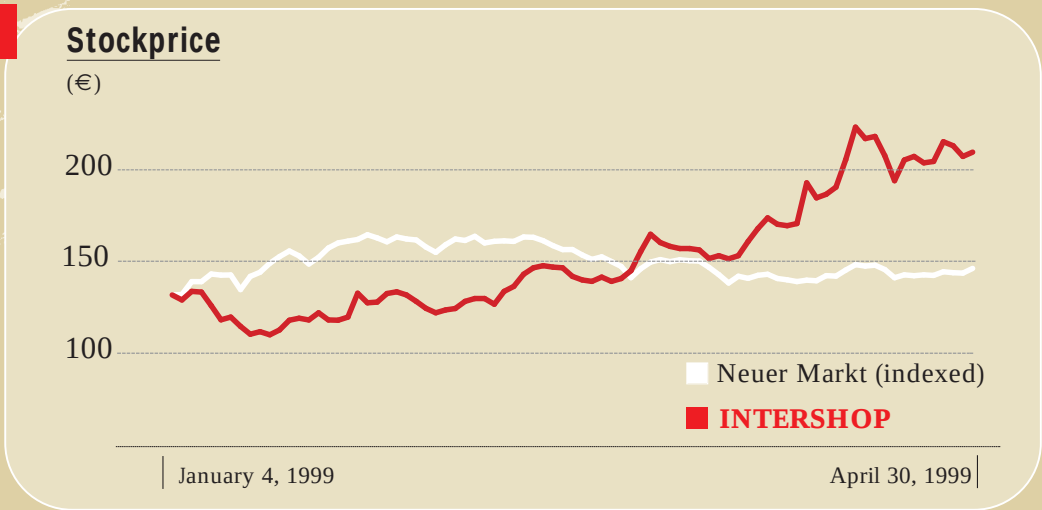
3-MONTH REPORT

1999

INTERSHOP

Creating the Digital Economy

THE SHARE



INTERSHOP Communications completed the first four months of 1999 as one of the top performers of the Frankfurt Stock Exchange's Neuer Markt segment. Following the announcement of results for fiscal 1998 on January 25, the price of INTERSHOP shares started its climb to the top. Positive reports on business developments combined with active interest on the part of institutional investors sent the price of INTERSHOP shares up 80.7% from the year-end 1998 figure. At the same time, trading volume increased. As a result, INTERSHOP outperformed the Neuer Markt, which showed a gain of only 14.6% for the same period.

FINANCIAL SUMMARY

in thousands, except per share and employee data	Jan.-Mar. 1999 €	Jan.-Mar. 1999 DM	Jan.-Mar. 1998 DM	Change in %
Revenues	6,972	13,637	6,762	102
Gross margin	4,848	9,482	4,623	105
Operating loss	(4,077)	(7,974)	(9,337)	(15)
Net loss	(3,481)	(6,807)	(8,708)	(22)
Net loss per share (basic and diluted)	(0.54)	(1.06)	(1.83)	(42)
Cash flow from operating activities	(8,542)	(16,707)	(11,161)	50
Cash flow from investing activities	(423)	(826)	(1,143)	(28)
Cash and cash equivalents	27,676	54,130	2,868	1,787
Shareholders´equity	32,130	62,841	(12,954)	-
Total assets	46,328	90,609	17,698	412
Employees as of March 31	397	397	265	50

MARKET

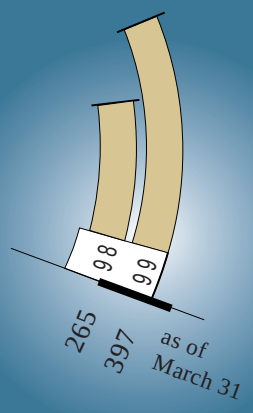
Electronic commerce continued to grow during the first quarter of 1999. The Internet shopping boom in the final quarter of 1998 carried over into 1999 adding to the overall momentum of the industry. More companies are starting to market products and services through the Internet as they discover the immense potential for attracting new business, cultivating relationships with existing customers and automating internal business processes.

The demand for e-commerce solutions reflected this trend, and interest in high-performance solutions remained high. At the same time, more small and medium-sized companies are now looking for cost-effective entry-level applications. Despite this demand, however, the market softenend off slightly as potential e-retailers put off purchasing decisions to await the many new products expected at CeBIT, the world's largest showcase for the IT industry, which was held in March.

In the first quarter ended March 31 1999, INTERSHOP continued its course of expansion and reinforced its position as the world's leading vendor of standard e-commerce software for sell-side applications. In early 1999, various major U.S. market-research firms confirmed INTERSHOP's leading position in the market for e-commerce software. For example, Dataquest named INTERSHOP the fastest-growing company in the market, and IDC ranked INTERSHOP ahead of its competitors in terms of the number of e-commerce sites. In the first three months of the year, INTERSHOP consolidated its strong position by attracting many new customers and growing revenues. By the end of March, more than 15,000 merchants had opted for INTERSHOP 3 technology, including not only many medium-sized companies, and major corporations such as Mercedes-Benz U.S. International, Lufthansa, Bacardi, Columbia Tristar, Deutsche Bank and Eurocard. That figure has since climbed to over 20,000.

Regional expansion remained one of INTERSHOP's strategic priorities in the first quarter of the year. In March 1999, a Swedish subsidiary, INTERSHOP Communications AB, was opened in Stockholm to establish a more effective presence in the promising Scandinavian market for e-commerce applications. Recent surveys have shown that 8.5 million Scandinavians already have access to the Internet, and 1.65 million of those already have some experience with online shopping. IDC projects that Swedish online sales will go from SEK 2 billion in 1998 to SEK 69 billion by the year 2002. In March, INTERSHOP purchased the assets of The Fountainhead Management, Inc., a long-time INTERSHOP distribution partner headquartered in Melville, New York. The primary goal of this purchase was to acquire the additional personnel needed to expand the Company's service activities and strengthen

Employees



its position on the U.S. East Coast. To streamline its corporate structure, INTERSHOP Communications AG also took over INTERSHOP Communications S.a.r.l., which had previously been a wholly owned subsidiary of INTERSHOP Communications GmbH. The number of INTERSHOP employees worldwide grew to 397 compared to 265 at the end of the first quarter of 1998 and 353 at year-end 1998.

By forging new strategic alliances with leading hardware and software companies, INTERSHOP has built the foundation for future expansion. For example, an agreement signed in February with Compaq, the world's leading provider of Internet servers, calls for technological cooperation and joint marketing of bundled products. In the same month, INTERSHOP also announced an agreement with Sage KHK, a leader in the market for business software designed for medium-sized companies. In March, another broad-based agreement for joint marketing, sales and support activities was signed with SGI, a leading vendor of interactive visual and high-performance computer systems. Other alliances signed with premiere partners in the area of logistics included one signed in February with Tandata Corp., a major producer of software for parcel delivery and logistics, and another signed in March with Deutsche Post AG.

The first quarter of 1999 also brought more enhancements for the performance and functionality of INTERSHOP products. For example, the "megastore" presented at CeBIT ´99 sets a new benchmark for e-business software by reducing the time it takes for a search through an offering of roughly one million items to a matter of seconds. During the first quarter of 1999, the technology leadership of INTERSHOP was once again reflected by new awards won at product comparisons, such as the one by the trade publication INTERNET.Professional. In addition, new versions supporting complementary technology such as server and payment systems were added to the INTERSHOP product portfolio. For example, a version of INTERSHOP 3 was developed specifically for the LINUX server operating system. Further noteworthy first-quarter highlights included packages that integrate INTERSHOP 3 with IBM's Small Business Suite and SAP R/3 ERP software, the leading products in their respective markets. Enthusiasm for INTERSHOP earned the Company accola-

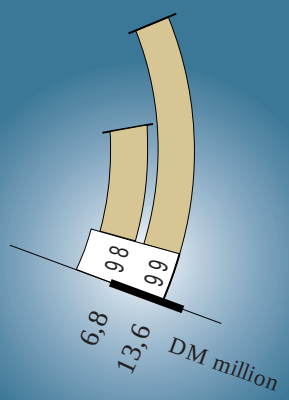
des from both the e-commerce industry and the general public at CeBIT '99. INTERSHOP expects to turn the more than 3,500 CeBIT leads into substantial sales in the remaining quarters of the year.

REVENUES

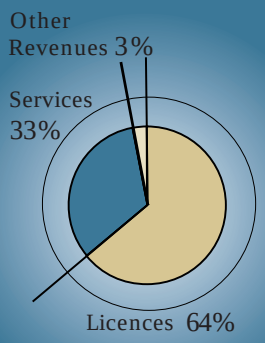
First-quarter 1999 revenues were up 102% or DM 6.9 million to DM 13.6 million from the first quarter 1998. This improvement resulted from increases in sales in both license and service activities. License revenues for the three months ended March 31, 1999 were up 87% or DM 4.1 million to DM 8.8 million over the same period in 1998 to account for 64% of total revenues. The INTERSHOP 3 Enterprise Edition and INTERSHOP ePages Cartridge, both released in the fall 1998, contributed substantially to this performance. The quarter's major sales to ISP and telecom customers included Deutsche Telekom, France Telecom and Bell South. Repeat business with existing customers accounted for a substantial share of revenues. New customers in this segment included Retevision, Spain's second-largest telecommunications company, and leading ISPs such as Concentric Network Corporation, MindSpring Enterprises, Inc., OrbitCommerce and Strato AG. Only a few weeks after going live with theier e-commerce offering, Strato AG was able to attract several thousand new e-merchants to become one of the world's leading providers of e-commerce services. In addition to many medium-sized companies, new end-users of INTERSHOP technology, who market their own products and service through the Internet, included major corporations such as Hewlett-Packard, Canon USA, NatWest, Robert Bosch, SGI, Siemens and Lufthansa. First-quarter revenues from service activities rose 174% or DM 2.8 million to DM 4.4 million from the comparable 1998 figure. The above-average performance in the service sector can to a certain extent be attributed to the purchase of the assets of The Fountainhead Management, Inc. in March.

The European market generated first-quarter revenues of DM 9.8 million, representing an increase of 97% or DM 4.8 million over the comparable figures for the prior year and accounted for the majority of INTERSHOP revenues in the first three months

Revenues
Jan.-March



Revenues Structure
Jan.-March 1999

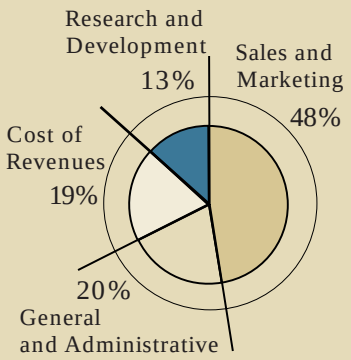


of the year. These figures include 2.2 million or 16% of total first-quarter revenues with Deutsche Telekom, INTERSHOP's largest customer, compared to 28% for the same period of 1998. U.S. revenues outpaced European performance by rising 114% or DM 2.0 million over the first quarter 1998 to DM 3.8 million accounting for 28% of sales for the first quarter 1999 as compared with 26% for first-quarter 1998.

EXPENSES

Cost Structure

Jan.-March 1999

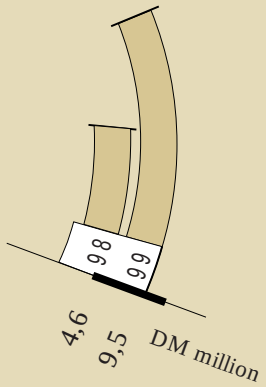


In order to strengthen its leadership, INTERSHOP continued to pursue its corporate strategy of expansion in the first quarter of 1999 by investing in the product development, marketing and sales and operations. Up only 34% to DM 21.6 million from DM 16.1 million a year earlier, the first-quarter operating expenses grew substantially less than revenues. Cost of revenues for the first quarter increased 94% to DM 4.2 million, which also increased slower than revenues. As a result, first-quarter gross profit more than doubled to reach DM 9.5 million, representing an increase of 105% over the comparable figure for 1998. Expenses for research and development amounted to DM 2.9 million, compared to DM 1.7 million for the first three months of 1998. Expenses for sales and marketing for the first quarter was up DM 1.3 million from 1998 to DM 10.3 million. As a result of the establishment of new locations, general and administrative expenses rose DM 1.1 million from first-quarter 1998 to DM 4.3 million for the same period this year.

INCOME

Gross margin

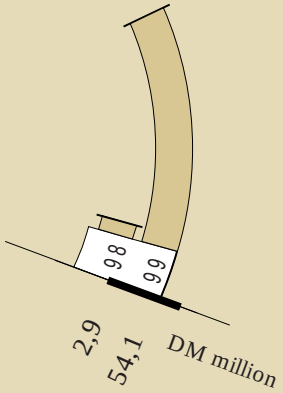
Jan.-March



With revenues outpacing expenses, the improvement in operating income that started in the second half of 1998 continued through the first quarter of 1999. First-quarter operating results came to -DM 8.0 million compared to -DM 9.3 million a year ago, making this quarter the first operating period to show an improvement over the comparable prior year period. Other income and expenses combined to amount to DM 1.2 million, leading to a net loss of DM 6.8 million compared to a loss of DM 8.7 for the first-quarter of 1998. This represented an improvement of DM 1.9 million or 22 % in net income for the quarter, and the net loss per share fell from DM 1.83 in 1998 to DM 1.06 this year.

CASH FLOWS AND INVESTING ACTIVITIES

Cash and Cash Equivalents
as of March 31



Cash flows from operating activities for the first quarter of 1999 came to -DM 16.7 million compared to -DM 11.2 million for the same period a year earlier. The negative cash flows were primarily due to losses incurred during the period, an increase in accounts receivable and a decrease in accrued expenses and other liabilities. Cash flows used in investing activities for the current period amounted to -DM 0.8 million compared to -DM 1.1 million for the first quarter 1998. Proceeds from the issuance of common stock, debt issuance and repayment of indebtedness resulted in a cash flow of DM 2.6 million from financing activities compared to DM 4.7 million for the previous year. Cash and cash equivalents decreased by DM 12.7 million from Dec. 31, 1998, to DM 54.1 million at March 31, 1999. Total shareholders' equity came to DM 62.8 million at March 31, 1999 compared to -DM 13.0 at March 31, 1998 for the end of the same period a year earlier and the equity ratio was 69 %.

OUTLOOK

The positive business developments of the first quarter, which were in line with management's projections, INTERSHOP expects to continue to grow revenue faster than expenses. INTERSHOP management has re-affirmed its goal of reaching the quarterly break-even point by the end of the year. It will be necessary to await how the impending Y2K problem affects upon purchasing behavior of potential INTERSHOP customers. Although the Company assumes that the Y2K transition does not represent a threat to the Company's goals, the possibility that many corporations could hesitate to invest in e-commerce projects install new software immediately prior to the year 2000 cannot be excluded.

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Condensed Consolidated Statement of Operations (US-GAAP),
in thousands, except share and per share data

	Jan.-Mar. 1999	Jan.-Mar. 1998
REVENUES		
Licences	DM 8,780	DM 4,691
Services	4,448	1,626
Other revenues	409	445
Total revenues	**13,637**	**6,762**
OPERATING EXPENSES		
Cost of revenues	4,155	2,139
Research and development	2,857	1,724
Sales and marketing	10,257	8,985
General and administrative	4,342	3,251
Total operating expenses	**21,611**	**16,099**
OPERATING INCOME/LOSS	**(7,974)**	**(9,337)**
OTHER INCOME (EXPENSE)		
Interest income	334	67
Interest expense	23	(54)
Other income	810	616
Total other income (expense)	1.167	629
NET INCOME/LOSS	DM **(6,807)**	DM **(8,708)**
ACCRETION OF REDEEMABLE PREFERRED STOCK	DM **0**	DM **(234)**
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	DM **(6,807)**	DM **(8,942)**
NET LOSS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS: basic and diluted	DM **(1.06)**	DM **(1.83)**
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING: basic and diluted	**6,406,891**	**4,875,574**

Condensed Consolidated Statement of Cash Flows (US-GAAP),
in thousands DM

	Jan.-Mar. 1999	Jan.-Mar. 1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	DM (6,807)	DM (8,708)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation	489	212
Provision for doubtful accounts	989	140
Amortization of deferred compensation	171	0
Gain on equipment disposal	(1)	(8)
Change in:		
Accounts receivable	(5,237)	(2,638)
Prepaid expenses and deposits	(1,897)	(294)
Other assets	(142)	1,484
Accounts payable	1,027	(1,105)
Deferred revenue	(1,202)	(1,705)
Accrued expenses and other liabilities	(4,097)	1,461
Net cash provided by (used in) operating activities	**(16,707)**	**(11,161)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of equipment, net of capital leases	(826)	(1,143)
Net cash used in investing activities	**(826)**	**(1,143)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of preferred stock	0	4,007
Proceeds from sale of common stock	2,275	802
Proceeds from debt issuance	1,745	410
Repayments of indebtedness	(1,425)	(533)
Net cash provided by (used in) financing activities	**2,595**	**4,686**
EFFECT OF CHANGE IN EXCHANGE RATES ON CASH	2,208	594
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,730)	(7,024)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	66,860	9,892
CASH AND CASH EQUIVALENTS, END OF PERIOD	DM **54,130**	DM **2,868**