by Forrester Research in October 1999 shortly after INTERSHOP enfinity made its market debut. The response of the industry, partner companies, and customers was similarly enthusiastic. Although INTERSHOP enfinity was not ready for shipment to customers until November 1999, over 30 licenses were sold by the end of 1999. Various INTERSHOP enfinity-driven sites have already gone live and currently demonstrate the product´s exceptional functionality and performance.

This year´s new products were released in versions supporting different server platforms along with development tools and standard interfaces for third-party products such as payment and ERP systems. INTERSHOP´s product management group in San Francisco specifically designed all products introduced in 1999 to support today´s advanced e-commerce business models. This versatility was programmed into all software at INTERSHOP´s research and development location in Jena, Germany where over 200 qualified software engineers were employed by the end of 1999. This international division of labor permits the fast-paced innovation required to develop new high-performance products today that meet the future needs and expectations of the company´s e-commerce customers.

## Distribution Channel Expanded

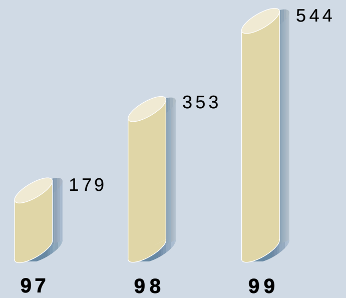
During the past year, INTERSHOP´s attractive suite of products has enabled the company to extend its indirect distribution channel by signing up a large number of systems integrators, distributors and multimedia agencies as marketing partners. As a result, the company is now supported by over 600 qualified distribution partners on five continents. The introduction of INTERSHOP enfinity made it possible to attract global systems integrators and providers of IT services such as PriceWaterhouseCoopers, Debis IT Services, Cap Gemini, Sema Group, and Andersen Consulting as channel partners.

## Strategic Alliances with Global Technology Players

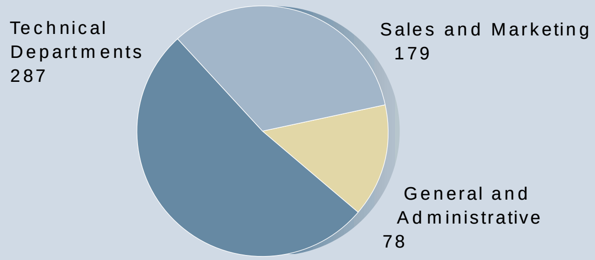
The formation of strategic alliances with leading international manufacturers of hardware and software represents an important aspect of INTERSHOP´s corporate strategy in order to realize market penetration. The purpose of these alliances is to integrate our products with third-party applications and jointly market complex solutions. A large number of interfaces with third-party solutions were developed, primarily by our technology partners, to enhance the functionality of INTERSHOP products. In 1999, interfaces were created for the ERP systems of SAP and PSI, Emprise´s payment system, Interwoven´s content management system, and the logistics systems of Deutsche Post and Federal Express. In addition, a wireless-based »mobile commerce« solution was developed for T-Mobil, the wireless subsidiary of Germany´s Deutsche Telekom. In the hardware area, cooperation with international server and computer manufacturers was intensified, and new cooperative ventures included joint marketing agreements with Compaq and Fujitsu Siemens Computers.

Strategic agreements for 1999 included alliances with mySAP.com, Ariba, and CommerceOne, providers of buy-side Internet marketplaces. On the one hand, the companies operating in these buy-side marketplaces can use the INTERSHOP technology platform for their sell-side applications, and, on the other hand, INTERSHOP enfinity enables companies to use these marketplaces to sell their products.

**Employees** as of Dec. 31




**Employee structure 1999**




### First User Conference a Huge Success

INTERSHOP OPEN 99, the first worldwide conference for all INTERSHOP users, partners and customers, was held in New York in October. The purpose of this major industry event was to provide an international forum for exchanging information and to present the latest development in e-commerce technology. With over 1,300 attendees from all over the world, INTERSHOP OPEN 99 was a huge success which significantly exceeded all of the Company´s expectations. In addition, INTERSHOP OPEN 99 was not only applauded by those present, but also attracted the attention of the media and the IT industry around the world. All in all, this event substantially reinforced INTERSHOP´s image and market position, especially in the U.S.

### New Locations Support Regional Expansion

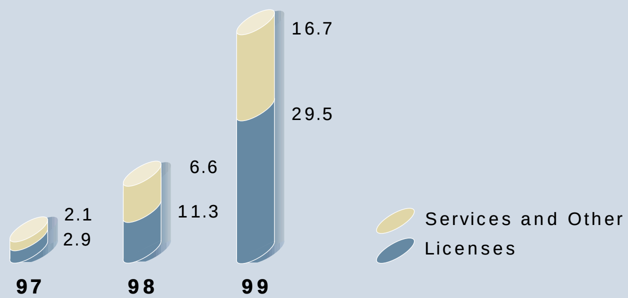
In keeping with its strategic commitment to geographic expansion, INTERSHOP has added to its locations and now is present in 23 cities worldwide. A new subsidiary was established in Sweden to be able to serve the Scandinavian market more effectively. Also in February 1999, INTERSHOP Communications Inc. purchased the assets of The Fountainhead Management Inc., a successful INTERSHOP distribution partner based in New York. This acquisition made it possible to add to our U.S. personnel resources in the professional services and consulting area and put INTERSHOP in a substantially better position to compete on the East Coast of the United States. INTERSHOP also opened a branch in Hong Kong in November, marking the beginning of strategic expansion of our sales activities in Southeast Asia. After only a few weeks of operation, the Hong Kong location was able to acquire a considerable number of partners and customers.

### New Personnel

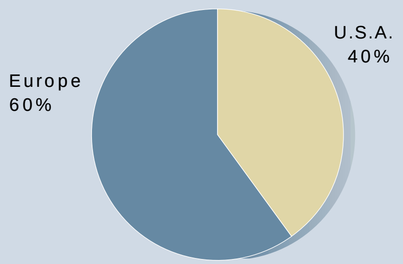
In 1999, INTERSHOP continued to actively reinforce and expand its organizational structure. For example, all locations added new personnel, with particular emphasis in the areas of marketing and technical services. At the end of 1999, the total number of employees increased by 191 to 544, with 28% in the U.S.A. A total of 287 employees were involved in technical areas – R&D, professional services and customer service – 179 were in sales and marketing, and 78 were in administration and general services. INTERSHOP´s position of market leadership, the potential for creativity in our fast-growing organization, INTERSHOP´s open corporate culture and the opportunity to share in the company´s financial success through stock-option programs contributed to the motivation and retention of employees.

The company´s managerial ranks were also reinforced to meet the needs of our rapidly expanding global organization. In 1999, several experienced senior executives from the IT industry joined INTERSHOP, including Eckhard Pfeiffer, who assumed the role of Chairman of INTERSHOP´s supervisory board in September 1999.

**Revenues** in millions €




**Revenues by Region 1999**




### 1999 Revenues up 159%

INTERSHOP´s competitive edge in the growing market for e-commerce software enabled the company to generate revenues of €46.3 million for fiscal 1999, up 159% from the comparable figure a year ago. This increase, which was substantially higher than our target of 100% growth, resulted primarily from encouraging performance in the company´s licensing business, which accounted for revenues of €29.5 million, up 161% from 1998. Licensing activities generated 64% of total revenues for 1999, up slightly from 63% a year ago. The increase in license revenues resulted from increasing demand for existing INTERSHOP products, the introduction of new products and the additions to our marketing organization. Sales of software licenses also increased due to both business from new customers and continuing business from existing customers wanting to expand their e-commerce capabilities or upgrade to versions offering higher performance and greater functionality.

### Market Leaders Choose INTERSHOP

Approximately 65% of 1999 revenues were generated by the INTERSHOP Hosting and INTERSHOP ePages products. Orders from leading telcos, ISPs and CSPs, including NTL, Freecom, Nextron, US West, Nortel Network, Go2Net, Mindspring, AltaVista, PSINet, Deutsche Telekom, France Télécom, Strato, Quoka, Altodigital, PostNet and Sonera enabled INTERSHOP to widen its lead in this international market. The number of e-commerce sites sold exceeded 100,000 by the end of the year, a tenfold increase from 1998.

Licenses for self-hosted e-commerce sites accounted for approximately 33% of revenues. Although not launched until November 1999, the INTERSHOP enfinity product made a substantial contribution to the strong revenue performance. The significant enterprise customers in 1999 included TimesSquare2000, Hewlett-Packard, Robert Bosch, Coram Healthcare, Deutsche Bank, Dresdner Bank, Lufthansa, QXL and Waterstone´s.

Revenues from services for the year were up 153% to €16.7 million. This performance reflected the increase in the demand for implementation, maintenance and training services in connection with INTERSHOP´s licensing activities.

### U.S. Activities Generate 40% of Revenues

INTERSHOP performed exceptionally well in North America, where revenues soared 209% to €18.4 million.  The significant investment required to build up a strong organization and enhance our profile in the U.S. produced strong results during 1999. Last summer´s advertising campaign, combined with the INTERSHOP OPEN in New York and positive external reports on the company, created considerable attention and enhanced INTERSHOP´s image in North America. Revenues from U.S. operations were 40% of total worldwide revenues compared to 33% the year earlier. Revenues of INTERSHOP´s European operations, including revenues from Asia and Africa, were up 134% for the year to €27.9 million, which accounted for 60% of total 1999 revenues.

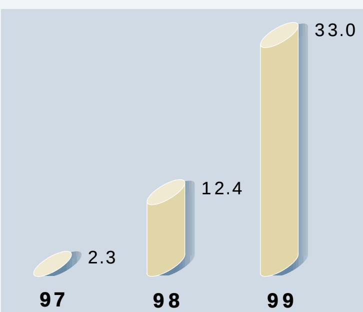
### Gross Margin Increased to 71%

Cost of revenues, which primarily consist of license fees for integrated third-party software as well as personnel expenses in the area of services, increased 141% to €13.3 million as compared to the increase of 159% in total revenues. The cost of license revenues accounted for €4.8 million of the total cost of revenues, and the cost of service revenues represented the remaining €8.5 million. Gross profit for the year rose a substantial 167% to €33.0 million, and the gross margin rose from 69% a year ago to 71% in 1999. The gross margin was 84% for license revenues and 49% for service revenues.

### Investment in Development and Marketing

As INTERSHOP continues to pursue its course of strategic expansion, operating expenses increased 69% to €53.1 million. Sales and marketing activities, which accounted for the greatest share of operating expenses and was 75% as a percentage of total revenues, increased 89% to €34.8 million. This resulted from the recruitment of additional personnel in both areas as well as the strong increase in our marketing activities. In addition to asserting our position of leadership in existing markets, this investment enabled us to enter new markets and launch new products. The introduction of INTERSHOP enfinity, INTERSHOP´s next-generation technology, was responsible for significant expenditures in the year under review. The total cost of launching INTERSHOP enfinity came to approximately €8 million, of which some €5 million went to stage the INTERSHOP OPEN in October 1999.

**Gross Profit** in millions €




**Operating Expenses** in millions €

Research and development expenses increased 63% to €7.1 million, or 15% of total revenues. This increase resulted from the addition of new personnel in the area of product development, most of whom were involved in the completion and launch of the new INTERSHOP 4 and INTERSHOP enfinity products in 1999.

General and administrative expenses increased 67% to €11.2 million, or 24% of total revenues. This increase was primarily due to the expansion of our international organization, including the creation of new sales and service locations in New York, Sweden and Hong Kong.

### Improvement in Cost-Revenue Ratio

Despite the increase in investment in all operational areas, the increase in revenues outpaced operating expense and operating loss decreased from 106% of total revenues in 1998 down to 43% in 1999. The operating loss for the year came to €20.1 million, which was only slightly higher than the comparable figure of €19.0 million a year ago. Other income and expense, net, which contained interest income and expense and government subsidies, totaled €1.7 million for 1999, which was approximately the same as a year earlier. All in all, the year ended with a net loss of €18.4 million compared to a loss of €17.3 million for 1998 and the loss per share decreased from €1.44 per share to €0.97 per share.

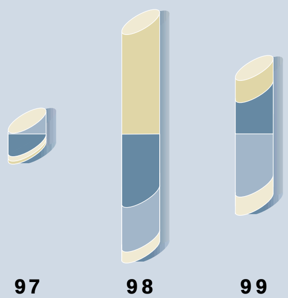
### Cash Flows and Investments

In 1999, cash outflows from operating activities came to €24.4 million as compared to €21.0 million a year ago, which was primarily due to the operating loss for the year and the increase in accounts receivable resulting from increased revenues. Cash outflows from investment activities came to €7.5 million compared to €3.8 million for the previous year. This amount reflects investments in computer hardware, software and office equipment in the amount of €3.6 million and investments related to smaller acquisitions and marketable securities in the amount of €2.7 million. Cash inflows from financing activities, which reflect proceeds from sale of commen stock, proceeds from debt issuance, collection on notes receivable from shareholders and repayments of indebtedness, were €9.8 million in 1999 compared to €52.7 million for the previous year. In 1998, these cash flows primarily relate to our initial public offering on the Neuer Markt in Germany. Total cash outflows for the year came to €22.1 million, and cash and cash equivalents totaled €12.1 million at December 31, 1999.

### Liquidity and Capital Resources

Current assets decreased €2.0 million to €40.7 million for 1999, or 76% of total assets. An increase in accounts receivable of €17.4 million to €23.3 million for 1999 was offset by a decrease in cash and cash equivalents of €22.1 million to €12.1 million. The substantial increase in accounts receivable reflects the strong growth in revenues combined with a large number of sizable

**Cash Flows** in millions €




| | 97 | 98 | 99 |
|---|---|---|---|
| Net cash provided by (used in) financing activities | 4.1 | 52.7 | 9.8 |
| Net change in cash and cash equivalents | 4.8 | 29.1 | (22.1) |
| Net cash provided by (used in) operating activities | 2.6 | (21.0) | (24.4) |
| Net cash provided by (used in) investing activities | (2.0) | (3.8) | (7.5) |

contracts received toward the end of the year. Working capital decreased from €31.7 million in 1998 to €10.0 million in the current year.

Liabilities increased €17.9 million to €30.9 million in 1999 to reflect the increases in accounts payable, accrued liabilities, debt and deferred revenue.

As a result of the loss for the year, shareholders´ equity decreased €11.4 million to €22.9 million, and the equity ratio went from 72% to 43%. As a result of the changeover to the Euro as our reporting currency and the change in conditional capital, common stock increased to €16.9 million from €13.3 million a year earlier.

## Foreign Currency Exchange Rate

Transactions carried out by our various operations are denominated in their respective local functional currencies and are translated into the reporting currency at the end of the period. A significant portion of our business is conducted in currencies other than our reporting currency, the most important of which are the U.S. dollar and the pound sterling. Since the volume of business conducted in the Euro regions roughly equaled the volume conducted in the U.S., no forward contracts relating to foreign exchange transactions were made during 1999. As a result, currency fluctuations had a slight effect on revenues and operating income for the year.

## 1999 INTERSHOP Communications AG Highlights

INTERSHOP Communications AG is the Hamburg-based parent company that controls the operational entities of the INTERSHOP Communications group of companies. INTERSHOP Communications AG is a corporation that is registered in Germany and publishes financial statements in compliance with the German GAAP. The shares of INTERSHOP Communications AG have been traded on the Frankfurt Stock Exchange (Neuer Markt) since July 16, 1998. During the period under review, the company´s main activities included management of its holdings and assets as well certain central functions for the INTERSHOP group. The AG had an average of seven employees during the year, up five from the previous year.

In order to streamline the structure of the INTERSHOP group of companies, INTERSHOP Communications S.a.r.l. and INTERSHOP (UK) Ltd., previously subsidiaries of INTERSHOP Communications GmbH, became wholly owned subsidiaries of INTERSHOP Communications AG in early 1999. In March 1999, a new subsidiary, IS Nordic AB was created in Stockholm, Sweden, and the establishment of INTERSHOP Communications Hong Kong Co. Ltd. followed in early 2000.

Throughout 1999, the activities of INTERSHOP´s operational entities reflected the company´s commitment to expansion. This resulted in operating losses for some entities and their capital needs were covered through loans from the parent company.

As a holding company, INTERSHOP Communications AG generates no revenues from sales. Due primarily to interest income from subsidiaries in the amount of €2.3 million as compared with €0.8 million a year ago, the company ended fiscal 1999 with earnings of €1.4 million from ordinary business activities as compared with a loss of €1.4 million the previous year. Profit for the year, which came to €1.3 million compared to a loss of €5.2 for 1998, was offset by the loss carried forward from the previous year to yield a net loss of €4.0 million.

Non-current assets increased €2.3 million in 1999 to €38.1 million, which consisted almost exclusively of holdings in subsidiary companies. Receivables due from subsidiary companies increased from €20.6 million to €55.1 million. Cash and cash equivalents decreased from €32.1 million to €6.4 million. Shareholders´ equity increased €4.4 million to €92.5 million, and the equity ratio was 92%. As a result of the changeover to the Euro as our reporting currency and the change in conditional capital, common stock increased to €16.9 million from the comparable figure of €13.3 million for the previous year. Liabilities increased €0.4 million to €7.6 million, primarily due to a shareholder loan in the amount of €7 million.

## Risk Factors

Various risk factors could prove to be a threat to the financial situation, assets, earnings and existence of INTERSHOP:

- The market for e-commerce applications is new and undergoing change. Critical issues concerning commercial use of the Internet such as, for example, security, cost of use, user-friendliness and service quality could prove to have a negative impact upon the development of the Internet and e-commerce. If companies now involved in e-commerce are not successful, this could also result in a decrease in the demand for e-commerce solutions. In addition, competition from existing and new providers could increase. Any or all of these factors could have a negative effect upon future demand and the acceptance of INTERSHOP products.
- Technical performance is an essential prerequisite for the acceptance of our products. Limitations with respect to the functionality or performance of existing and future products could considerably reduce acceptance of our products. This also applies to technical solutions from third parties, including databases, that are integrated into INTERSHOP products.

- The market for e-commerce applications is affected by the absence of generally accepted industry standards, changing customer needs, a high rate of technological progress and short innovation cycles. INTERSHOP´s economic development will be strongly dependent upon the success of new products in the marketplace. It is not certain that the new product introduced in late 1999, INTERSHOP enfinity, will live up to expectations in terms of acceptance by the market. It may also prove impossible to develop the new products needed to achieve our corporate goals or to develop them on a timely basis, or our products may fail to meet customer needs.
- The sale and deployment of INTERSHOP´s products is primarily handled by IT distributors and service providers such as system integrators, consulting firms and design firms. If we cannot adequately train a sufficient number of these companies in the use of our products and maintain our relationships with these companies, our ability to successfully market our products could be severely limited.
- The success of INTERSHOP´s business also depends substantially upon the performance of executive officers and key employees, especially in the area of product development and marketing. Failure to retain present employees and executive officers and attract sufficient numbers of new personnel could have a negative effect upon the company´s operating results.
- Licenses account for the greater share of INTERSHOP´s revenues. According to U.S. GAAP, revenues are recognized as such when sales agreements have been signed, the licenses have been delivered, the license fee is fixed and determinable, and payment is probable. If a sale includes services, revenues are recognized as such in proportion to the extent of completion of the overall project. In view of the uncertainty with respect to the length of sales and implementation cycles, which primarily depends upon our customers, revenues are subject to strong variation from one quarter to the next.
- To a great extent, the operating and financial results of our operations are reported in local currencies and translated into Euros for inclusion in our consolidated financial statements. Since no hedging or other arrangements have been made to guard against the risk of currency fluctuations, currency fluctuations could affect the results of operations and INTERSHOP´s financial position.
- Up to now, INTERSHOP has incurred a net loss each year and had a consolidated accumulated deficit of €45.4 million as of year-end 1999. Plans to continue to invest in operational activities in order to strengthen the company´s market position may also have a negative effect upon profitability in the future and reduce the company´s liquidity. As of December 31, 1999, cash and cash equivalents came to €12.1 million. If losses persist, it may become necessary for INTERSHOP to seek new funds through a capital increase or in the form of outside capital. If it is not possible to acquire sufficient capital, INTERSHOP could be forced to delay, reduce or completely discontinue operations.
- As of Dec. 31, 1999, accounts recievable due to the parent company INTERSHOP Communications AG from affiliated companies came to a total of €55.1 million. In the event these companies continue to report losses in the future, the possibility that these companies may not be able to repay these accounts cannot be excluded.

INTERSHOP has anticipated these risks and taken appropriate measures. Important aspects of the company´s strategy include a forward-looking product policy to anticipate developments in the marketplace and the future needs of customers, emphasis upon product development and the technological performance of our products. Also included in this strategy are ongoing efforts to strengthen the company´s position vis-à-vis its competitors, formation of new business partnerships and alliances and training for third parties who market, sell and deploy INTERSHOP products as well as measures to retain and recruit executive officers and key personnel and geographic expansion.

INTERSHOP has set up a comprehensive risk management system. In the context of its strategic controlling activities, the company monitors market trends and the activities of its competitors on an ongoing basis and also makes use of the studies of leading market research companies. INTERSHOP maintains a comprehensive system for product management and quality control in the area of product development. With Pivotal and SAP R/3, INTERSHOP uses the same systems for monitoring current business and trends worldwide. These systems permit an overview of the company´s present and future situation at all times. In addition, management regularly analyzes the company´s operating results and financial position. All in all, management believes that potential risks have been limited to the maximum extent possible.

### Post-Balance Sheet Events

In the first two months of the year 2000, the demand for e-commerce software solutions continued to grow, and INTERSHOP is currently negotiating new license agreements with a large number of companies. In addition, we are actively pursuing our strategy of forming new alliances with other companies. In the course of the year under review, one of our priorities was to intensify efforts to penetrate the enterprise market, which consists of major corporations. We believe the successful launch of the INTERSHOP enfinity product in late 1999 now gives us the foundation we need to expand into this segment of the market on a large scale. In February, we presented innovative, future-oriented e-commerce business models to industry professionals at CeBIT 2000, the world´s preeminent electronics and information technology fair. These models included the seamless integration of INTERSHOP products into the eBay auction platform and a »sell-direct« business-to-business application for Würth, the world´s leading marketer of fasteners and assembly technology. The solution deployed for Würth allows the company´s field personnel to use cellular phones to reorder merchandise.

As of the date of this report, the Year 2000 transition has not affected our products, our customers or our internal systems.

## Outlook

Consistent with leading market research organizations, INTERSHOP expects that the strong demand for e-commerce software will persist throughout the current year and continue into the years to come. IDC estimates the electronic commerce software market to grow by an average growth rate of 97 per year until 2003. At the same time, however, we foresee a shakeout in our industry due to intense competition. Given this situation, INTERSHOP management plans to continue to increase investments in product development, sales and marketing as well as geographic expansion in the year 2000 in order to continue as one of the world´s leading global providers of e-commerce software.
For the year 2000, our priorities are to assert our position of technological leadership in all product categories, to recruit additional personnel in the key areas of sales and development and to establish a well-defined profile in our markets. In addition to Europe, where we already enjoy a position of market leadership, our geographic priorities include the U.S.A., where we intend to capture a greater share of the market, and Asia, where further locations are planned in addition to our current presence in Hong Kong. We are also constantly on the lookout for possibilities to acquire interests in companies with technologies or products that complement our own product suite.

INTERSHOP´s management is convinced that it will be possible to substantially increase revenues once again in 2000. In order to achieve this, it will be necessary to succeed in penetrating the enterprise market and take advantage of the potential this market holds for INTERSHOP enfinity. In addition, it will also be necessary to increase our share of the U.S. market. We believe that INTERSHOP is in an excellent position to achieve these goals. Although expansion is likely to result in higher operating expenses, we nevertheless expect substantial improvement in operating results in the course of the current fiscal year. Management is prepared to take appropriate measures to maintain equity capital at an adequate level and hold open the company´s options in terms of its acquisition strategy in the event of further losses.

# Auditors´ Opinion

We have audited the consolidated financial statements, consisting of balance sheet, income statement, statement of shareholders´ equity, cash flow statement and notes to the consolidated financial Statements of INTERSHOP Communications AG for the financial year from January 1, 1999 to December 31, 1999. The preparation and the content of the consolidated financial statements is the responsibility of the Company´s management. Our responsibility is to express an opinion on the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), based on our audit.

We conducted our audit of the consolidated financial statements pursuant to German auditing standards and in compliance with the generally accepted auditing principles set forth by the Institut der Wirtschaftsprüfer (IDW) and supplementary with U.S. generally accepted auditing standards (U.S. GAAP). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The scope of the audit was planned taking into account our understanding of business operations, the Company´s economic and legal environment, and any anticipated potential errors. An audit includes examining, mainly on a basis of spot checks, evidence supporting the amounts and disclosures in the consolidated financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present in compliance with U.S.-GAAP a true and fair view of the financial position, the results, and cash flows of the Company.

Our audit, which also includes the management report for the financial year from January 1, 1999 to December 31, 1999, prepared by the legal representatives of the Company, did not give any cause for qualification. In our opinion the management report accurately presents, in all material respects, the situation of the Company and the risks arising from future developments. Furthermore, we confirm that the consolidated financial statements and the management report meet the requirements for an exemption to present consolidated financial statements and a management report according to German law.

Hamburg, February 25, 2000

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

| | |
|---|---|
| Nendza | Schneider |
| Wirtschaftsprufer | Wirtschaftsprüfer |

# Consolidated Balance Sheets

in thousands €

| ASSETS | 1998 | 1999 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | 34,185 | 12,065 |
| Restricted cash | 114 | 1,437 |
| Trade receivables, net of allowances for doubtful accounts of €443 and €1,614, respectively | 5,886 | 23,333 |
| Prepaid expenses and other current assets | 2,542 | 3,870 |
| Total current assets | 42,727 | 40,705 |
| PROPERTY AND EQUIPMENT, NET | 3,667 | 5,610 |
| INVESTMENTS | 512 | 6.222 |
| OTHER ASSETS | 315 | 1.252 |
| TOTAL ASSETS | 47,221 | 53,789 |

| LIABILITIES AND SHAREHOLDERS´ EQUITY | 1998 | 1999 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Current portion of capital lease obligation | 25 | 33 |
| Notes payable to shareholder | 0 | 7.000 |
| Accounts payable | 2,710 | 5,149 |
| Accrued liabilities | 3,224 | 9,960 |
| Deferred revenue | 5,059 | 8,543 |
| Total current liabilities | 11,018 | 30,685 |
| NOTES PAYABLE TO SHAREHOLDERS AND CAPITAL LEASE OBLIGATIONS | 230 | 20 |
| DEFERRED REVENUE | 1,748 | 220 |
| TOTAL LIABILITIES | 12,996 | 30,925 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 7) SHAREHOLDERS´ EQUITY | | |
| Common stock, stated value €1 authorized: 29,932,501 shares; outstanding: 15,584,901 shares in 1998 and 16,878,104 shares in 1999 | 13,281 | 16,878 |
| Paid-in capital | 50,225 | 48,169 |
| Notes receivable from shareholders | (1,428) | (141) |
| Deferred compensation | (799) | (273) |
| Accumulated deficit | (27,017) | (45,406) |
| Accumulated other comprehensive income (loss) | (37) | 3,637 |
| Total shareholders´ equity | 34,225 | 22,864 |
| TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY | 47,221 | 53,789 |

The accompanying notes are an integral part of these financial statements. All balances for years prior to 1999 have been restated from Deutsche mark into euros using the exchange rate as of January 1, 1999.

# Consolidated Statements of Operations

in thousands €, except per share amount

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| **REVENUES** | | | |
| Licenses | 2,947 | 11,295 | 29,534 |
| Services, maintenance and other revenues | 2,088 | 6,577 | 16,732 |
| Total revenues | 5,035 | 17,872 | 46,266 |
| **COST OF REVENUES** | | | |
| Licenses | 442 | 1,742 | 4,786 |
| Services, maintenance and other revenues | 2,245 | 3,766 | 8,465 |
| Total cost of revenues | 2,687 | 5,508 | 13,251 |
| **GROSS PROFIT** | 2,348 | 12,364 | 33,015 |
| **OPERATING EXPENSES** | | | |
| Research and development | 1,006 | 4,368 | 7,115 |
| Sales and marketing | 4,705 | 18,368 | 34,771 |
| General and administrative | 3,454 | 6,729 | 11,206 |
| Legal settlement costs | 0 | 1,866 | 0 |
| Total operating expenses | 9,165 | 31,331 | 53,092 |
| **OPERATING LOSS** | (6,817) | (18,967) | (20,077) |
| **OTHER INCOME (EXPENSE)** | | | |
| Interest income | 122 | 968 | 515 |
| Interest expense | (292) | (797) | (42) |
| Other income (expense) | (28) | 1,488 | 1,215 |
| Total other income (expense), net | (198) | 1,659 | 1,688 |
| **NET LOSS** | (7,015) | (17,308) | (18,389) |
| **ACCRETION OF REDEEMABLE PREFERRED STOCK** | (149) | (220) | 0 |
| **NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS** | (7,164) | (17,528) | (18,389) |
| **BASIC AND DILUTED NET LOSS PER SHARE** | (1.19) | (1.44) | (0.97) |
| **SHARES USED IN PER SHARE CALCULATIONS** | 6,034 | 12,145 | 18,948 |

The accompanying notes are an integral part of these financial statements. All balances for years prior to 1999 have been restated from Deutsche mark into euros using the exchange rate as of January 1, 1999.

# Consolidated Statements of Cash Flows

in thousands €

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net loss | (7,015) | (17,308) | (18,389) |
| Adjustments to reconcile net loss to cash provided by (used in) operating activities: | | | |
| Depreciation | 510 | 1,657 | 2,076 |
| Provision for doubtful accounts | 67 | 269 | 2,037 |
| Amortization of deferred compensation | 0 | 162 | 308 |
| Legal settlement costs | 0 | 1,866 | 0 |
| Change in: | | | |
| Accounts receivable | (2,244) | (4,080) | (18,220) |
| Prepaid expenses and other current assets | (822) | (1,695) | (1,474) |
| Other assets | (38) | (58) | (830) |
| Accounts payable | 1,880 | 436 | 2,228 |
| Deferred revenue | 9,819 | (3,245) | 1,542 |
| Accrued expenses and other liabilities | 451 | 1,013 | 6,298 |
| Net cash provided by (used in) operating activities | **2,608** | **(20,983)** | **(24,424)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investment in unaffiliated company | 0 | (512) | (1,199) |
| Purchases of equipment, net of capital leases | (1,902) | (3,302) | (3,625) |
| Restricted cash | (117) | 0 | (1,227) |
| Purchase of marketable securities | 0 | 0 | (1.490) |
| Net cash used in investing activities | **(2,019)** | **(3,814)** | **(7,541)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from sale of preferred stock | 3,377 | 1,873 | 0 |
| Proceeds from sale of common stock, net | 0 | 52,104 | 1,759 |
| Proceeds from debt issuance | 1,765 | 1,975 | 7,937 |
| Collections on notes receivable from shareholders | 0 | 0 | 1,287 |
| Repayments of indebtedness | (1,027) | (3,233) | (1,144) |
| Net cash provided by financing activities | **4,115** | **52,719** | **9,839** |
| Effect of change in exchange rates on cash | 140 | 1,205 | 6 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **4,844** | **29,127** | **(22,120)** |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **214** | **5,058** | **34,185** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **5,058** | **34,185** | **12,065** |

The accompanying notes are an integral part of these financial statements. All balances for years prior to 1999 have been restated from Deutsche mark into euros using the exchange rate as of January 1, 1999.

# Consolidated Statements of Convertible Redeemable Preferred Stock and Shareholders´ Equity

in thousands €, except share data

| | Convertible Redeemable Preferred Stock | | Common Stock | | |
|---|---|---|---|---|---|
| | Shares | Amount ´000 € | Shares | Stated Value ´000 € | APIC ´000 € |
| **BALANCE, DECEMBER 31, 1996** | 6,720,000 | 1,355 | 6,000,000 | – | 51 |
| Net loss | – | – | – | – | – |
| Foreign currency translation adjustments | – | – | – | – | – |
| Issuance of common stock | – | – | 22,500 | – | 17 |
| Exercise of stock options | – | – | 605,310 | – | 400 |
| Issuance of Series C preferred stock | 1,200,000 | 3,482 | – | – | – |
| Accretion of preferred stock | – | 149 | – | – | – |
| **BALANCE, DECEMBER 31, 1997** | **7,920,000** | **4,986** | **6,627,810** | **–** | **468** |
| Net loss | – | – | – | – | – |
| Foreign currency translation adjustments | – | – | – | – | – |
| Issuance of common stock of Inc. | – | – | 60,000 | – | 186 |
| Issuance of Series D preferred stock | 233,910 | 1,873 | – | – | – |
| Issuance of common stock for cash and forgiveness of legal settlement obligation | – | – | 230,091 | 196 | 6,257 |
| Accretion of preferred stock | – | 220 | – | – | – |
| Conversion of preferred stock of subsidiary to common stock of parent, net of share amounts not converted | (7,568,310) | (7,079) | 7,568,310 | – | 7,079 |
| Shares not converted | (585,600) | – | (2,646,000) | – | – |
| Reclassification for information of AG | – | – | – | 9,894 | (9,894) |
| Issuance of common stock in IPO, net | – | – | 3,000,000 | 2,557 | 44,774 |
| Exercise of stock options | – | – | 744,690 | 634 | 394 |
| Deferred compensation | – | – | – | – | 961 |
| Amortization of deferred compensation | – | – | – | – | – |
| **BALANCE, DECEMBER 31, 1998** | **–** | **–** | **15,584,901** | **13,281** | **50,225** |
| Net loss | – | – | – | – | – |
| Foreign currency translation adjustments | – | – | – | – | – |
| Unrealized gain on marketable securities | – | – | – | – | – |
| Conversion of preferred stock of subsidiary to common stock of parent | – | – | 446,700 | 416 | (416) |
| Exercise of stock options | – | – | 846,503 | 732 | 1,027 |
| Change in stated value of common stock | – | – | – | 2,449 | (2,449) |
| Collection on notes receivables from shareholders | – | – | – | – | – |
| Amortization of deferred compensation | – | – | – | – | (218) |
| **BALANCE, DECEMBER 31, 1999** | **–** | **–** | **16,878,104** | **16,878** | **48,169** |

## Shareholders´ Equity

| Notes Receivable from Stockholders ´000 € | Deferred Compensation ´000 € | Accumulated Deficit ´000 € | Accumulated Other Comprehensive Income (Loss) ´000 € | Total Stockholders´ Equity ´000 € | Comprehensive Income (Loss) ´000 € |
|---|---|---|---|---|---|
| – | – | (2,325) | (40) | (2,314) | – |
| – | – | (7,015) | – | (7,015) | (7,015) |
| – | – | – | (132) | (132) | (132) |
| – | – | – | – | 17 | – |
| (400) | – | – | – | – | – |
| – | – | – | – | – | – |
| – | – | (149) | – | (149) | – |
| **(400)** | **–** | **(9,489)** | **(172)** | **(9,593)** | **(7,147)** |
| – | – | (17,308) | – | (17,308) | 17,308 |
| – | – | – | 135 | 135 | 135 |
| – | – | – | – | 186 | – |
| – | – | – | – | – | – |
| – | – | – | – | 6,453 | – |
| – | – | (220) | – | (220) | – |
| – | – | – | – | 7,079 | – |
| – | – | – | – | – | – |
| – | – | – | – | – | – |
| – | – | – | – | 47,331 | – |
| (1,028) | – | – | – | – | – |
| – | (961) | – | – | – | – |
| – | 162 | – | – | 162 | – |
| **(1,428)** | **(799)** | **(27,017)** | **(37)** | **34,225** | **(17.173)** |
| – | – | (18,389) | – | (18,389) | (18,389) |
| – | – | – | 652 | 652 | 652 |
| – | – | – | 3,022 | 3,022 | 3,022 |
| – | – | – | – | – | – |
| – | – | – | – | 1,759 | – |
| – | – | – | – | – | – |
| 1,287 | – | – | – | 1,287 | – |
| – | 526 | – | – | 308 | – |
| **(141)** | **(273)** | **(45,406)** | **3,637** | **22,864** | **(14,715)** |

The accompanying notes are an integral part of these financial statements. All balances for years prior to 1999 have been restated from Deutsche mark into euros using the exchange rate as of January 1, 1999.

# Notes to Consolidated Financial Statements

### 1. Organization and Operations of the Company

INTERSHOP Communications AG, a German stock corporation (the »Company«), is the successor to INTERSHOP Communications, Inc. and INTERSHOP Communications GmbH. INTERSHOP Communications GmbH was originally founded in 1992 as NetConsult Communications GmbH in Germany as a limited liability company. NetConsult Communications GmbH established a wholly owned subsidiary, NetConsult Communications, Inc., a Delaware corporation, in March 1996. These companies were subsequently renamed INTERSHOP Communications GmbH and INTERSHOP Communications, Inc. (the predecessor company), respectively.

In January 1997, INTERSHOP Communications, Inc. (U.S. Inc.) acquired 100% of the shares of INTERSHOP Communications GmbH pursuant to a share exchange agreement, entered into in December 1996, between INTERSHOP Communications, Inc. and the shareholders of INTERSHOP Communications GmbH. Shareholders and holders of debt in INTERSHOP Communications GmbH received common and preferred stock, respectively, in INTERSHOP Communications, Inc. INTERSHOP Communications, Inc. thus became the parent company of INTERSHOP Communications GmbH and its subsidiaries.

In June 1998, the holders of 79.26% of the shares of U.S. Inc. exchanged their preferred and common stock of U.S. Inc. into 12,345,810 shares of the Company. As a result of this transaction, INTERSHOP Communications, Inc. became a majority-owned subsidiary of the Company. Two stockholders, including Stephen Schambach, our founder and Chief Executive Officer, did not contribute all of their shares of INTERSHOP Communications, Inc. and, as of December 31, 1999, still hold 16.4% and 1.5%, respectively, of that company´s capital stock. These two stockholders are entitled to exchange their shares in that company for shares in our company at a ratio of 5:3, using conditional capital specifically approved for this purpose. As of December 31, 1999, these stockholders held 4,461,500 shares in INTERSHOP Communications, Inc., and these shares are convertible into 2,784,900 shares of the Company at any time.

The accompanying consolidated financial statements reflect the consolidated results of the Company and its wholly and majority owned subsidiaries, which have been prepared according to United States generally accepted accounting principles (»U.S. GAAP«). All significant intercompany transactions and balances between the companies have been eliminated.

The Company has previously prepared and reported its consolidated financial statements as of and for the year ended December 31, 1997 in U.S. Dollars, as the parent company at that time was INTERSHOP Communications, Inc. These financial statements were restated and presented in Deutsche marks (»DM«) after the Company acquired the majority of the outstanding shares of INTERSHOP Communications, Inc. in 1998. With the introduction of the euro (€) on January 1, 1999, the Company has elected to present the accompanying consolidated financial statements in euro. Accordingly, the Deutsche mark consolidated financial statements for each period presented have been restated into euro using the Deutsche mark / euro exchange rate as of January 1, 1999 of €1 = DM 1.95583. The Company´s restated financial statements in euro depict the same trends as would have been presented if it had continued to present its consolidated financial statements in Deutsche marks. The consolidated financial statements will, however, not be comparable to financial statements for periods prior to January 1, 1999 in euro of other companies that previously reported their financial information in a currency other than Deutsche marks.

Unless otherwise noted, all references to the »Company« refer to INTERSHOP Communications AG and its subsidiaries, as well as its predecessors.

The Company is a global provider of electronic commerce software applications that enable businesses to sell their products and services over the Internet. The Company´s products can be integrated with existing business systems to allow its customers to sell goods and services over the Internet without replacing their existing business systems. The merchandising capabilities of the Company´s products, such as customer profiling and cross-selling, help allow its customers to maximize sales revenues. The Company also provides professional services for its customers to assist in the installation and ongoing maintenance of our software applications.

During 1997, the Company commenced commercial shipment of its products and emerged from the development stage. Although no longer in the development stage, the Company continues to be subject to the risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, operating in a new and rapidly evolving market, competition from larger companies, dependence on new products, dependence on key personnel, uncertain profitability, and a limited operating history.

## 2. Summary of significant accounting policies

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Foreign Currency Translation

The functional currency of the Company´s operations outside of Germany is the local country´s currency. Consequently, assets and liabilities of operations outside Germany are translated into euros using exchange rates at the end of each reporting period. Revenues and expenses are translated at the average exchange rates prevailing during the period. Cumulative translation gains and losses are reported as a separate component of shareholders´ equity.

### Statement of Cash Flows

The Company paid €229,000, €540,000 and €37,000 in cash for interest in 1997, 1998 and 1999, respectively. The Company paid €9,000, €13,000 and €61,000 in cash for taxes in 1997, 1998 and 1999, respectively. The Company sold equipment and leased it back in 1997 in a non-cash transaction. The Company recognized no gain or loss on the transactions and the value of the leased equipment is €119,000.

The Company considers all investments with original maturities of 90 days or less to be cash equivalents.

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company performs ongoing credit evaluations of its customer´s financial condition and the risk with respect to trade receivables is further mitigated by the fact that the Company´s customer based is diversified.

### Fair Value of Financial Instruments

The carrying amounts of the Company´s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and long-term debt approximate their fair values.

Marketable securities designated as available for sale are recorded at market with any unrealized gain or loss being recorded in the shareholders´ equity section of the Balance Sheet.

### Property and Equipment

Property and equipment are stated at cost. Capital leases are recorded at the present value of the future minimum lease payments at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three years. Capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the lease terms or their estimated useful life.

### Software Development Costs

The Company accounts for internally generated software development costs in accordance with Statement of Financial Accounting Standards (»SFAS«) No. 86, »Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed.« Capitalization of software development costs begins upon the establishment of technological feasibility of the product, which the Company defines as the development of a working model and further defines as the development of a beta version of the software. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenue, estimated economic life and changes in technology. Such costs are reported at the lower of unamortized cost or net realizable value. To date, internal software development costs that were eligible for capitalization have not been significant and the Company has charged all software development costs to research and development expense as incurred.

The Company expenses all research and development costs as incurred.

### Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses of €0.9 million, €1.5 million and €4.2 million were included with sales and marketing expenses for 1997, 1998 and 1999, respectively.

### Stock-Based Compensation

The Financial Accounting Standards Board issued SFAS No. 123, »Accounting for Stock-Based Compensation,« in October 1995. This accounting standard permits the use of either a fair value based method of accounting or the method defined in Accounting Principles Board Opinion 25, »Accounting for Stock Issued to Employees« (»APB 25«) to account for stock-based compensation arrangements. Companies that elect to employ the method proscribed by APB 25 are required to disclose the pro forma net income (loss) that would have resulted from the use of the fair value based method. The Company has elected to continue to account for its stock-based compensation arrangements under the provisions of APB 25, and, accordingly, it has included in Note 8 the pro forma disclosures required under SFAS No. 123.

## Revenue Recognition

The Company generates the following types of revenue:

Licenses. License fees are earned under software license agreements primarily to end-users, and to a lesser extent resellers and distributors. Revenues from licenses to end-users are recognized upon shipment of the software if persuasive evidence of an arrangement exists, collection of the resulting receivable is probable and the fee is fixed and determinable. If an acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period. As of January 1, 1998, the Company adopted the provisions of the American Institute of Certified Public Accountants (»AICPA«) Statement Of Position (»SOP«) 97-2, »Software Revenue Recognition« (»SOP 97-2«).

Service and maintenance. Services consist of support arrangements and consulting and education services. Support agreements generally call for the Company to provide technical support and provide certain rights to unspecified software updates to customers. Revenue on technical support and software update rights is recognized ratably over the term of the support agreement. The Company provides consulting and education services to its customers; revenue from such services is generally recognized as the services are performed.

For arrangements that include multiple elements, the fee is allocated to the various elements based on vendor-specific objective evidence of fair market value established by independent sale of the elements when sold separately.

In June 1997, the Company entered into a software license agreement with a shareholder for total license fees of €10.1 million, which was received in cash in 1997. The Company is recognizing the revenue associated with this agreement over the three-year term of the agreement. In 1997, the Company recognized €1.7 million of revenue associated with this agreement, representing 33% of consolidated revenue in 1997. In 1998, the Company recognized €3.4 million of revenue associated with this agreement, and €0.8 million related to other agreements with this customer, which combined represented 23% of consolidated revenue in 1998. In 1999, the Company recognized €4.2 million of revenue associated with this agreement representing 9% of consolidated revenue in 1999. In 1999, an executive from this customer became a member of our Supervisory Board. Another member of our Supervisory Board is also an executive with another one of our customers. Sales to this customer represented 13%, 6% and 2% of consolidated revenue in 1997, 1998 and 1999, respectively. Besides these two customers, no other customer accounted for 10% or more of consolidated revenues for any year presented.

## Comprehensive Income (Loss)

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, »Reporting Comprehensive Income,« which the Company adopted beginning on January 1, 1998. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The objective of SFAS No. 130 is to report a measure of all changes in equity of an enterprise that results from transactions and other economic events of the period other than transactions with shareholders (»comprehensive income«). Comprehensive income is the total of net income (loss) and all other non-owner changes in shareholders´ equity.

Accumulated other comprehensive income (loss) consists of the following (in thousands €):

| | Years Ended Dec. 31, 1998 | 1999 |
|---|---|---|
| Foreign currency translation adjustment | (37) | 615 |
| Unrealized gain on available-for-sale-securities | – | 3,022 |
| | **(37)** | **3,637** |

In the years ended December 31, 1997 and 1998, the only component of other comprehensive income is the net foreign currency translation, which was €132,000 and €135,000, respectively. A summary of the components of other comprehensive income for the year ended December 31, 1999 is as follows (in thousands €):

| | Before Tax Amount | Income Tax | After Tax Amount |
|---|---|---|---|
| Unrealized gain on available-for-sale-securities | 3,022 | – | 3,022 |
| Foreign currency translation adjustment | 652 | – | 652 |
| | **3,674** | **–** | **3,674** |

## Earnings per Share

Basic net loss per common share is presented in conformity with SFAS No. 128 »Earnings Per Share« for all periods presented. Basic net loss per share is computed using the weighted-average number of vested outstanding shares of common stock. Diluted net loss per share is computed using the weighted-average number of vested shares of common stock outstanding and, when dilutive, unvested common stock outstanding, potential common shares from options and warrants to purchase common stock using the treasury stock method and from convertible securities using the as-if-converted basis. The options exercised that result in shares subject to repurchase have been excluded in computing the number of weighted average shares outstanding for earnings per share purposes. Shares subject to repurchase were 233,000, 525,000, and 550,000 for 1997, 1998 and 1999, respectively.

All potential common shares have been excluded from the computation of diluted net loss per share for all periods presented because the effect would be antidilutive. Pursuant to the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 98, common stock and convertible preferred stock issued for normal consideration, prior to the anticipated effective date of the offering, are included in the calculation of basic and diluted net loss per share as if they were outstanding for all periods presented. To date, the Company has not had any issuances or grants for nominal consideration.

The total number of shares excluded from the calculations of diluted net loss per AG share were approximately 1,299,000, 1,125,000, and 473,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

### Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, »Accounting for Derivative Instruments and Hedging Activities,« which requires companies to record derivative financial instruments on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. In June 1999, the FASB issued SFAS No. 137, »Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statements No. 133,« which amends SFAS No. 133 to be effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (or January 1, 2001 for INTERSHOP). The Company has no derivative financial and commodity instruments, forward contracts or hedging arrangements in cash and cash equivalents. This statement should not have a material impact on the financial condition or results of INTERSHOP´s operations.

In December 1998, the AICPA issued SOP 98-9, »Modification of SOP 97-2, Software Revenue Recognition, with Respect to Certain Transactions.« SOP 98-9 amends SOP 97-2 and SOP 98-4 by extending the deferral of the application of certain provisions of SOP 97-2 amended by SOP 98-4 through fiscal years beginning on or before March 15, 1999. All other provisions of SOP 98-9 are effective for transactions entered into in fiscal years beginning after March 15, 1999. These statements will not have a material impact on the financial condition or results of INTERSHOP´s operations.

### Reclassifications

Certain 1997 and 1998 balances have been reclassified to conform to the presentation used in 1999.

## 3. Property and Equipment

Property and equipment consists of the following (in thousands €):

| | Years Ended Dec. 31, 1998 | 1999 |
|---|---|---|
| Computer equipment | 4,834 | 7,724 |
| Furniture and fixtures | 1,138 | 2,552 |
| Leasehold improvements | 36 | 332 |
| | 6,008 | 10,608 |
| Accumulated depreciation and amortization | (2,341) | (4,998) |
| Property and equipment, net | 3,667 | 5,610 |

Equipment under capital leases included in property and equipment as of December 31, 1998 and 1999 was €114,000. Accumulated amortization of leased equipment was €26,000 and €81,000 as of December 31, 1998 and 1999, respectively.

As of December 31, 1999, future minimum lease payments under capital leases together with their present value were (in thousands €):

| | |
|---|---|
| Total minimum lease payments | 39 |
| Amounts representing interest | (6) |
| Present value of minimum lease payments | 33 |
| Less current portion | (33) |
| | 0 |

## 4. Investments

During 1998 and 1999, the Company made investments in a non-public company in Israel totaling €0.5 million and €1.2 million, respectively. The total investment of €1.7 million in this entity represents an ownership interest of approximately 12% as of December 31, 1999. The investments are carried at their original cost basis.

In 1999, the Company acquired approximately €1.5 million of common stock in a public company in the United Kingdom. These equity securities are classified as available for sale securities. The Company recorded an unrealized gain of €3.0 million during 1999 based on the market value at December 31, 1999 of the securities of €4.5 million. The unrealized gain was included as a component of comprehensive income in the statement of shareholders´ equity for 1999.

## 5. Accrued Liabilities

Accrued liabilities consisted of the following as of December 31 (in thousands €):

| | 1998 | 1999 |
|---|---|---|
| VAT payable | – | 2,482 |
| Accrued commissions | 170 | 1,817 |
| Employee compensation | 947 | 1,774 |
| Other | 2,107 | 3,887 |
| | 3,224 | 9,960 |

## 6. Notes payable to Shareholders

During 1999, the Company entered into a secured loan agreement for €7.0 million with an officer of the Company who is also a shareholder and a member of the management board. Interest on the note is payable quarterly at 6%. The loan is callable with three months notice beginning December 31, 2000. There is a prepayment penalty of three months interest if the loan is paid down prior to December 31, 2000.

During 1996, the Company entered into a series of unsecured loans with certain shareholders. Interest is payable quarterly at 10%. The outstanding principal on the notes are classified as long-term and were €179,000 and €20,000 at December 31, 1998 and 1999, respectively. The loans may be repaid at any time, at the discretion of the Company, but no later than February 2004.

## 7. Commitments and Contingencies

### Operating Leases

Facilities and certain furniture and equipment are leased under operating leases. As of December 31, 1999, future minimum annual lease payments (excluding the lease payments relating to capitalized facilities discussed in Note 3) are as follows (in thousands €):

| Years Ended December 31, | |
|---|---|
| 2000 | 5,035 |
| 2001 | 4,122 |
| 2002 | 4,237 |
| 2003 | 4,311 |
| 2004 | 4,244 |
| Subsequent years | 8,151 |
| Total | 30,100 |

Rent expense was €492,000, €1,277,000 and €2,022,000 for the years ended December 31, 1997, 1998 and 1999, respectively.

### Legal Matters

The Company is a defendant in various legal matters arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters is not expected to have a material effect on these consolidated financial statements.

## 8. Shareholders´ Equity

### Stock Split and Change in Stated Value

In conjunction with the share exchange discussed in Note 1 between the shareholders of INTERSHOP Communications, Inc. and the Company in June 1998, the shares of INTERSHOP Communications, Inc. were exchanged for shares of the Company on a 1-for-5 basis. In June 1999, the Company changed the stated value of its common stock from DM 5 per share to €1 per share and effected a 3-for-1 stock split. Unless otherwise noted, all share and per share amounts presented have been restated to retroactively reflect this conversion ratio and stock split for all periods presented.

The adjustment to the stated value of the Company´s common stock is reflected in the Consolidated Statements of Convertible Redeemable Preferred Stock and Shareholders´ Equity as an increase to the stated value of the common stock for €2.4 million and a corresponding decrease to additional paid in capital as of June 1999.

### Convertible Redeemable Preferred Stock

During 1997, the Company issued 400,000 shares of preferred stock at approximately €8.7 per share resulting in aggregate proceeds of €3.5 million. In March 1998, the Company sold 77,970 shares of preferred stock in INTERSHOP Communications, Inc. at approximately €24 per share resulting in aggregate proceeds of €1.9 million.

Significant rights, restrictions, and preferences of preferred stock included cash dividends at a rate of 8% per annum, as defined, liquidation preferences, voting rights, and conversion and redemption features.

Prior to the share exchange between the shareholders of INTERSHOP Communications, Inc. and the Company in June 1998, all outstanding shares of preferred stock converted to the same number of shares of common stock of INTERSHOP Communications, Inc. After considering the conversion ratio and stock split discussed above, shares of INTERSHOP Communications, Inc. common stock were converted to shares of the Company on a 5-for-3 basis.

### Legal Settlement Obligation

In May 1998, we entered into a legal settlement that obligated us to pay €1.9 million. An investor paid this amount on the behalf of the Company. In exchange, this investor purchased 180,090 shares for total cash consideration of €4.0 million, whereas the market value was approximately €5.9 million. The Company has recorded legal settlement cost of €1.9 million as a contribution to capital.

### Deferred Compensation

In connection with the grant of certain stock options to employees prior to the initial public offering in July 1998, the Company recorded deferred compensation of approximately €1.0 million representing the intrinsic value of the options, i.e., the difference between the deemed value of the common stock for accounting purposes and the option exercise price of such options at the date of grant. This amount is presented as a reduction of shareholders´ equity and amortized ratably over the vesting period of the applicable options. Approximately €162,000 and €308,000 was expensed during the years ended December 31, 1998 and 1999, respectively, and the balance will be expensed ratably over the remaining vesting periods. Compensation expense is decreased in the period of forfeiture for any accrued but unvested compensation arising from the early termination of an option holder´s services. No compensation expense related to any other periods presented has been recorded.

## 1997 Equity Incentive Plan

The Company had originally reserved 2,000,000 shares of common stock for issuance to employees, directors and consultants under its 1997 Equity Incentive Plan (the 1997 Plan). The Board of Directors may grant incentive or non-statutory stock options at prices not less than 100 % or 85 %, respectively, of fair market value as determined by the Board of Directors, at the date of grant. Options vest ratably over periods determined by the Board, generally three years. The Board also has the authority to set exercise dates (no longer than ten years from the date of grant), payment terms, and other provisions for each grant. The Company generally had the right of first refusal for all common stock issued under the 1997 Plan should the holder desire to sell or otherwise transfer any of the shares. The Company´s right of first refusal terminated upon the effective date July 16, 1998, of the Company´s initial public offering.

## 1999 Equity Incentive Plan

Effective as of June 21, 1999, the Company adopted a new stock option plan (the 1999 Plan) covering board members, executive officers and certain employees. The options under the 1999 Plan vest ratably over a four year period beginning six months from the date of grant; however, pursuant to the German Stock Corporation Act, no options will be exercisable, even though a portion is vested, prior to the second anniversary of the date of grant. The exercise price of the options is equal to 120% of the market price of the shares on the date of grant, where the market price is determined to be the average closing price as quoted on the Neuer Markt for the 10 trading days prior to the date of grant.

There are two pools of shares authorized under the 1999 Plan. There are 133,000 shares for grants of stock options to members of the management board and general managers of subsidiaries and 1,500,000 shares for grants of stock options to all other employees. During the year ended December 31, 1999, the Company granted 158,000 options with a weighted average exercise price of €128.41 per share. No shares under the 1999 Plan were exercised, expired, or cancelled in 1999.

### Stock-Based Compensation

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan. If compensation cost for the Plan been determined based on the minimum value at the grant dates for the awards calculated in accordance with the method prescribed by SFAS No. 123, the impact on the Company´s net loss and net loss per share would have been as follows (in thousands €):

| | Years Ended Dec. 31, 1997 | 1998 | 1999 |
|---|---|---|---|
| Net loss attributable to common shareholders | | | |
| As reported | (7,164) | (17,528) | (18,389) |
| Pro forma | (7,337) | (17,563) | (21,204) |
| Basic and diluted earnings per AG share | | | |
| As reported | (1.14) | (1.38) | (0.94) |
| Pro forma | (1.17) | (1.39) | (1.09) |

Option activity under the Plan was as follows (in thousands, except per share data):

| | Years Ended Dec. 31, 1997 | | 1998 | | 1999 | |
|---|---|---|---|---|---|---|
| | Number of Shares Out-standing | Weighted Average Exercise Price (€) | Number of Shares Out-standing | Weighted Average Exercise Price (€) | Number of Shares Out-standing | Weighted Average Exercise Price (€) |
| Outstanding at beginning of year | – | – | 1,299 | 0.57 | 1,125 | 2.93 |
| Granted | 2,106 | 0.65 | 792 | 4.21 | 447 | 78.30 |
| Exercised | (606) | 0.65 | (744) | 1.15 | (847) | 2.21 |
| Canceled | (201) | 1.12 | (222) | 1.01 | (252) | 5.54 |
| Outstanding at end of year | **1,299** | **0.57** | **1,125** | **2.93** | **473** | **73.90** |

The following table summarizes information with respect to the stock options outstanding at December 31, 1999:

| Range of Exercise Prices | | | Number of Options Out-standing in ´000 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price (€) | Number Exercisable at 12/31/99 in ´000 | Weighted Average Exercise Price (€) |
|---|---|---|---|---|---|---|---|
| 0.08 | – | 0.16 | 21 | 7.6 | 0.14 | 6 | 0.09 |
| 0.79 | – | 1.57 | 13 | 8.0 | 1.49 | 3 | 1.51 |
| 3.14 | | | 66 | 8.2 | 3.14 | 9 | 3.14 |
| 6.29 | | | 26 | 8.6 | 6.29 | 2 | 6.29 |
| 23.02 | – | 34.60 | 26 | 8.9 | 27.28 | 19 | 27.49 |
| 36.12 | – | 54.20 | 77 | 9.2 | 45.95 | 34 | 46.00 |
| 56.48 | – | 76.45 | 86 | 9.4 | 64.16 | 19 | 64.01 |
| 92.20 | – | 134.72 | 135 | 4.7 | 113.99 | – | – |
| 149.66 | – | 223.30 | 16 | 4.9 | 181.64 | – | – |
| 232.86 | – | 319.98 | 7 | 5.0 | 257.68 | – | – |
| | | | 473 | 7.5 | 48.15 | 92 | 36.53 |

The 1997 Plan allows for the issuance of options that are immediately exercisable through execution of a restricted stock purchase agreement. Shares purchased subject to a restricted stock purchase agreement generally vest over three years. In the event of termination of employment, the Company may repurchase unvested shares at a price equal to the original issuance price. As of December 31, 1999, shares of common stock issued and outstanding were unvested and subject to repurchase by the Company at €0.08 to €6.29 per share. All shares that were exercised early are held by a trustee on behalf of the employee. In the event that an employee leaves the Company with unvested shares, the unvested shares are sold in the open market, and the proceeds of the sale are contributed to the Company.

The fair value of each option grant is estimated on the date of grant utilizing risk-free interest rates on the date of grant (5.8% – 6.5% in 1997, 4.2% – 5.6% in 1998 and 4.6% – 6.2% in 1999) with maturities equal to the expected option term of 4.5 years. The dividend assumed is estimated at 0% in 1997, 1998 and 1999 and the volatility is assumed to be 0% through the date of the Company´s initial public offering in 1998 and 69% for all periods subsequent to that date.

### Shares Reserved for Future Issuance

As of December 31, 1999, the Company had conditional capital of 4,771,397 shares. Conditional capital is equivalent to shares reserved for future issuance, as follows:

| | |
|---|---|
| Conversion of remaining INTERSHOP Communications, Inc. shares | 2,784,900 |
| Stock options | 1,986,497 |
| | **4,771,397** |

## 9. Income Taxes

The Company accounts for income taxes using an asset and liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which taxes become payable.

The income tax benefit differs from the amounts which would result by applying the applicable German statutory rates to the loss before taxes, as follows (in thousands €):

| | 1997 | 1998 | 1999 |
|---|---|---|---|
| Provision (benefit) at German statutory rate | (2,919) | (10,079) | (9,783) |
| Foreign losses benefited at a lower tax rate | 13 | 3,480 | 2,998 |
| Change in valuation allowance | 3,186 | 8,749 | 9,854 |
| Tax credits | (4) | (17) | – |
| Nondeductible expense | 9 | 40 | 214 |
| Deductible IPO costs | – | (2,173) | (79) |
| Change in statutory tax rate | – | – | (2,490) |
| Other | (285) | – | (714) |
| Provision (benefit) for income taxes | – | – | – |

The components of the deferred tax asset were as follows (in thousands €):

| | 1998 | 1999 |
|---|---|---|
| Net operating loss carryforward | (9,797) | (18,973) |
| Tax credit carryforwards | 42 | 82 |
| Accruals not currently deductible | 506 | 1,287 |
| Capitalized start-up costs | 17 | 16 |
| Other | 43 | (99) |
| | 10,405 | 20,259 |
| Valuation allowance | (10,405) | (20,259) |
| Net deferred tax asset | – | – |

A valuation allowance has been recorded for the entire deferred tax asset as a result of uncertainties regarding the realization of the asset including the limited operating history of the Company and the lack of profitability to date.

For the year ended December 31, 1999, the Company had net operating loss carryforwards for tax reporting purposes in various tax jurisdictions as follows (in thousands €):

| | |
|---|---|
| U.S. Federal | 37,275 |
| U.S. state | 19,938 |
| German | 6,597 |
| Other | 4,236 |
| Total | 68,046 |

In addition, as of December 31, 1999, the Company had U.S. Federal and U.S. state income tax credit carryforwards of approximately €70,000 and €48,000, respectively. U.S. Federal and state net operating losses carryforwards expire in various periods through 2019. The German net operating loss carry forwards for tax purposes relate to corporate income tax and municipal trade tax and carry forward indefinitely. The Tax Reform Act of 1986 and German tax law contains provisions which may limit the net operating loss and tax credit carryforwards to be used in any given year upon the occurrence of certain events, including a significant change in ownership interest.

### 10. Industry Segment and Geographic Information

During 1998, the Company adopted SFAS No. 131, »Disclosures About Segments of and Enterprise and Related Information.«

The Company is organized based upon the nature of the products and services it offers. Under this organizational structure, the Company operates in two fundamental business segments: product and service. The product segment includes the development and sale of the Company´s software products. The service segment provides service and support for the Company´s products. The Company´s products are primarily developed at its facilities in Jena, Germany, and are sold through a direct sales force and independent distributors in Europe, North America, South America, Australia and Asia.

The information in the following tables is derived directly from the Company´s internal financial reporting used by the Company´s chief decision makers for corporate management purposes. The Company evaluates its segments´ performance based on several factors, of which the primary financial measure is gross margin. Unallocated costs include corporate and other costs not allocated to business segments for management reporting purposes. The accounting policies followed by the Company´s business segments are the same as those described in Note 2 to the consolidated financial statements. The Company does not allocate assets by segment for management reporting purposes.

| | Years Ended Dec. 31, | | |
|---|---|---|---|
| in thousands € | 1997 | 1998 | 1999 |
| REVENUES FROM UNAFFILIATED CUSTOMERS: | | | |
| Product | 2,947 | 11,295 | 29,534 |
| Services | 2,088 | 6,577 | 16,732 |
| Total revenue | **5,035** | **17,872** | **46,266** |
| GROSS MARGIN: | | | |
| Product | 2,505 | 9,553 | 24,748 |
| Services | (157) | 2,811 | 8,267 |
| Total gross margin | **2,348** | **12,364** | **33,015** |

Revenues by geographic location are attributed to the country from which the sale is made and are presented below (in thousands €):

| | Years Ended Dec. 31, | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| Germany | 3,895 | 10,232 | 17,190 |
| United States | 961 | 5,940 | 18,366 |
| United Kingdom | – | 797 | 7,000 |
| Other* | 179 | 903 | 3,710 |
| Total | 5,035 | 17,872 | 46,266 |

* Revenues for other geographic locations are substantially derived from France in 1997 and 1998, and France and Sweden in 1999.

Long-lived assets located by geographic location are as follows (in thousands €):

| | As of Dec. 31, | | |
|---|---|---|---|
| | 1997 | 1998 | 1999 |
| Germany | 1,256 | 1,404 | 1,644 |
| United States | 802 | 2,074 | 2,671 |
| United Kingdom | – | 48 | 716 |
| Other | 33 | 141 | 579 |
| Total | 2,091 | 3,667 | 5,610 |

# Differences between U.S. GAAP and German Law

## 1. General

The consolidated financial statements of INTERSHOP Communications Aktiengesellschaft (hereinafter referred to as the »Company« or »INTERSHOP AG«) as of December 31, 1999 were prepared as exempting consolidated financial statements in accordance with § 292a of the German Commercial Code (HGB) in conformity with U.S. generally accepted accounting principles (»U.S. GAAP«).

The provisions of the German Commercial Code (HGB) and German Stock Corporation Law (AktG) differ from U.S. GAAP in certain significant respects. The main differences that may be relevant to an evaluation of the net worth, financial position, and the results of the Company are described below:

Pursuant to HGB, all items in the balance sheet and income statement must be set out in the form and order laid down in §§ 266, 275 HGB. U.S. GAAP requires a different presentation, in which the balance sheet items are presented with more liquid items first.

According to U.S. GAAP, the short-term portions of long-term receivables and liabilities are shown in a separate balance sheet item. The portion that falls due in less than one year is treated as short-term.

Purchased software for internal use is not shown as an intangible asset, as it is in financial statements prepared according to HGB, but as property and equipment, such as fixtures, fur-niture, and office equipment. According to U.S. GAAP, cost to develop software to be sold, leased, or otherwise marketed can be capitalized and amortized over its estimated economic life. According to HGB, internally developed software forming part of fixed assets cannot be capitalized. During 1998, the Company charged all software development costs to research and development as incurred.

## 2. Leasing

According to both HGB and U.S. GAAP, the economic allocation of the leased asset is the basis for the representation of leasing relationships. The criteria for this allocation often vary between HGB and U.S. GAAP, so that in certain cases, a lease asset reported as an operating lease in a balance sheet prepared according to HGB, may be recorded as a capital lease in line with U.S. GAAP. In accordance with U.S. GAAP, the leased asset would then have to be stated in the balance sheet at the present value of the minimum lease payments during the lease term. At the same time, a corresponding liability is also recorded. Depreciation and interest expense in the leasing agreement is then recorded in the income statement.

## 3. Deferred Taxes on Loss Carryforwards

According to HGB, deferred tax refund claims arising from loss carryforwards may not be shown on the balance sheet as expected future tax savings are deemed to be not yet realized. According to U.S. GAAP, these types of future tax reduction claims are to be capitalized. Their value depends upon the probability of the loss carryforwards being utilized within the required period. The Company has recorded a valuation allowance for its deferred tax asset due to uncertainties regarding the realization of the asset.

## 4. Employee Stock Options

According to U.S. GAAP, stock-based compensation issued to employees may be accounted for in two ways. Under one method, the »fair value« of stock-based compensation may be determined and recorded as an expense over the vesting period of the option or other equity instrument. Alternatively, only the difference between the exercise price of the option and the fair market value of the underlying security on the date of grant are recognized as an expense over the vesting period. Under this method, the pro forma impact on net income of accounting for stock-based compensation using the first method must be disclosed in the financial statements. The Company has elected the latter method and presents the pro forma impact in the notes to the financial statements.

As noted above, the difference between the exercise price of the option and the fair market value of the underlying security on the date of grant are to be treated, according to U.S. GAAP, as personnel expenses recorded ratably over the vesting period of the option and correspondingly recorded under »equity«. In line with currently accepted accounting rules, no expense would occur in the income statement pursuant to HGB.

## 5. Equity

According to HGB, the Company would have had to prepare consolidated financial statements for the first time following the acquisition of the majority of shares in INTERSHOP Communications, Inc. on June 22, 1998 and perform the capital consolidation as of this date. The difference between the book value of the participation and the equity capital of the subsidiary INTERSHOP Communications, Inc. would have to be distributed according to the actual value of the assets and liabilities included in consolidation. The remainder would have to be shown as goodwill and either amortized over its expected useful life or offset against the capital reserves on the face of the balance sheet. The valuation base from the Company´s individual financial statements would have to be shown as capital stock. The amount allotted to the minority shareholders in INTERSHOP Communications Inc. would have to be shown under the position »equity« as »minority interests in capital« and in the income statement as »minority interests in profit/loss«.

According to U.S. GAAP, the capital consolidation of the Company in line with APB 16 »Business Combinations« is effected as a »transaction under common control«, which eliminates the transfer of the shares in INTERSHOP Communications GmbH, Jena, to INTERSHOP Communications, Inc., as well as the transfer of the shares in INTERSHOP Communications, Inc. to INTERSHOP AG and means that only the amount actually raised is shown as capital stock. Likewise, no differences resulted from these transactions according to U.S. GAAP. Due to the fact that the minority shareholders of INTERSHOP Communications, Inc. have a right of conversion for the conditional capital of the shareholders, no minority shares in the capital or the profit/loss are shown.

Therefore, according to U.S. GAAP, the time of first consolidation does not apply, so that the disclosures made before the formation of INTERSHOP AG reflect the individual group structures.

## 6. Revenue Recognition

In accordance with U.S. GAAP, sales revenue is recognized in compliance with American Instutite of Public Accountants´ Statement of Position (SOP) 97-2, »Software Revenue Recognition«, and related interpretations. There is no general difference to HGB with regard to proceeds from licensing. U.S. GAAP requires accounting for work in process on service transactions to be performed according to the »percentage of completion method«, whereby the progress of each project leads to revenue recognition on a pro-rata basis. Service revenue would only be taken into account upon completion of work according to HGB.

## 7. Costs of Initial Public Offering

According to U.S. GAAP, costs connected with the initial public offering on the stock exchange are to be treated as a reduction of the proceeds from the issuing of stocks. According to HGB, these costs represent extraordinary expenses.

# Balance Sheet AG

in thousands €

| ASSETS | 1998 | 1999 |
|---|---|---|
| FIXED ASSETS | | |
| Property and equipment | 0 | 11 |
| Financial assets | | |
| Investments in affilliated companies | 35,873 | 38,127 |
| | 35,873 | 38,138 |
| CURRENT ASSETS | | |
| Accounts recievables and other assets | | |
| Accounts due from affiliated companies | 20,550 | 55,118 |
| Other assets | 321 | 751 |
| | 20,871 | 55,869 |
| Cash and cash equivalents | 32,095 | 6,352 |
| | 52,966 | 62,221 |
| DEFERRED CHARGES | 12 | 19 |
| TOTAL ASSETS | 88,851 | 100,378 |

| SHAREHOLDERS´ EQUITY AND LIABILITIES | 1998 | 1999 |
|---|---|---|
| SHAREHOLDERS´ EQUITY | | |
| Common stock | 13,281 | 16,878 |
| – conditional capital: €4,771,397.00 (previous year: €4,520,193.47) | | |
| Capital surplus | 80,069 | 79,580 |
| Accummulated deficit | (5,206) | (3,951) |
| | 88,144 | 92,507 |
| ACCRUED LIABILITIES | | |
| Other accrued liabilities | 259 | 251 |
| LIABILITIES | | |
| Accounts due to banks | 342 | 1 |
| Accounts payable | 103 | 246 |
| Accounts due to affiliated companies | 0 | 299 |
| Other liabilities | 3 | 7,074 |
| – thereof from taxes: €29,169.72 (previous year: €0,00) | | |
| – thereof from social security benefits: €8,787.82 (previous year: €0.00) | | |
| | 448 | 7,620 |
| TOTAL SHAREHOLDERS´EQUITY AND LIABILITIES | 88,851 | 100,378 |
| CONTINGENT LIABILITIES | | |
| Liabilities from guaranties | 0 | 153 |
| – thereof due to affiliated companies €8,787.82 (previous year: €0.00) | | |

# Statement of Operations AG

in thousands €

| | 1998 | 1999 |
|---|---|---|
| Other operating income | 50 | 177 |
| Personnel costs | 0 | (240) |
| Depreciation | 0 | (1) |
| Other operating expense | (2,248) | (864) |
| Interest income | 793 | 2,339 |
| – thereof from affiliated companies €1,949,026.60 | | |
| (previous year: €303,905.06) | | |
| Interest expense | (2) | (3) |
| **LOSS FROM ORDINARY OPERATIONS** | **(1,407)** | **1,408** |
| Extraordinary expense | (3,799) | (153) |
| **LOSS FROM EXTRAORDINARY OPERATIONS** | **(3,799)** | **(153)** |
| **NET LOSS** | **(5,206)** | **1,255** |
| Accumulated deficit carried forward | 0 | (5,206) |
| **ACCUMULATED DEFICIT** | **(5,206)** | **(3,951)** |

# Notes to Financial Statements AG

## 1. Accounting and Valuation Methods

The Company has adopted the euro as its reporting currency, and figures from previous year have been translated accordingly.

Assets are carried at cost less depreciation.

Accounts receivable and other assets are stated at face value.

Other provisions and accrued liabilities cover all recognizable risks and are stated in the amount necessary on the basis of customary business practice.

Accounts receivable and accounts payable in foreign currencies were translated into the Company´s reporting currency using the lower of the exchange rate in effect on the day of the transaction or the year-end exchange rate.

## 2. Explanatory comments on the financial statements

Changes in financial assets are as follows (in thousands €):

| | At Cost | | | |
|---|---|---|---|---|
| | Jan. 1, 1999 | Additions | Retire-ments | Dec. 31, 1999 |
| PROPERTY AND EQUIPMENT | 0 | 11,987 | 0 | 11,987 |
| FINANCIAL ASSETS | | | | |
| Investments in affiliated companies | 35,872,540 | 2,255,003 | 565 | 38,126,979 |
| | 35,872,540 | 2,266,990 | 565 | 38,138,966 |

| | Depriciation for the period | | | | Net book value | |
|---|---|---|---|---|---|---|
| | Jan. 1, 1999 | Additions | Retire-ments | Dec. 31, 1999 | Dec. 31, 1999 | Dec. 31, 1999 |
| PROPERTY AND EQUIPMENT | 0 | 1,176 | 0 | 1,176 | 10,811 | 0 |
| FINANCIAL ASSETS | | | | | | |
| Investments in affiliated companies | 0 | 0 | 0 | 0 | 38,126,979 | 35,872,540 |
| | 0 | 1,176 | 0 | 1,176 | 38,137,790 | 35,872,540 |

Accounts receivable and other assets have maturities of up to one year.

The capital stock in the amount of €16,878,104 consists of 16,878,104 consits of 16,878,104 common bearer shares with no par value. In 1999, 1,293,203 shares were issued from conditional capital, of which 846,503 from Conditional Capital II created for the 1997 stock-option plan and 446,700 from Conditional Capital III created to permit the exchange of remaining outstanding shares in INTERSHOP Communications, Inc. for shares in the Company.

The authorized capital in the amount of €8,283,000 entitles management to issue an additional 8,283,000 common bearer shares with no par value.

Conditional capital in the amount of €4,771,397 is available for the issuance of 4,771,397 common bearer shares with no par value, of which 1,986,497 are reserved for stock options management may grant to employees of the INTERSHOP group.

Of the conditional capital created for employee stock options in compliance with § 192 paragraph 2 No. 3 AktG (German stock corporation law), 1,633,000 shares (Conditional Capital I) are reserved for options. Of these, a total of 158,000 options were granted at an average exercise price of €128.41. These options must be exercised within five years but no earlier than two years from the time they were granted. The exercise price was based upon the average price of the shares on the last 10 trading days prior to the day the options were granted plus 20%.

In addition, 353,497 shares from Conditional Capital II created in compliance with § 192 paragraph 2 No. 3 AktG are reserved to honor the rights granted to known holders of options to exchange shares in INTERSHOP Communications, Inc., which was acquired by the Company in 1998, for shares in the Company at a ratio of 5:3.

Changes in capital surplus were as follows (in thousands €):

| | |
|---|---|
| Capital surplus as of Dec. 31, 1998 | 80,068,723.76 |
| Capital increase from Company funds in the context of the changeover to the euro | (2,449,324.30) |
| Premium from capital increase through contributions in kind | 878,736.13 |
| Premium from capital increase through contributions in cash | 1,081,479.16 |
| | **79,579,614.75** |

Other accrued liabilities consist primarily of legal and professional fees and expense in connection with preparations for registration for trading in the U.S.A.

All liabilities have maturities of up to one year.

A total of €7 million in other liabilities consists of a loan from a member of management that is secured by accounts receivable.

No other financial commitments exist.

Other operating income in the amount of €165,000 consists of expenses charged to affiliated companies.

### 3. Other Information

The Company had an average of seven employee in the course of the 1999 business year.

The Supervisory Board consisted of the following members in 1999:

Eckard Pfeiffer, Chairman from Sept. 30, 1999
Consultant
Other directorships: Chairman, ricardo.de AG, General Motors Corporation, Hughes Electronics Corporation, Bell Atlantic Corporation

Dr. Gert Köhler, Chairman to Sept. 29, 1999
Managing Director, Technologieholding VC GmbH
Other directorships: ETH European Technologies Holding NV, AET Advanced European Technologies NV, SET Strategic European Technologies NV, POET Software, Inc.

Theodore J. Smith, Vice Chairman
Investor
Other directorships: FileNET Corporation, SmartShip.com, ScatAdvisor.com 4MyCommunity.com, Manufacturing Data Systems, Inc.

Jörg Menno Harms
Managing Director, Hewlett-Packard GmbH
Other directorships: Jenoptik AG, Groz Beckert KG, Württembergische Hypothekenbank AG, Dürr AG, Heidelberger Druckmaschinen AG, Klinik Tübingen

Prof. Knut Föckler, from June 21, 1999
Professor of Service Design
Other directorships: DeTeOnline GmbH, Telecash AG, MSG AG, ID-Gruppe

Prof. Dr. Hartmut Esslinger, from June 21, 1999
Designer and Entrepreneur
Other directorships: Chairman, Frogdesign, Inc.

Lorenzo Pellicioli, from June 21, 1999
CEO, Seat Pagine Gialle
Other directorships: EGG s.r.l., EGG Eventi e Sponsorizzazioni s.r.l., GENESIS

The Management Board included the following in 1999:

Stephan Schambach
Chief Executive Officer

Wilfried Beeck
Chief Financial Officer

Members of the Management Board received no remuneration from the Company. The Articles of Incorporation set the total remuneration of the members of the Supervisory Board at DM 55,000, which amount was, however, not paid in the course of the business year.

INTERSHOP Communications AG is a public listed company incorporated in Germany and is listed on the Neuer Markt. According to § 292a of the German Civil Code the Company may opt to present financial statements in compliance with US GAAP. The consolidated financial statements are on file with the Registry of Commerce of the Court of Hamburg. These financial statements include the consolidated financial statements of the parent company and the following subsidiary undertakings:

INTERSHOP Communications GmbH, Jena

INTERSHOP Communications, Inc., San Francisco, U.S.A.

INTERSHOP Communications S.a.r.l., Paris, France

INTERSHOP Software Entwicklungs GmbH, Jena, Germany

INTERSHOP (UK) Ltd, London, U.K.

INTERSHOP Communications Ventures GmbH, Hamburg

IS Nordic AB, Stockholm, Sweden

The following list includes the subsidiaries of INTERSHOP Communications AG and the Company´s respective interest:

| | Interest in % | Currency | Authorized capital | Shareholders´ equity | Profit / Loss for the year |
|---|---|---|---|---|---|
| INTERSHOP Communications, Inc. San Francisco, U.S.A. | 82.13 | € | 7,332,682 | (33,170,624) | (18,596,540) |
| INTERSHOP Communications Ventures GmbH, Hamburg | 100 | € | 1,000,000 | 895,000 | (105,000) |
| INTERSHOP Software Entwicklungs GmbH, Jena | 100 | € | 25,000 | (265,556) | (281,004) |
| INTERSHOP (UK) Ltd, London, U.K. | 100 | € | 1,585 | (5,669,598) | (5,198,012) |
| INTERSHOP Communications S. a. r. l., Paris, France | 100 | € | 38,112 | (2,926,646) | (2,288,252) |
| IS Nordic AB Stockholm, Sweden | 100 | € | 11,682 | (535,764) | (524,432) |

Hamburg, February 2000

The Management Board

Stephan Schambach

Wilfried Beeck

# Auditors´ Opinion

We have audited the financial statements including the accounting and the management report of INTERSHOP Communications AG for the financial year from January 1, 1999 to December 31,1999. The legal representatives of the Company are responsible for the accounting and preparation of the financial statements and management report in compliance with German commercial law and the supplementary regulations in the articles of association. Our responsibility is to express an opinion, based on our audit, on the financial statements, including the accounting, and on the management report.

We conducted our audit of the financial statements pursuant to sec. 317 HGB and in compliance with the generally accepted auditing principles set down by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the assets, liabilities, financial position and results of the Company as conveyed by the financial statements, in compliance with generally accepted accounting principles, and by the management report. The scope of the audit was planned taking into account our understanding of business operations, the Company´s economic and legal environment, and any potential errors anticipated. In the course of the audit, the effectiveness of the system of internal controls has been assessed, and the disclosures made in the accounting, financial statements and management report have been verified, mainly on the basis of spot checks. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

In our opinion, the financial statements are in compliance with generally accepted accounting principles and present a true and fair view of the assets, liabilities, financial position and results of the Company. In all material respects, the management report accurately presents the situation of the Company and the risks arising from future developments.

Hamburg, February 25, 2000

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

| | |
|---|---|
| Nendza | Schneider |
| Wirtschaftsprufer | Wirtschaftsprüfer |

# Report of the Supervisory Board

During the year under review, there were various changes in the Supervisory Board. New additions to the Board elected at the Annual Shareholders´ Meeting held on June 21, 1999 included Prof. Knut Föckler, Prof. Hartmut Esslinger and Lorenzo Pellicioli. On September 30, 1999, Eckhard Pfeiffer was appointed Chairman of the Supervisory Board and replaced Dr. Gert Köhler, who resigned from the Board. On behalf of the Company, the Supervisory Board would like to take this opportunity to thank Dr. Köhler for his substantial contribution to the success to INTERSHOP Communications. There were no changes in the Management Board in the course of the year.

The Supervisory Board did not form any committees. The Supervisory Board also oversaw the Management Board regarding the tasks imposed upon it by law and the Articles of Association, and monitored management activity during the year 1999. Further, the Management Board reported regularly on progress in achieving goals set for the current year and on the prospects for future periods. The Supervisory Board convened four meetings, which took place on February 11, 1999, May 4, 1999, September 1, 1999, and December 8, 1999. Between the meetings of the Supervisory Board urgent decisions were taken by written procedure and these were confirmed in the meetings.

The accounts, annual financial statement and management report were audited and given an unqualified auditor´s certificate by Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH (auditors and tax consultants), who had been appointed auditors for the stub period of the business year at the shareholders´ meeting on June 21, 1999. We agree with the auditing results. The Supervisory Board has checked the financial statements and consolidated financial statements to December 31, 1999, and the related management report. No objections have been raised thereby. The annual financial statements provided by the Management Board was approved today by the Supervisory Board and is thereby finalized.

1999 was another successful year for INTERSHOP. The Supervisory Board thanks management and the Company´s employees at the various locations for the performance that contributed to this success in the past business year.

Hamburg, March 13, 2000

Eckhard Pfeiffer
Chairman of the Supervisory Board

# Management

## SUPERVISORY BOARD

**Eckhard Pfeiffer**
(Chairman) Consultant

**Theodore J. Smith**
(Vice Chairman)
President FileNet Corp.

**Jörg Menno Harms**
Managing Director
Hewlett-Packard GmbH

**Prof. Dr. Hartmut Esslinger**
Founder and CEO Frogdesign

**Prof. Knut Föckler**
Director Multimedia,
Deutsche Telekom AG

**Lorenzo Pellicioli**
CEO Seat Pagine Gialle

## MANAGEMENT BOARD

**Stephan Schambach**
(CEO) Products and Marketing

**Wilfried Beeck**
(CFO) Sales, Finance and Administration

## GLOBAL SENIOR MANAGEMENT TEAM

**Stephan Schambach**
Founder and CEO

**Wilfried Beeck**
Founder and CFO

**Karsten Schneider**
Founder and Senior Vice President of Business Development

**Keith Costello**
President for the Americas

**Frank Gessner**
Vice President of Engineering

**James Demetros**
Vice President of Sales for the Americas

**Bernhard Marbach**
Vice President of Sales for Europe and Asia

**Edward J. Callan**
Vice President of Marketing

**Dr. Andreas Gregori**
Vice President of Marketing for Europe and Asia

**Philip L. Oreste**
Vice President of Finance for the Americas

**Dirk L. Reiche**
Vice President of Finance for Europe and Asia

**Dieter Neujahr**
Vice President of Operations for Europe

**Wolfgang Schober**
Vice President of Professional Services

# Corporate Structure

**INTERSHOP**
Communications AG
Hamburg

100%
**INTERSHOP**
(UK), Ltd.
London

100%
**INTERSHOP**
Communications S.a.r.l.
Paris

100%
**IS Nordic AB**
Stockholm

100%
**INTERSHOP**
Communications Hong Kong Co. Ltd.
Hong Kong

82.13%
**INTERSHOP**
Communications, Inc.
San Francisco

17,87%
Stephan Schambach
Burgess Jamieson

**INTERSHOP**
Communications GmbH
Jena

100%
**INTERSHOP**
Software Entwicklungs GmbH
Jena

100%
**INTERSHOP**
Communications Ventures GmbH
Hamburg

# Locations

## AMERICAS

| | |
|---|---|
| **U.S.A.** | San Francisco<br>(global headquarters)<br>New York<br>Denver<br>Chicago<br>Charlotte<br>Seattle<br>Dallas<br>Reston (Virginia)<br>Los Angeles<br>Boston |
| **Canada** | Toronto |
| **Mexico** | Mexico City |
| **Brazil** | São Paulo |

## EUROPE

| | |
|---|---|
| **Germany** | Hamburg<br>(holding company)<br>Jena<br>Stuttgart |
| **Great Britain** | London |
| **France** | Paris |
| **Sweden** | Stockholm |
| **Finland** | Helsinki<br>Tampere |

## ASIA

| | |
|---|---|
| **China** | Hong Kong |
| **Singapore** | |

## AUSTRALIA

| | |
|---|---|
| **AUSTRALIA** | Sydney |

As of March 2000

# Corporate History

**1992** | Foundation as NetConsult Computersysteme GmbH in Jena, Germany

**1994** | Specialization in Internet applications and electronic commerce

**1995** | First fully functional Internet retailing solution

**1996** | Gaining Venture Capital

| Introduction of first standard software for e-commerce, INTERSHOP Online

| Foundation of the first office in the U.S.A.

**1997** | Launch of first e-commerce hosting product, INTERSHOP Mall

| Foundation of the group´s international headquarters in the U.S.A.

| Cooperation and license agreement with Deutsche Telekom AG

**1998** | Launch of new product generation INTERSHOP 3

| Foundation of the holding company INTERSHOP Communications AG

| IPO on the »Neuer Markt« of Frankfurt Stock Exchange

| Release of INTERSHOP ePages and INTERSHOP Enterprise products

**1999** | Introduction of the new product line INTERSHOP 4

| Launch of the high-end product INTERSHOP enfinity, the first complete XML and Java based sell side e-commerce solution

| INTERSHOP OPEN in New York, the first e-commerce conference for INTERSHOP partners, users, and developers worldwide with more than 1,300 participants

| Foundation of first INTERSHOP subsidiary in Asia

# Glossary

### Affiliate selling
e-commerce business model in which an online merchant pays a Web site owner (affiliate) for sales generated from targeted traffic derived from his/her site using banners or text links. Generally, the merchant pays the affiliate a commission based on each individual transaction

### Application Service Provider (ASP)
An enterprise that hosts software-based services and solutions (including complete e-commerce systems) for customers from a central data center

### Back office
Administrative component of an e-commerce system, used to edit and process business data

### Browser
Software application used to locate and view web pages on the Internet. Because of their flexibility and platform independence, browsers are also used to view non-web based content such as multimedia and shareware CD-ROMs

### Business-to-business
Generic term for commercial relationships between businesses

### Business-to-consumer
Generic term for commercial relationships between businesses and consumers

### Buy-side e-commerce
Aspect of e-commerce restricted to procurement processes within a business. Buy-side e-commerce applications or marketplaces are often integrated with sell-side applications

### Commerce Service Provider (CSP)
An enterprise offering e-commerce services to online merchants

### Content Management (CM) system
End-to-end system used to create, package, and maintain complex content resources such as Web sites

### Customer Relationship Management (CRM) system
System used by a company to identify, qualify, acquire, develop, and retain loyal and profitable customers

### Digital economy
Commercial system in which transactions are conducted electronically over the Internet

### Distributed commerce
e-commerce model in which a merchant sells his/her products and services via any number of third-party sites or »middle-men«

### e-commerce
Generic term for commercial transactions conducted on the Internet

### e-commerce enabled channel
e-commerce business model in which a company markets and sells its products and services via e-commerce sites set up for and hosted by its existing »brick-and-mortar« retail network

### Enable marketplaces
e-commerce business model in which a service provider hosts an online marketplace where merchants can offer their products and services for sale

### Enable merchants
e-commerce business model in which a service provider hosts an e-commerce system where a merchant can offer products and services for sale

### Enterprise Resource Planning (ERP) system
A business management system integrating all aspects of a business, including planning, manufacturing, sales, and marketing

### Hardware configuration
Configuring of PC and server systems required to run a software application

### Hosting (e-commerce)
Provision of hardware, software and communications infrastructure on a commercial basis for third-party e-commerce systems

### Intelligent merchandising
The use of customer data and statistics in e-commerce to create one-to-one marketing initiatives tailored to the individual interests and preferences of customers

### Internet
A global network connecting millions of computers and offering a wide range of communications services

### Internet Service Provider (ISP)
An enterprise that provides access to the Internet, including web browsing and e-mail

### IT

Short for Information Technology; generic term for all methods of managing and processing information using electronic systems

### Java

A platform-independent, object-oriented programming language specially developed for the Internet

### Mobile commerce

e-commerce model in which transactions are performed using wireless devices such as mobile phones

### Presentation layer

That part of an e-commerce system that enables communication with a user (via a browser), another e-commerce application (silent commerce), or a mobile device such as a mobile phone (mobile commerce). Presentation layers use languages such as HTML, XML, and WML

### Process modeling

The modeling of business flows throughout an enterprise´s IT infrastructure using a »pipeline« composed of multiple »pipelets,« or individual sub-tasks. Process modeling makes it easier to spread tasks across a team when developing an application

### Pipeline

A complex business flow (e.g. calculation of an entire shopping basket) constructed from a number of individual pipelets

### Pipelet

An individual sub-task (e.g. calculation of price) used to construct a pipeline. The smaller a pipelet is, the more readily it can be reused in other pipelines, thereby saving on development time

### Sell Anywhere

e-commerce concept defining the use of all business models for selling products and services on the Internet. Many new business models have only become possible since the development of silent commerce or the separation of process modeling and the presentation layer

### Sell direct

e-commerce business model in which a business sells its products and services direct to customers over the Internet

### Sell indirect

e-commerce business model in which a business sells its products and services online via a network of dealers, partner Web sites, or online marketplaces

### Sell-side e-commerce

Aspect of e-commerce focusing on the selling of products and services. Generally, sell-side e-commerce applications do not include business-to-business procurement functionality and therefore have to be combined with buy-side e-commerce applications for B2B transactions

### Selling on marketplaces

e-commerce business model in which a business sells its products and services via online marketplaces

### Server

A centralized computer on a network that provides specific services

### SET

Short for Secure Electronic Transaction, an open technical standard facilitating secure payment card transactions over the Internet

### Silent commerce

e-commerce option involving unattended application-to-application and machine-to-machine communications and transactions

### System integrator

A service provider that uses a range of hardware and software products to implement complex IT solutions for customers

### Update

To replace an older version of a software application with a newer, improved version, but without adding significant new functionality

### Upgrade

To replace an existing software application with a different application offering enhanced functionality

### Web site

A location on the World Wide Web offering content and identified by a unique address or »URL«

### Wireless Application Protocol (WAP)

A secure specification enabling users to access information via handheld wireless devices such as mobile phones. WAP is one of the prerequisites for mobile commerce

### XML

Short for eXtensible Markup Language, a meta-language used for documents containing structured information. Can be used to create customized commands and speech elements. Prerequisite for silent commerce

# Locations

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**Concept and Design**

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