INTERSHOP™

Annual Report 2001

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Letter to the Shareholders

Dear shareholders, customers, partners, and employees,

2001 was a challenging year for Intershop and the e-business software market in general. We operated in extremely difficult economic and industry environments. In 2001, the world's major economies, the United States and Europe, fell into recession. As a consequence, companies worldwide cut their spending on information technology (IT) and delayed the implementation of their e-business initiatives.

Intershop was not immune to these influences. However, while we had to reduce our worldwide workforce, we kept and developed our core assets including our leading technology, a global network of partners, and successful customers.

In order to return the Company to profitability, Intershop begins 2002 with the implementation of the following initiatives:

New Management Team: A new management team was appointed, to be based in the Company's new headquarters in Jena, Germany. The new management team consists of an increased number of managers with direct profit and loss responsibilities within the various operating areas. This new structure provides for stronger customer focus and improved market response time.

Simplified Company Structure: We are simplifying Intershop's organizational structure, streamlining the organization from top to bottom and creating more efficient business operations. We are consolidating all our corporate functions into our new headquarters in Jena, Germany.

Expanded product portfolio: Building on the success of our industry-leading technology Enfinity, we are pursuing a sound and forward-looking product strategy. In 2001, with the introduction of our industry-specific software solutions and the unique Enfinity MultiSite, Enfinity Content Management and Intershop Procurement solutions, we positioned Intershop as a provider of complete enterprise e-business solutions. In an increasingly globalized world, these solutions enable our customers to centrally manage multiple e-commerce initiatives and contents across organizational and geographical boundaries.

Global Enterprise Sales Program: With a leaner and more efficient organizational structure in place, all efforts will concentrate on revenue generating activities. To support these plans, we will target global enterprise customers, up-sell the new Enfinity MultiSite and Enfinity Content Management product offerings within the installed customer base, intensify indirect selling through partners, and focus more intensely on the Retail and High-Tech & Manufacturing industries.

To summarize, Intershop has taken the right steps to re-position itself for future growth. With an improved organizational structure in place, a debt-free balance sheet, a sound product strategy and a global network of partners to serve our first-class reference customers, Intershop is positioned to deliver high value e-business solutions to meet the global needs of our customers and partners.

As a fellow stockholder, and purchaser of an additional 8.3 million Intershop shares in March of 2002, I firmly believe in Intershop and in the long-term opportunity offered by the global e-business market place.

On behalf of the management team at Intershop, I would like to thank all of our stockholders, customers, partners, and employees for their continued support.

Yours sincerely,

Stephan Schambach
Chief Executive Officer

This annual report may contain forward-looking statements regarding future events or the future financial and operational performance of Intershop. Actual events or performance may differ materially from those contained or implied in such forward-looking statements. Risks and uncertainties that could lead to such difference could include, among other things: Intershop's limited operating history, the unpredictability of future revenues and expenses and potential fluctuations in revenues and operating results, consumer trends, the level of competition, seasonality, the timing and success of international expansion efforts, risks related to electronic security, possible governmental regulation, and the ability to manage a rapidly growing business. Additional information regarding factors that potentially could affect Intershop's business, financial condition and operating results is included in Intershop's filings with the Securities and Exchange Commission, including that in the company's Form 20-F dated July 2, 2001.

Group Management Report and Management Report of Intershop Communications AG

| Challenging Market Environment |

Electronic commerce over the Internet has seen substantial growth over the past few years. As both the hardware and software infrastructure for online transactions continue to be developed, the commercial use of the Internet by both consumers (business-to-consumers or B2C) and companies (business-to-business or B2B) has become a significant revenue driver for many industries. Increasingly, companies have adapted their business models to meet customer demands for rapid, easy, and secure electronic business transactions over the Internet.

In the second half of 2000, growth in the Internet-related software industry slowed and further deteriorated throughout 2001. According to industry analysis conducted by Gartner Group, growth in license revenue relating to Internet commerce software solutions was negative in 2001. Total 2001 license revenue for Internet sell-side and buy-side software declined by 32% year-on-year to $1.6 billion, while the previous years had seen triple-digit growth rates.

Revenue for software applications declined as overall corporate information technology (IT) spending slowed. The slowdown in corporate IT spending was primarily driven by the global economic downturn. The United States as the single largest economy fell into recession in 2001. The U.S. Gross Domestic Product (GDP) growth rate was 1.2% in 2001, compared to 4.1% in the previous year. Western European GDP growth slowed to 1.7% in 2001, compared to 3.3% in the previous year. Germany, the largest European economy and Intershop's (Intershop Communications AG together with its subsidiaries; in the following referred to as the “Company“, “Intershop“, or the “Group“) largest market, posted a third quarter 2001 decline of 0.1% in its GDP growth.

As a result of the global economic slowdown and reduced IT budgets, many companies delayed the implementation of their e-business initiatives. The corporate IT spending focus in 2001 shifted to products with high returns on investment (ROI) and low-risk turn-key solution products, requiring minimal levels of customization to achieve a low total cost of ownership (TCO). Many enterprises realized that e-business projects take longer to implement than previously expected, requiring more significant process and organizational change to recoup IT investments. With severe budget constraints, corporate IT spending decisions were increasingly made based on short-term (18 months) ROI value propositions.

Other market drivers in the e-business sector included customers' demand for best-of-breed solutions, especially for mission-critical applications, content management capability and the ability to integrate e-business solutions into existing software applications. These product-related demand changes were paralleled by changes in the operating environment, which included enhanced focus on well-established partner networks and increased competition. With the demise of many so-called “dotcom“ companies (i.e., companies whose business model is solely or primarily based on the Internet) the pressure to deploy competitive e-commerce platforms eased. This indirectly led to more complex internal corporate purchasing decisions and project justification processes thus leading to prolonged sales cycles. Longer sales cycles led to revenue streams extending out into the future, impacting project closure rates, and lowering overall revenue.

| Global Realignment |

Intershop's business in 2001 was strongly influenced by the global macro-economic slowdown and corporate IT spending constraints. As a result of this challenging economic and industry environment, the year 2001 marked a period of realignment in terms of both overall business activity as well as size and reach of the Company's business operations.

Ongoing weakness in the global IT markets significantly impacted Intershop's 2001 business. Total revenue in 2001 was €68.7 million compared to €123.0 million in the previous year, representing a year-on-year decline of €54.3 million or 44%. Intershop initiated aggressive steps to re-align its business with this reduced level of business activity and further deterioration in market conditions. By redefining every level of the organization, Intershop was able to increase operating efficiencies and optimize organizational processes and structures. Ongoing headcount reductions resulted in Intershop's total employee count ending December 31, 2001 at 733 employees, a net reduction of 485 positions or a decline of 40% year on year. Intershop reduced its global workforce across all functional areas. As of December 31, 2001, Intershop employed 60% of its global workforce in technical departments such as research and development and consulting services; 26% were employed in sales and marketing; and 14% were employed in general and administrative functions.

Europe continued to be Intershop's primary market in 2001, with 85% of total worldwide revenue generated in that region in 2001 and 91% of its workforce located in that region. The Company's position in Europe remains strong due to a large installed base and high customer satisfaction across that region. Intershop penetrated the European market from offices in Germany, the United Kingdom, France, Sweden, Norway, Denmark, and Finland. Reflecting weak global demand for e-business software, Intershop reduced its workforce in Europe to 665 employees as of December 31, 2001.

In 2001, Intershop centralized most of its corporate functions into its German headquarters and transformed its regional offices into sales and distribution offices. The Company restructured the Americas organization into a field sales operation leaving a total of 56 employees located in the region as of December 31, 2001. Intershop continues to support its customers in the region from offices in San Francisco, CA; Chicago, IL; and Boston, MA. Within the field sales structure, the Americas were consolidated into four new sales areas - East, West, Central, and Latin America. During 2001, Intershop closed its offices in Austin, TX; Charlotte, NC; Detroit, MI; Melville, NY; Reston, VA; and Toronto, Canada. The new Americas organization continues to focus on leveraging Intershop's success in Europe, supporting global accounts, as well as concentrating on US partner channel marketing and lead generation.

In line with significantly reduced business activity and revised corporate IT spending expectations, Intershop significantly streamlined its operations in Asia Pacific. During 2001, Intershop closed its offices in Sydney, Australia; Seoul, South Korea; Singapore; and Taipei, Taiwan. Along with office closures, headcount was reduced to 12 employees as of December 31, 2001. Intershop continues to support its customers from offices in Tokyo, Japan, and Hong Kong, China, corresponding to the opportunities the Company sees in the Japanese and Chinese markets. Within the Asia Pacific region, the Company has moved to a full distributor model supported by its global partners to provide customer support. As part of the Company's global re-alignment, Intershop's Asia Pacific organization has been integrated into the Americas organization.

With the introduction of industry-specific solutions in 2001, Intershop re-organized its sales processes and management structure around the vertical lines of Intershop's business offerings, including lines of business such as Retail, High-Tech & Manufacturing, Automotive, and Telecommunications. At the executive management board *(Vorstand)* level, roles and responsibilities were re-defined at the beginning of 2001 and the position of COO was created to focus on running day-to-day operations. Senior executive management was added from outside the organization to fill the positions of President Europe and President Americas. Intershop further strengthened its Supervisory Board with the nomination of two former executives from leading global corporations.

▸ | Leading Technology |

Along with significant efforts to re-align business operations with current market conditions, Intershop continued to transform its business model from selling e-commerce software platforms to selling complete and standardized enterprise e-business software solutions. This evolution has placed Intershop's product portfolio more directly in line with current corporate IT spending behavior and prevailing customer preferences. Intershop provides comprehensive off-the-shelf turn-key software solutions that offer high returns on investment (ROI), fast time-to-market, and low total cost of ownership (TCO). At the same time, Intershop remains well-positioned to take advantage of a future upturn in the IT spending market, by focusing its sales efforts on large multinational companies.

Industry-specific and cross-industry solutions designed to better address the enterprise space were introduced at CeBIT in March 2001. Industry-specific vertical market solutions include Automotive, High-Tech & Manufacturing, Retail, and Consumer Goods. Cross-industry solutions include B2B, B2C, Supplier, Marketplace and Procurement solutions. These selected segments have the highest demand for Intershop products and correspond to the industries where Intershop has the strongest track record for solution implementation and execution. Retail solutions, in particular, have met with strong demand from new customers as well as existing customers in 2001. Some of Europe's leading retailers, such as Bertelsmann, Quelle, Tchibo, Tengelmann/Plus, and the Otto Group in Germany; Waitrose/Ocado in the United Kingdom, Manutan and Etam in France, Elkjøp in Norway, and Kronans Drogenhandel in Sweden, have all purchased Intershop solutions.

Building on its success with industry solutions, Intershop launched a suite of three groundbreaking products to complement its product portfolio. Enfinity MultiSite, Enfinity Content Management, and the Intershop Procurement Solution were added to the Company's product offering in November 2001. Enfinity MultiSite enables enterprises to deploy and centrally manage multiple e-commerce initiatives across different business units from a single platform, improving global operational efficiency and significantly lowering total cost of ownership. To take full advantage of any future improvement in corporate IT spending, the Company is targeting the largest transnational corporations, who command approximately 80% of total global IT spending. With its Enfinity MultiSite offering, Intershop continues its tradition as a leading software innovator in the field of e-business.

Enfinity Content Management is a complete, centrally manageable, integrated e-commerce and content management solution. Customers can create and manage e-commerce and other web content with less manual effort, significantly reducing their total cost of ownership. Intershop experienced strong initial customer response following the November 28, 2001 launch, with the sale of three Content Management solutions in the fourth quarter of 2001.

The new Intershop Procurement Solution is another addition to Intershop's solutions portfolio, enabling corporate customers to perform purchasing transactions with their suppliers over the Internet. With this new solution, Intershop now offers the full range of e-commerce software products that allows customers to do business across the entire value chain, all the way from purchasing to selling. The Company's software offering has been expanded from being a specific sell-side application to a comprehensive enterprise e-business software suite.

Throughout 2001, independent research re-confirmed Intershop's commitment to technological leadership by ranking Enfinity as a leading e-commerce business software. The latest version of Intershop's flagship product, Enfinity 2.2, which was introduced in the second quarter of 2001, dramatically improves transaction capacity and performance to accommodate over one million transactions per day.

With Intershop's focus on selling complete solutions, the Company achieved its goal of improving its product value proposition to its customers in terms of higher return on investment and lowering the total cost of ownership. By bundling Intershop's highly scalable and extendable Enfinity platform architecture with solution-specific functionalities, the Company also generated higher average deal sizes. The average deal size rose from €203,000 for a pure Enfinity platform in the fourth quarter of 2000 to an average deal size of €297,000 for industry-specific solutions in the fourth quarter of 2001. Higher average deal sizes reflect the Company's successful strategic positioning in the high-end enterprise solution software market. Intershop generated 85% of 2001 license revenue from Enfinity platforms and industry solutions, as compared to only 58% in the fiscal year 2000. As of December 31, 2001, a total of 318 Enfinity platforms and solutions have been sold since the Enfinity platform was launched, compared to 249 platforms at the end of the fiscal year 2000.

As the preferred solution for many application service providers (ASP) and telecommunication companies, the Company's Intershop 4 product line continues to be a premier solution for the important market of small and medium-sized enterprises. Intershop 4 remains one of the leading solutions for hosted e-commerce services. During 2001, all Intershop 4 product line activities were combined into a dedicated line of business to better serve ASPs and telecommunications hosting companies. The Intershop 4 product line contributed 15% to total 2001 license revenue as compared to 42% in 2000, reflecting the Company's strategic shift from a B2C e-commerce hosting solution provider to a high-end B2B enterprise software vendor. In 2001, Intershop continued to improve the functionality of the Intershop 4 product line and, in January of 2002, introduced its latest version Intershop 4.3. Intershop 4.3 features additional functionalities and components such as improved data storage management as well as enhanced price calculation and currency conversion capabilities.

| Winning With Partners |

To foster sales and increase market penetration, Intershop continued to build and reinforce its partner network throughout 2001. Focusing on high-quality strategic implementation partners, Intershop continued to foster cost-effective indirect distribution channels. Partner development efforts concentrated on joint lead generation, active pipeline management, and training on Intershop's industry-specific solutions.

Partnerships typically integrate Intershop with its partners' own e-business sales efforts and typically include training of dedicated consultants, technical and developer support, and the installation of standard software solutions.

Intershop's group of high-quality implementation partners has further been expanded to include top consulting firms such as PricewaterhouseCoopers, KPMG Consulting, Accenture, Cambridge Technology Partners, Siemens Business Services, PSI, Plaut, Pixelpark, Icon Medialab, CSC Ploentzke, Cap Gemini Ernst & Young, and AII. The Company's existing partnership with Hewlett Packard in particular continues to successfully support Intershop's business model.

Intershop's partner strategy was confirmed throughout the year as the Company jointly won new customer accounts with a variety of implementation partners. Major client wins established with partners included BMW, Quelle, Bertelsmann BOL, and RWE Envia. Intershop also teamed with partners to jointly implement customer websites. Business generated with partners increased from 52% of license revenue in 2000 to 68% of license revenue in 2001.

| Revenue |

Intershop generated total revenue of €68.7 million in 2001, compared to €123.0 million in the previous year. The most significant factor negatively impacting revenue during 2001 was the considerable reduction in corporate IT spending levels on a worldwide basis. Revenue was also impacted by a transition in Intershop's sales efforts. This occurred as the Company completed a strategic shift in its business model from selling e-commerce platforms to offering complete standard e-business software solutions.

License revenue in 2001 totaled €20.5 million, compared with €74.1 million in the previous year. Service revenue (including consulting services, maintenance, and other revenue) remained stable at €48.2 million in 2001, in-line with €48.9 million in the previous year.

Major customers by industry vertical during 2001 included:

Retail: Europe's leading retailers such as Bertelsmann, Quelle, Tchibo, Tengelmann/Plus, and the Otto Group in Germany; Waitrose/Ocado in the United Kingdom; Manutan and Etam in France; Elkjøp in Norway; and Kronans Drogenhandel in Sweden; Apoteket, Playmobil USA, Josef Witt, Swarovski Crystal, and Home Shopping Europe.

High-Tech and Manufacturing: Hewlett-Packard, Compaq, Motorola, United Refrigeration, Siemens Brazil, Siemens Demag Cranes & Components, Pechiney Groupe, Saint-Gobain, Yamaha, NEC Japan, Sonera and Blaupunkt.

Automotive: Plastic Omnium, Volkswagen subsidiary Votex, Continental, BMW, and Robert Bosch.

ASP / Telco: Fairpoint Communications, TDS Informationstechnologie, BellSouth, Deutsche Telekom, Energis-ISION, Alcatel SEL, and STRATO.

Cross-Industry: Electronic Arts, Time Warner, and RWE subsidiary Envia.

The largest portion of license sales was generated by Intershop's flagship Enfinity product line. Enfinity license sales generated €17.4 million in revenue for 2001, representing 85% of total license sales. This compares to €43.3 million in 2000, or 58% of total license sales. The total number of Enfinity platforms and solutions sold, from launch date to December 2001 was 318, a net increase of 69 in the fiscal year 2001. Enfinity sales in 2001 included 11 dedicated industry-specific solutions. The Intershop 4 product line contributed 15% (€3.1 million) to total license revenue in 2001, compared to 42% (€30.8 million) in the previous year.

Customers whose Intershop-powered web sites went live or were upgraded during 2001 included Compaq Computers, Hewlett-Packard, Ericsson, Sybase E-Shop, sheego.com, Carl Zeiss, Swarovski, Go Sport, Globexpharma.com, Cargo Trade, Stinnes, TeleDenmark, MEXX-direct.com, Otto.de, Alcatel, Plus, Tchibo, Actebis, Manutan, Nokia, RWE subsidiary Envia, Siemens subsidiary Demag Cranes & Components, Volkswagen subsidiary Votex, and Bertelsmann subsidiary BOL. Training units delivered to external consultants in 2001 totaled more than 5,000. In 2001, the Company started partner sales training on Intershop's new solutions-based offering and launched a Web-based training curriculum for its global partners and customers as a low-cost way to train global partners and customers.

Europe was Intershop's strongest market in 2001 generating revenue of €58.2 million, representing 85% of total global revenue. This compares to revenue of €75.5 million in the previous year, which represented 61% of total global revenue in 2000. The Company's position in Europe, particularly in Germany, remains strong due to high customer confidence and a large installed base across the region. The Americas region generated revenue of €8.2 million, representing 12% of total global revenue in 2001. Intershop's Asia Pacific operations generated €2.3 million in revenue or 3% of total global revenue.

▶ | Gross Margin |

The gross margin on license sales declined modestly from 93% in 2000 to 89% in 2001. This was largely attributable to changes in supplier contract terms during the first half of 2001. Some of the Company's suppliers are now paid on a fixed-fee basis, rather than on a variable percentage fee basis. This shift negatively impacts margins during times of low business activity. However, as revenue rises, this effect is expected to reverse itself as fixed fees are applied to an expanding revenue base, resulting in improved margins.

The gross margin on service sales increased from 11% in 2000 to 14% in 2001 as the Company reduced its service workforce and improved the utilization rates of remaining service personnel.

As a result of the larger contribution of lower-margin service revenue to overall revenue, gross margin generated decreased from 60% in 2000 to 36% in 2001. Total gross profit generated in 2001 totaled €24.9 million compared to €74.3 million in the previous year.

| Aggressive Expense Management Campaign |

In the full year 2001, Intershop made significant strides in aligning its cost structure with current market conditions. Total costs, on a quarterly basis, were reduced as a direct result of the Company's ongoing corporate re-alignment, a systematic review of the Company's cost structure, and a strict spending control policy. This effect is best illustrated by considering the Company's EBITDA (earnings before interest, taxes, depreciation and amortization) cost base on a quarterly basis. The EBITDA cost base in the fourth quarter of 2001 was €22.4 million, an improvement of €37.7 million or 63% compared to the fourth quarter of 2000. Cost reductions were made across all functional areas and geographic regions.

Operational costs, including costs of sale and operating expenses, incurred by Intershop for the full year of 2001 were €202.2 million reflecting both a large expense base inherited from the Company's expansionary phase in 2000 as well as restructuring charges associated with 2001 corporate re-alignment activities. Amortization charges for goodwill and acquired intangible assets totaled €21.1 million in 2001 compared to €1.5 million in the previous year. This related primarily to the Company's acquisitions of Owis GmbH, and Subotnic GmbH in 2000. Impairment charges were recorded on the enterprise level goodwill on all acquisitions totaling €12.0 million. Intershop recorded restructuring charges of €23.3 million in 2001, primarily related to the consolidation of worldwide office space and headcount reductions during the course of the year.

Research and development (R&D) expenses grew by 49% to €15.2 million in 2001, reflecting R&D efforts in developing the Company's new product lines. A large portion of R&D expenses was related to the development of industry-specific solutions and the completion of Intershop's comprehensive e-business product portfolio (Enfinity MultiSite, Enfinity Content Management, Intershop Procurement Solution). These products were launched in March 2001 and November 2001, respectively. This reflects the Company's commitment to remain at the forefront of technological advances in this industry. The Company expenses all R&D costs, which are primarily labor cost, as incurred.

Sales and marketing expenses fell by 20% in 2001 to €60.8 million from €75.7 million in the previous year. The reduction in sales and marketing expenses was primarily attributable to lower commission payments to sales representatives, due to lower overall sales. It is also indicative of the benefits from the Company's cost structure review and the strict spending control policy.

General and administrative (G&A) expenses rose from €27.6 million in 2000 to €38.1 million in 2001. The increase in G&A expenses is primarily due to legal costs and bad debts. The Company has been defending itself in a number of legal cases and this has seen legal costs increase by €2.2 million compared to the previous year. Total G&A expenses includes bad debt expenses for 2001 totaling €12.6 million compared with €6.5 million in the previous year. Bad debt expense reflects the difficult economic environment the majority of Intershop's customers have been operating in. The Company also suffered from the costs associated with the expanded global infrastructure that was created in 2000 during a period of revenue growth.

| Operating Loss in Tough Environment |

The Company posted an operating loss of €133.5 million in 2001, compared with €40.8 million in the previous year. This was primarily caused by the lower revenue base and a large, inherited fixed cost structure that was created to support the anticipated positive development of market conditions in the previous year.

| Net Cash Outflow |

In 2001, €71.0 million were used in operating activities compared to €41.9 million in the previous year. Negative cash flow was primarily driven by the Company's operating losses. A total of €4.3 million were used in investing activities compared to €49.4 million in the full year of 2000. In 2000, the Company made large investments in capital equipment, leasehold improvements, and office equipment in line with beneficial market conditions. In 2001, the Company has not been required to continue to invest at the same rate due to the depressed market conditions. The Company still continues to invest in equipment for research and development to stay at the forefront of technology. A total of €0.5 million was provided by financing activities compared to €161.8 million in the previous year. The cash inflow in 2000 was a result of our successful public offering on the Nasdaq stock exchange.

For 2001, there was a net outflow of cash and cash equivalents of €75.0 million compared with a net inflow of €72.0 million in 2000.

| Balance Sheet |

Continued cost reduction measures progressively reduced Intershop's quarterly cash and marketable securities usage throughout 2001. By the fourth quarter of 2001, Intershop reduced the Company's quarterly cash usage rate to €8.9 million, as compared to €36.0 million in the first quarter of 2001. Intershop ended the fiscal year 2001 with total liquidity, represented by cash and cash equivalents, marketable securities, and restricted cash, of €36.3 million, compared with €111.7 million as of December 31, 2000.

Net trade receivables as of December 31, 2001 totaled €11.7 million reflecting a decline of €25.3 million or 68% compared to December 31, 2000. The fall in trade receivables reflect a smaller revenue base, improved receivables collection management and increased bad debts exposure due to a worsening economy. Days sales outstanding (DSO), a measure that indicates receivables collection management, was significantly reduced throughout the year to 91 days at December 31, 2001.

Goodwill and acquired intangible assets decreased by €21.1 million during the course of the year. This reflects the normal amortization charges as well as the impairment charges totaling €12.0 million. As a result of new accounting guidance, effective January 1, 2002, the Company will cease to amortize goodwill over the useful life of the asset. However, the Company is obliged to conduct an annual test on the asset for impairment.

Short-term liabilities in 2001 remained stable when compared with the previous year. However, in the current year, this includes €10.7 million in accrued restructuring charges of which the vast majority (96%) was related to the consolidation of facilities worldwide. Intershop reported short-term deferred revenue of €5.6 million as of December 31, 2001, compared to €6.8 million as of December 31, 2000. During the full year of 2001, 188,306 employee stock options from conditional capital II were exercised and exchanged for Intershop Communications AG common bearer shares.

At the annual stockholders' meeting of Intershop Communications AG held on June 13, 2001, stockholders voted to approve the resolutions presented by the Management Board and Supervisory Board. The core resolutions included formally approving the actions of the members of the Management Board *(Vorstand)* and the Supervisory Board *(Aufsichtsrat)*, authorizing the issue of convertible bonds on up to 21,449,703 Intershop Communications AG common bearer shares, extending the authorization to purchase or sell the Company's own stock, as well as authorizing amendments to the Articles of Association in line with the revised German Act on Registered Shares *(Aktiengesetz)*. All resolutions were accepted by at least 98% of the capital represented at the meeting.

| Foreign Exchange Exposure |

Business transactions carried out by Intershop's various operations are denominated in their respective local currencies and are translated into the reporting currency, the Euro, at the end of the period. The largest portion of Intershop's 2001 business was conducted in currencies that are part of the European Monetary Union exchange rate mechanism and are thus pegged to the Euro. The Company's foreign exchange exposure was therefore limited to business transactions conducted in currencies that were not part of the European Monetary Union exchange rate mechanism, notably the US dollar and the pound sterling.

| Intershop Communications AG Highlights and Risks |

As the parent company, Intershop Communications AG controls the operational entities in the Intershop group of companies. Intershop Communications AG is a corporation that is registered in Germany and publishes financial statements in compliance with German Generally Accepted Accounting Principles *(German Commercial Code)*. Intershop Communications AG's main activities include the management of its holdings and assets as well as certain central functions for the Intershop group. The number of Intershop Communications AG employees increased on average from 12 in 2000 to 14 in 2001.

The slowdown in corporate IT spending resulted in operating losses for all subsidiaries, with their capital needs being covered through loans from the parent company. In 2001, Intershop Communications AG waived loan repayments from two subsidiaries amounting to a total of €3.7 million and paid €1.9 million to one subsidiary in the form of a cash contribution.

In addition to reducing operating expenses, the key objective of the 2002 business plan, which was approved in February 2002, is to increase revenue. To this end, a decision was also taken to streamline sales operations overseas. This restructuring included closing several offices in the Asia Pacific region and switching sales operations to local distributors. Intershop Communications, Inc. assumed control of overseas sales operations in the Asia Pacific region. A write-down totaling €16.7 million was therefore recorded in the annual financial statements for Intershop Communications AG as of December 31, 2001 for all loans to and receivables from subsidiaries in the Asia Pacific region.

Due to the significant deterioration in earnings and shareholders' equity at Intershop Communications AG's subsidiaries Intershop Software Entwicklungs GmbH, Intershop Communications, Inc., Intershop Communications GmbH, and Intershop Communications Ltd., exceptional write-downs of loans to and receivables from these group entities amounting to €65.3 million were recorded. After Intershop Communications Ventures GmbH discontinued its business operations at the end of the fiscal year, Intershop Communications AG's loan to this subsidiary amounting to €1.8 million was written off.

Furthermore, Intershop Communications AG has given Intershop Software Entwicklungs GmbH and Intershop Communications GmbH letters of comfort covering potential losses totaling up to €30.0 million. Due to the accounting principle of caution, an accrual of €15.0 million has already been built into the statutory accounts as at December 31, 2001.

In its annual financial statements for the year ending on December 31, 2001, Intershop Communications AG recorded a net loss of €103.0 million, largely due to the write-downs of loans to and receivables from subsidiaries. Thus, shareholders' equity stands at €72.9 million for the year ending on December 31, 2001; cash and cash equivalents totaled €28.5 million (including restricted cash of €7.9 million).

Intershop Communications AG maintained the carrying values of its investments in Intershop Communications, Inc., and Intershop Software Entwicklungs GmbH, unchanged compared to the prior year. It is Intershop Communications AG's expectation that both subsidiaries will develop in line with their respective business plans. If the future development of these subsidiaries deviates significantly from the expected development, it cannot be excluded that future write-downs of the carrying values might be required.

The continued existence of Intershop Communications AG is heavily dependent on the economic performance of its subsidiaries. For 2002, the Management Board expects revenue for the subsidiaries and the group as a whole to remain flat, compared to the previous year. The Management Board believes that the measures introduced in the first quarter of 2002 to reduce costs and increase revenue will have a positive impact on Intershop Communications AG's operating results from the second quarter onwards. Together with the recovery expected for the entire IT industry in the third quarter, the Management Board expects that Intershop Communications AG will break even on a quarterly basis by the end of the fiscal year. Due to the net operating losses incurred by all subsidiaries of Intershop Communications AG, Intershop Communications AG will not take any dividends from its subsidiaries nor issue any dividends to its shareholders in the medium term. In conjunction with the 2002 business plan, all corporate functions will be consolidated within Intershop Communications AG in 2002. Expenses incurred for internal services provided by Intershop Communications AG will be charged to the subsidiaries. The Management Board therefore expects Intershop Communications AG to break even in 2002.

The Management Board is confident that the current level of cash and cash equivalents is sufficient for financing future business development. If losses persist, it may be necessary for Intershop Communications AG to seek new funds through a capital increase or in the form of outside capital. If losses persist and if it is not possible to acquire sufficient capital, Intershop Communications AG could be forced to delay, reduce, or completely discontinue operations.

As of December 31, 2001, long-term loans to an affiliated company totaled €30.0 million. Although outstanding debts are considered an intrinsic element of Intershop Communications AG's assets, the possibility that this affiliated company may not be able to repay these accounts or that additional demands for write-downs may emerge cannot be excluded if the subsidiary continues to report losses in the future. Furthermore, Intershop Communications AG has given Intershop Software Entwicklungs GmbH a letter of comfort covering lease obligations amounting to €35.1 million up to November 14, 2013.

| Group Risks |

Various risks could prove to be a threat to the financial situation, assets, earnings and existence of Intershop, including the following:

In response to the current economic slowdown, the Company has commenced executing on its 2002 Business Plan. Steps that Intershop is taking include, among other things, reducing its workforce to a target of 500 employees worldwide; centralizing all Corporate functions into its new global headquarters in Jena, Germany, including those that were previously located in Hamburg, Germany; eliminating certain senior management positions and layers of hierarchy; and focusing its sales, support, and consulting efforts on industry vertical solutions, primarily retail and high-tech/manufacturing. The Company expects to realize significant future cost savings as a result, after incurring significant up-front expenses to implement the program. As with other integration efforts of this kind, the 2002 Business Plan may not be successful in achieving the expected benefits within the expected timeframes, may be insufficient to align the Company's operations with customer demand and the changes affecting its industry, may disrupt the Company's operations, may fail to retain or attract key personnel, or may be more costly than currently anticipated. If Intershop fails to implement the 2002 Business Plan, additional financing resources might be required to support the group's operations. If, in this case, no such financing is available on a timely basis, the ability of Intershop Communications AG and the Group to continue operations might be endangered.

Up to now, Intershop has incurred a net loss each year and has a consolidated accumulated deficit of €216.1 million (prior to the appropriation of paid in capital) as of December 31, 2001. 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, 2001, cash and cash equivalents, marketable securities cash came to €36.3 million (including restricted cash of €7.9 million). Although the Management Board is confident that the current level of cash and cash equivalents is sufficient for financing the Company's ongoing operations and future business development, it may be necessary, if losses persist, 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.

Intershop's business has been heavily impacted by the global economic downturn and the subsequent weakness in corporate IT spending, especially in the regions of Europe and the Americas. Intershop expects these conditions may continue to adversely affect its ability to generate sales from corporate customers, may significantly harm operating results in the future, and may substantially increase the need for additional funding.

The market for e-commerce applications is still relatively new and is subject to ongoing change. Even for the short term, future developments are therefore hard to predict. Accordingly, any forecasts carry a high level of uncertainty. For planning purposes, Intershop uses analyses available from market research companies as well as the information it obtains through its many contacts with other market participants. However, there is a fundamental risk that market trends may not be recognized in a timely fashion, and that management may fail to gauge the demand for e-business solutions with regard to customer requirements and volume correctly.

Operating results for future periods are never perfectly predictable even in the most certain of economic times. Intershop expects to continue to experience fluctuations in its quarterly results and in its guidance, when provided, for financial performance in future periods. These fluctuations, which in the future may be significant, could cause substantial variability in the market price of Intershop's stock and could harm the Company's ability to obtain future funding.

Intershop competes directly with other providers of e-business technologies. In the dynamic e-commerce market, it must be assumed that new and existing providers will significantly improve their product portfolio and their sales operations. Intershop's market position could be threatened if it does not succeed in maintaining or improving its competitiveness with regard to the profile and quality of its products and services, and the manner in which they are marketed.

Intershop's success in the market is heavily dependent on the technical performance of its products. Software faults that lead to restricted functionality or performance of existing and future products could considerably reduce the acceptance of Intershop's products.

The Company is a defendant in various legal matters arising in the normal course of business, notably, a consolidated class action lawsuit in the United States and an investigation by the German Federal Supervisory Office for Securities Trading (Bundesaufsichtsamt für den Wertpapierhandel - BAWe). Since the beginning of 2001, Intershop Communications AG and other defendants have been exposed to a securities class action lawsuit alleging misrepresentation and omission of material facts concerning the Company's business performance. In addition, in January 2001, the BAWe initiated an investigation regarding a possible violation of the duty to disclose material information in connection with the release on January 2, 2001 of Intershop's preliminary results for 2000. Even though the Company believes there is no merit to these cases and even though it continues to vigorously defend itself, it is possible that an adverse ruling in any such matter individually, or some or all matters collectively, may have a materially adverse effect on the Company's results of operations.

Intershop has taken extensive measures to protect the brand names it uses worldwide. Nonetheless, there is always a possibility that conflicts with third parties may arise concerning the use of individual brand names. In accordance with the prevailing standards in Europe, the programs and technologies developed by Intershop do not enjoy total patent protection. Although Intershop takes great care in protecting its intellectual property, it is impossible to rule out violation of property rights by third parties. It is also possible that third parties may take legal actions against Intershop for violation of patents or other rights, as happened in January 2001. Patent disputes are widespread in the software industry, particularly in the US, and are often associated with significant costs for court action or out-of-court settlements. Although Intershop is convinced that it has not violated any patents, it is impossible to rule out a negative impact on Intershop's operating results, due to such claims from third parties.

When choosing e-business software, customers' decisions are partly based on a provider's reputation and profile, not just on the performance of its products. Should Intershop fail to achieve the necessary profile and desired image with its target groups, this could have a negative effect on the demand for Intershop products.

Intershop's products are largely sold and implemented by IT sales and service companies. If Intershop does not succeed in training a sufficient number of these companies in the use of its products and attracting them as partners, it could negatively impact sales of the products.

The success of Intershop's business depends substantially upon the performance of executive officers and key employees, especially in the areas of product development and sales. Failure to retain present employees and executive officers and to attract sufficient numbers of new personnel could have a negative effect upon the Company's operating results.

Licenses account for a significant share of Intershop's overall revenue. According to U.S. GAAP, software license revenue is 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 that are essential to the features and functionality of the software, revenue is 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 Intershop customers, revenue is subject to strong variation from one quarter to the next. Given that a small number of large contracts often account for a large portion of revenue, this effect can be very substantial. Since operating costs are heavily dependent on the number of personnel employed at any one time and, therefore, cannot be varied significantly in the short term, this means that fluctuations in revenue may result in corresponding fluctuations in operating results.

In the software industry, a large portion of license revenue is often not recorded evenly over a quarter, but rather toward the end of a quarter. This is due to the fact that in many cases contracts are not awarded until the last third of a quarter. Due to this, a high level of uncertainty, as to whether the planned revenue target will be achieved, remains well into the quarter.

Intershop earns a small portion of its revenue from start-up companies. These companies have only a short history and limited liquidity, leading to uncertainty about their long-term viability and solvency. Additionally, established companies may refuse payment, even if there are no objective grounds to justify such a refusal. There is no guarantee that Intershop will be successful in any legal action to enforce payment. Although Intershop reviews its customers' credit status before posting revenue, an accumulation of higher than expected bad debts could negatively impact Intershop's financial situation and earnings.

To a certain extent, the operating and financial results of Intershop's operations are reported in local currencies that are not pegged to the common European currency, the Euro, and translated into Euros for inclusion in the Company's 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 earnings.

Please refer to above section “Intershop Communications AG Highlights and Risks“ for specific risks associated with the Company's holding entity, Intershop Communications AG. Some of the risks applicable to Intershop Communications AG are also applicable to the consolidated Group.

| Improved Risk Management |

Risks to the Company's future development cannot be excluded completely, due to ever-changing market trends and limited planning certainty with regard to the license business. Intershop's strategy to mitigate and manage risk includes a forward-looking product policy to anticipate developments in the marketplace and future needs of customers, emphasis upon product development and the technological performance of the Company's products. Also included in this strategy are ongoing efforts to boost the Company's profile with the relevant target groups, the formation of new business partnerships and alliances, 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 providing the necessary organizational infrastructure.

The Company monitors market trends and the activities of its competitors on an ongoing basis and makes use of market analyses and forecasts provided by leading market research companies. Intershop maintains a comprehensive system of project management and quality control in the area of product development where risk awareness plays a major role.

Intershop uses Siebel, SAP, and Hyperion software to monitor its business worldwide. These IT systems provide an overview of the Company's present and future situation. Monthly and quarterly statements ensure that information on business trends remains up-to-date. In addition to annual budget planning, the Company uses a roll-forward budgeting process to update budgets on a continuous basis. Budgets are reviewed each quarter and adjusted if necessary. Ongoing accounting and controlling provides regular information on deviation between target and actual figures in the individual areas. In addition, management regularly analyzes the Company's assets, financial position, and earnings. Weekly, and sometimes even daily, meetings of the executive management team as well as further routine meetings of managers at regional or departmental levels ensure that there is an efficient exchange of information and a rapid decision-making process.

The Management Board informs the Supervisory Board at least once a quarter, but typically more often, about important corporate developments. Intershop's internal policies for corporate governance, insider trading, and disclosure ensure that legal requirements and stock exchange regulations, as well as international management standards, are observed.

Once a year, Intershop's appointed risk manager issues an internal risk report that analyzes the Company's risk profile and provides guidance to mitigate risk. The 2001 risk report notes that Intershop's risk level rose during the fiscal year 2001 due to, among other things, deteriorating market conditions and the adverse human resource effects of restructuring. At the same time, however, the Company has stepped up its efforts to reduce risk by, for instance, the implementation of a new Customer Relationship Management (CRM) system from Siebel Systems; by appointing a corporate finance representative in charge of cash management, treasury, and risk management; and by introducing a global authorization policy.

Management plans to continue to improve Intershop's risk management system in the future.

| Subsequent Events |

On January 23, 2002, Intershop announced that its CEO, Stephan Schambach, would exchange his remaining shares in U.S. subsidiary Intershop Communications, Inc., for Intershop Communications AG common bearer shares. Under the transaction, Intershop Communications AG will issue 12,500,000 Intershop Communications AG common bearer shares from conditional capital III, in exchange for Mr. Schambach's 4,166,667 shares in Intershop Communications, Inc., a majority-owned subsidiary of Intershop Communications AG. The share exchange represents a technical consolidation of Intershop's Group share capital from one of its subsidiaries into its parent company, Intershop Communications AG, and has no impact on the current global operating structure of the Company. The transaction provides for a tax-efficient consolidation of the Company's ownership structure stemming from its 1998 initial public offering. The Company expects the transaction will be dilutive to basic earnings per share on a consolidated group basis. Basic earnings per share for 2001 will not be affected by the transaction.

On February 8, 2002, Intershop announced changes to its top management team. Wilfried Beeck resigned as Chief Operating Officer and Management Board member (*Vorstand)*. Management previously reporting to Mr. Beeck now reports directly to the CEO, Stephan Schambach, and will be headquartered in Jena. Effective February 8, 2002, Bernhard Marbach rejoined the Company as Vice President Sales, Europe. Former President Europe, Michael Tsifidaris, left the Company on February 8, 2002.

In order to accelerate Intershop's path to profitability, on February 12, 2002, Intershop launched a series of strategic initiatives as part of the 2002 business plan.

New Management Team: The CEO appointed a new management team, to be based in the Company's new headquarters in Jena, Germany. The new management team is comprised of an increased number of managers with direct profit and loss responsibilities within the various operating areas. This new structure provides for strong customer focus and improved market response time.

Simplified Company Structure: Intershop streamlines the organization from top to bottom, creating more efficient business operations. Intershop consolidates all its corporate functions into its new headquarters in Jena, Germany. As a result of completely redesigning and simplifying the organizational structure, Intershop targets a reduction in the global workforce from 733 employees as of December 31, 2001, to 500 by the end of the second quarter of 2002.

Aggressive Sales Program for New Products: With a leaner and more efficient organizational structure in place, all efforts will concentrate on revenue generating activities. To support these plans, Intershop will target global enterprise customers, up-sell the new Enfinity MultiSite and Intershop Content Management product offerings within the installed customer base, intensify indirect selling, and focus more intensely on the Retail and High-Tech & Manufacturing industries.

On February 28, 2002, Intershop changed the ratio of its American Depositary Shares (ADS) to underlying ordinary Intershop Communications AG common bearer shares from 2 ADSs equaling 1 ordinary share, to 1 ADS equaling 5 ordinary shares. With this ratio change, each of Intershop's Nasdaq-listed ADSs will evidence ownership of five underlying ordinary shares listed on its primary stock exchange, the Neuer Markt in Frankfurt, Germany. Intershop's trading symbol on the Nasdaq National Market was temporarily changed to ISHPD for approximately 20 days in accordance with Nasdaq regulations. After this notification period, the trading symbol reverted to the Nasdaq National Market designation of ISHP. The ratio change does not affect the value of an investor's ADR holdings. Stockholders of Intershop Communications AG ordinary shares will not see any change in the number of shares held. The ratio change is non-dilutive and has no impact on Intershop's balance sheet.

On March 4, 2002, Intershop announced its CEO, Stephan Schambach, would invest approximately €10 million in cash to purchase Company stock. In a private equity placement, Intershop Communications AG will issue 8,334,000 new Intershop Communications AG common bearer shares from authorized capital. In turn, Mr. Schambach will purchase all 8,334,000 shares at a price of €1.20 per share. On March 13, 2002, Mr. Schambach subscribed for these new shares. Pricing is based on the XETRA daily closing price at the Frankfurt Stock Exchange on March 1, 2002. Upon completion of this transaction, Stephan Schambach will hold 8,336,500 Intershop Communications AG common bearer shares, representing 8.6% of Intershop's common stock, post transaction. Including the 12,500,000 Intershop Communications AG common bearer shares to be issued to Mr. Schambach based on a share exchange arrangement announced in January of

2002, Mr. Schambach will hold 20,836,500 Intershop Communications AG common bearer shares, or 19.1% of common stock, after these two transactions. The Company expects the transaction will be dilutive to basic earnings per share on a consolidated group basis. Total shares outstanding following the completion of this transaction stand at 96.5 million and will be at 109.0 million after completion of the announced share exchange. Basic earnings per share for the fiscal year 2001 will not be affected by the transaction.

| Outlook |

Intershop believes electronic commerce over the Internet has become a driver of economic growth. The Internet's infrastructure, both hardware and software, is still at a relatively early stage of development. Additionally, both corporate and consumer business behaviors are still adjusting to the new electronic trading technologies available today. In line with these realities, Intershop believes that the market for standard e-business applications has great potential to significantly grow over the long-term.

Standardized, comprehensive, secure, scalable, and flexible software in particular will facilitate the growth of electronic commerce over the Internet in the next few years. In 2002, e-business trends include continued focus on products and services that, from a financial perspective, deliver a high return on investment quickly and a low total cost of ownership. From a solution functionality perspective, e-business customers in 2002 are looking for multiple channel relationship management; continued emphasis on automating B2B and B2C marketing, sales-related processes; increased collaborative commerce functionality including backward- and forward integration into supply chain management (SCM) and customer relationship management (CRM) system environments; as well as responsive and personalized customer interaction in order to increase customer retention.

Intershop believes it is strategically well positioned to deliver world-class e-business solutions to accommodate these industry trends. With its full range of comprehensive best-of-breed e-business solutions and a global network of international partners, Intershop addresses the needs of corporate customers, especially those with multinational operations. Intershop's customers successfully run their e-business transactions on Intershop's leading technology. Intershop's brand name stands for sophisticated and well-engineered software that meets the highest standards of quality, reliability, scalability, security, flexibility, and performance. In an economic downturn, Intershop has successfully transitioned its product portfolio to meet current and future customer demand for packaged solutions that require less individual customization. By expanding its product portfolio with the Content Management- and Procurement solutions, Intershop has tapped a new source of revenue, which should reduce its dependence on the sell-side application market.

While medium- to long-term growth prospects in the e-business software industry are encouraging, short-term growth may remain at modest levels at least throughout the fiscal year 2002. In the short-term, corporate customers may continue to postpone many of their e-business initiatives, in line with subdued expectations for a quick economic recovery worldwide. As prospects for an economic rebound improve, pent-up demand for sophisticated enterprise software will eventually be unleashed, leading to increased spending on next-generation e-business software. Intershop expects that many corporate customers will eventually try to emulate the success of companies that today successfully deploy e-business software to generate revenue.

Intershop anticipates a modest pick-up in demand for its software products parallel to a recovery of the world's largest economies, the United States and Europe. With its 2002 business plan in place, Intershop expects to reduce its overall cost base.

Report of Independent Auditors, Group

We have audited the consolidated financial statements of Intershop Communications AG as of December 31, 2001, including the consolidated balance sheet and the related consolidated statements of operations, cash flows, changes in shareholders' equity and notes for the year then ended. The legal representatives of the company are responsible for the preparation and content of the consolidated financial statements. Our responsibility is to express an opinion, based on our audit, whether these consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles.

We conducted our audit in accordance with the German Auditing Rules and in compliance with the general accepted standards of auditing prescribed by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. In establishing the audit procedures we considered our knowledge about the group's business operations, its economic and legal environment, and expectations of possible errors. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. The audit includes assessing the accounting principles used and significant estimates made by the legal representatives, 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 a true and fair view of the group's financial position, results of operations and cash flows in accordance with United States generally accepted accounting principles.

Our audit which also includes the combined management and group management report for the fiscal period from January 1 to December 31, 2001,which is the responsibility of the Management Board, has not given rise to any reservations. In our opinion the combined management and group management report conveys a suitable presentation of the situation of the group taken as a whole and presents the risks to its future developments adequately. Additionally, we confirm that the consolidated financial statements and the combined management and group management report for the fiscal period from January 1 to December 31,2001 meet the requirements for an exemption to prepare consolidated financial statements and the combined management and group management report in accordance with the rules and regulations of the German Commercial Code.

Without qualifying this opinion, we refer to the Company's discussion in the combined management and group management report in the sections "Intershop Communications AG Highlights and Risks und Group Risks." In these sections, the Company discusses the planned measures to improve the results of operations and cash flows. The successful implementation of these measures is of significant importance to the continuation of the Company's operations.

Arthur Andersen
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Nendza	Schneider
Wirtschaftsprüfer	Wirtschaftsprüfer

Hamburg, March 13, 2002

Consolidated Financial Statements

| Consolidated Balance Sheet |

(in thousands €, except share and per share amounts)

As of December 31,	2000	2001
ASSETS		
Current assets:		
Cash and cash equivalents	84,062	9,107
Marketable securities	27,509	19,358
Restricted cash	168	7,873
Trade receivables, net of allowances for doubtful accounts of (€5,181) and (€13,940), respectively	36,984	11,679
Prepaid expenses and other current assets	7,793	9,976
Total current assets	156,516	57,993
Property and equipment, net	22,054	13,522
Investments	2,550	-
Goodwill and acquired intangible assets, net	25,562	4,473
Other assets	2,773	3,628
Total assets	209,455	79,616
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current debt and current maturities of long-term debt	193	99
Accounts payable	10,345	3,540
Accrued restructuring costs	-	10,653
Accrued liabilities	17,973	15,602
Deferred revenue	6,817	5,569
Total current liabilities	35,328	35,463
Long-term liabilities	-	177
Deferred revenue	159	103
Total liabilities	35,487	35,743
Commitments and contingencies		
Shareholders' equity		
Common stock, stated value €1 authorized: 154,187,975 shares; issued: 88,003,016 and 88,191,321 shares as of December 31,2000 and 2001 respectively	88,003	88,191
Paid-in capital	168,585	13,420
Accumulated deficit	(84,329)	(60,632)
Accumulated other comprehensive income	1,709	2,894
Total shareholders' equity	173,968	43,873
Total liabilities and shareholders' equity	209,455	79,616

The accompanying notes are an integral part of these financial statements.

| Consolidated Statement of Operations |

(In thousands €, except per share amounts)

For the Year Ended December 31,	1999	2000	2001
Revenues:			
Licenses	29,534	74,068	20,480
Services, maintenance and other revenue	16,732	48,926	48,174
Total revenues	**46,266**	**122,994**	**68,654**
Cost of revenues:			
Licenses	4,786	5,289	2,338
Services, maintenance and other revenue	8,465	43,453	41,433
Total costs of revenues	**13,251**	**48,742**	**43,771**
Gross Profit	**33,015**	**74,252**	**24,883**
Operating expenses:			
Research and development	7,115	10,191	15,179
Sales and marketing	34,771	75,743	60,766
General and administrative	11,206	27,590	38,108
Goodwill and intangible asset amortization	-	1,477	21,091
Restructuring costs	-	-	23,276
Total operating expenses	**53,092**	**115,001**	**158,420**
Operating loss	**(20,077)**	**(40,749)**	**(133,537)**
Other income (expense), net:			
Interest income	515	1,591	3,759
Interest expense	(42)	(571)	(76)
Write-down of investments	-	-	(2,482)
Other income	1,215	806	538
Total other income	**1,688**	**1,826**	**1,739**
Net loss	**(18,389)**	**(38,923)**	**(131,798)**
Basic and diluted net loss per share	**(0.23)**	**(0.46)**	**(1.50)**
Shares used in computing			
basic and diluted net loss per share	**79,883**	**84,134**	**88,133**

The accompanying notes are an integral part of these financial statements.

| Consolidated Statement of Cash Flows |

(in thousands €)

For the Years Ended December 31	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	(18,389)	(38,923)	(131,798)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation, amortization and asset impairment charges	2,076	5,637	14,146
Amortization of goodwill and intangible assets	-	1,477	21,091
Depreciation of investments	-	-	2,482
Provision for doubtful accounts	2,037	6,130	13,712
Amortization of deferred compensation	308	273	-
Gain on disposal of marketable securities	-	-	(1,552)
Loss on disposal of equipment	-	71	137
Change in:			
Accounts receivable	(18,220)	(19,596)	12,446
Prepaid expenses and deposits	(1,474)	(4,202)	(4,050)
Other assets	(830)	(2,987)	(738)
Accounts payable	2,228	4,877	(6,946)
Deferred revenue	1,542	(1,787)	(1,383)
Accrued restructuring liability	-	-	10,653
Accrued expenses and other liabilities	6,298	7,152	824
Net cash used in operating activities	**(24,424)**	**(41,878)**	**(70,976)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in unaffiliated company	(1,199)	-	-
Cash paid for acquisitions, net of cash acquired	-	(3,036)	-
Restricted cash	(1,227)	1,269	(7,705)
Sale proceeds on disposal of equipment	-	-	456
Purchases of equipment, net of capital leases	(3,625)	(20,626)	(5,731)
Sale proceeds on disposal of marketable securities	-	-	92,605
Purchase of marketable securities	(1,490)	(27,039)	(83,875)
Net cash used in investing activities	**(7,541)**	**(49,432)**	**(4,250)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of common stock	1,759	168,679	519
Proceeds from debt issuance	7,937	10,758	-
Collection on notes receivable from stockholders	1,287	141	-
Repayments of indebtedness	(1,144)	(17,791)	-
Net cash provided by financing activities	**9,839**	**161,787**	**519**
Effect of change in exchange rates on cash and cash equivalents	6	1,520	(248)
Net change in cash and cash equivalents	**(22,120)**	**71,997**	**(74,955)**
Cash and cash equivalents, beginning of period	**34,185**	**12,065**	**84,062**
Cash and cash equivalents, end of period	**12,065**	**84,062**	**9,107**

The accompanying notes are an integral part of these financial statements.

| Consolidated Statement of Shareholders` Equity |

(in thousands €, except share data)

	Common Stock Shares	Common Stock Stated Value	APIC
Balance, January 1, 1999	**77,924,505**	**13,281**	**50,225**
Net loss	-	-	-
Foreign currency translation adjustments	-	-	-
Unrealized gain on available for sale securities, net	-	-	-
Conversion of common stock of subsidiary to common stock of parent	2,233,500	416	(416)
Change in stated value of common stock	-	2,449	(2,449)
Exercise of stock options	4,232,515	732	1,027
Collections on notes receivables from stockholders	-	-	-
Amortization of deferred compensation	-	-	(218)
Balance, December 31, 1999	**84,390,520**	**16,878**	**48,169**
Net loss	-	-	-
Foreign currency translation adjustments	-	-	-
Unrealized loss on available for sale securities, net	-	-	-
Private placement of common stock, net	500,000	100	38,900
Issuance of common stock for secondary offering, net	1,675,000	335	111,876
Conversion of preferred stock of subsidiary to common stock of parent	280,000	56	(56)
Issuance of common stock for acquisitions	275,011	275	22,586
Exercise of stock options	882,485	334	4,635
Capital contribution (net of tax)	-	-	12,500
Collections on notes receivables from stockholders	-	-	-
Amortization of deferred compensation	-	-	-
Allocation of par value resulting from stock split	-	70,025	(70,025)
Balance, December 31, 2000	**88,003,016**	**88,003**	**168,585**
Net loss	-	-	-
Foreign currency translation adjustments	-	-	-
Unrealized loss on available for sale securities, net	-	-	-
Exercise of stock options	188,306	188	330
Appropriation of paid-in capital	-	-	(155,495)
Balance, December 31, 2001	**88,191,322**	**88,191**	**13,420**

The accompanying notes are an integral part of these financial statements.

				Total	Cumulative
Notes	Deferred	Accumulated	Comprehensive	Stockholders	Comprehensive
Receivable	Compensation	Deficit	Income(Loss)	Equity	Income(Loss)
(1,428)	**(799)**	**(27,017)**	**(37)**	**34,225**	**-**
-	-	(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)**
-	-	(38,923)	-	(38,923)	(38,923)
-	-	-	1,523	1,523	1,523
-	-	-	(3,451)	(3,451)	(3,451)
-	-	-	-	39,000	-
-	-	-	-	112,211	-
-	-	-	-	-	-
-	-	-	-	22,861	-
-	-	-	-	4,969	-
-	-	-	-	12,500	-
141	-	-	-	141	-
-	273	-	-	273	-
-	-	-	-	-	-
-	-	**(84,329)**	**1,709**	**173,968**	**(40,851)**
-	-	(131,798)	-	(131,798)	(131,798)
-	-	-	837	837	837
-	-	-	348	348	348
-	-	-	-	518	-
-	-	155,495	-	-	-
-	-	**(60,632)**	**2,894**	**43,874**	**(130,613)**

Notes to the Consolidated Financial Statements

| 1. Organization and Operations of the Company |

Intershop (Intershop Communications AG together with its subsidiaries as well as its predecessors; in the following referred to as the “Company“, “Intershop“, or the “Group“) is a global provider of complete standard enterprise e-business-software solutions. The Company's products provide both basic electronic commerce functionality and advanced features, including intelligent merchandising capabilities, workflow processing, and channel integration. The Company's products are designed to support a wide range of e-business models, from basic business-to-consumer (B2C) and business-to-business (B2B). Intershop's software integrates into a company's existing technology infrastructure, enabling transactions between suppliers, distributors, and customers.

The Company's two product lines, Intershop 4 and Enfinity, address the needs of both the B2C and the B2B market for companies of all sizes. Within the Enfinity product line, the Company offers a comprehensive set of standardized industry-specific and cross-industry software solutions. The Company also provides customer support, professional consulting services, and training on its software products.

In December 1996, Intershop Communications, Inc. (U.S., Inc.) entered into a share exchange agreement with Intershop Communications GmbH (GmbH) to acquire 100% of GmbH's outstanding shares. The shareholders of GmbH's common shares received common shares in U.S., Inc. Holders of existing debt (approximately €1.1 million) and capital (approximately €200,000) in GmbH, totaling approximately €1.4 million, received 6,720,000 shares of preferred stock in U.S., Inc. The fair value of the preferred stock issued was equal to the carrying value of the debt and capital for which it was exchanged. The share exchange did not alter the relative ownership interest of the parent company. Upon completion of the transaction, U.S., Inc. became the parent company of GmbH and its subsidiaries.

On June 23, 1998, the holders of 79.26% of the shares of U.S., Inc. exchanged their shares of preferred and common stock of U.S., Inc., totaling 20,591,348, into 61,729,050 shares of the Company. As a result of this transaction, U.S., Inc. became a majority-owned subsidiary of the Company. Two stockholders, including Stephan Schambach, a founder and Chief Executive Officer, did not contribute all of their shares of U.S., Inc. due to certain tax consequences, and, as of December 31, 2001, still hold 16.0% and 1.5%, respectively, of U.S., Inc.'s common stock. These two stockholders are entitled to exchange their shares in U.S., Inc. for shares in the Company at a ratio of 1:3, using conditional capital specifically approved for this purpose. The instruments held by these individuals are considered to be part of the majority interest in AG given the related party nature of the holdings, their conversion rights and their probable conversion, due to the fact that they are subject to repurchase at US $0.01 per share if not converted by 2004. Accordingly, the cost basis of such shares is included in additional paid-in capital in the accompanying consolidated financial statements. Conversions of U.S., Inc. shares to AG shares subsequent to the initial conversion in June 1998 are treated as an increase to the stated value of the common stock and a corresponding decrease to additional paid-in capital. During 1999, these stockholders converted 744,500 common shares of U.S., Inc. for 2,233,500 shares of the Company. During the year ended on December 31, 2000, these stockholders converted 93,333 common shares of U.S., Inc. for 280,000 shares of the Company. During 2001, these stockholders did not convert any shares of U.S., Inc. for shares of the Company. As of December 31, 2001, these stockholders held 4,548,167 shares in U.S., Inc., and these shares are convertible into 13,644,500 shares of the Company subject to the conditions of German stock corporation law. If these two shareholders were to have converted their shares as of December 31, 2001, they would own approximately 15.5% of the Company. In January 2002, the Company announced that Stephan Schambach intends to convert his remaining holdings in U.S., Inc. (4,166,667 shares) for shares of the Company (12,500,000 shares).

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.

As of December 31, 2001, the Company had cash and cash equivalents and marketable securities of €28.5 million, compared to €111.6 million as of December 31, 2000. The Company has incurred net losses for the past seven years and had an accumulated deficit of €216.1 million (prior to the appropriation of paid-in capital) as of December 31, 2001. The Company has developed a business plan to address the Company's operational needs in the future. This plan includes further headcount and other cost reductions, centralizing certain operations in Jena, Germany, and obtaining future financing. The Company's ability to continue operations is dependent on the success of the Company in implementing these plans and of the Company's resulting future operations.

| 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. Certain financial statement captions that are prepared using estimates where it is reasonably possible that these estimates will change in the near term include allowance for doubtful accounts and restructuring accruals.

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.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of each transaction. Differences in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date at which it is either settled or translated are recognized in the statement of operations.

Statement of Cash Flows

The Company paid €37,000, €561,000 and €16,800 in cash for interest in 1999, 2000 and 2001, respectively. The Company paid €61,000, €40,100 and €30,410 in cash for taxes in 1999, 2000 and 2001, respectively. The Company issued stock valued at €22,861,000 in conjunction with acquisitions in 2000 (see Note 6).

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 base 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.

All balances within accounts receivable are due within one year.

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

Restricted Cash

Restricted cash relates to cash balances that have been restricted for use by contractual arrangements. The amount restricted in 2001 relates to a rental guarantee on the leased property in Jena, Germany. The level of restricted cash will reduce as the lease term on the property reduces or if the Company negotiates an improved contractual arrangement. The Company is in the process of negotiating an improved contractual arrangement and is expected to finalize this arrangement in the near future.

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 ranging from three to five years. Capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the lease terms or their estimated useful lives.

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 completion of beta testing 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.

Long-Lived Assets

The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets and any attributable goodwill in accordance with SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of“. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Company will compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Company will record impairment losses to write the asset down to fair value, measured by the discounted estimated net future cash flows expected to generated from the assets. During the year ended on December 31, 2001, the Company recorded impairment charges, related to certain fixed assets impacted by the Company's restructuring plans, to the amount of €5.7 million.

Enterprise Level Goodwill

The Company periodically assesses the impairment of enterprise level goodwill in accordance with the provisions of Accounting Principles Board Opinion No. 17, “Intangible Assets“. An impairment review is performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers important which could trigger an impairment include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends, a significant decline in the Company's stock price for a sustained period and the Company's market capitalization relative to net book value. When the Company determines that the carrying value of goodwill or other intangible assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company measures any impairment based on a projected discounted cash flow. The management believes that no such impairments existed during the years ended on December 31, 1999 and 2000. During the year ended on December 31, 2001, the Company recorded impairment charges with respect to enterprise level goodwill to the amount of €12.0 million.

Derivatives

Effective January 1, 2001, the Company adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities“, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in the income statement when the hedged item affects earnings. The adoption of SFAS No. 133 did not have a material impact on the Company's financial position or results of operations.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses of €4.2 million, €13.2 million and €3.2 million were included within sales and marketing expenses for 1999, 2000 and 2001, respectively.

Stock-Based Compensation

The Financial Accounting Standards Board (“FASB“) 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 12 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.

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.

No customers accounted for 10% or more of consolidated revenues for any year presented. During 1999, 2000, and 2001, the Company generated revenue from certain related parties. During these periods, members of our Supervisory Board were executives or board members of these customers. Revenues from sales to these related parties as a percentage of total consolidated revenues were as follows:

	1999	2000	2001
Related Party A	9%	2%	2%
Related Party B	2%	3%	1%

Comprehensive Income

Comprehensive income is the total of net income (loss) and all other non-owner changes in shareholders' equity.

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

Year Ended December 31,	2000	2001
Foreign Currency translation gains (losses)	2,138	2,975
Unrealized gain (loss) on available-for-sale securities	(429)	(81)
Total comprehensive income (loss)	**1,709**	**2,894**

A summary of the components of other comprehensive income for the years ended on December 31, 1999, 2000 and 2001 is as follows (in thousands €):

	Before tax amount	Income Tax	After tax Amount	Before tax amount	Income Tax	After tax Amount	Before tax amount	Income Tax	After tax Amount
Year Ended December 31,	1999	1999	1999	2000	2000	2000	2001	2001	2001
Unrealized gain (loss) on available for sale securities	3,022	-	3,022	(3,202)	(249)	(3,451)	348	-	348
Foreign currency translation adjustment	652	-	652	1,523	-	1,523	837	-	837
	3,674	-	3,674	(1,679)	(249)	(1,928)	1,185	-	1,185

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 basic earnings per share purposes. All potential common shares have been excluded from the computation of diluted net loss per share for 1999, 2000 and 2001 because the effect would be antidilutive. The weighted-average number of vested shares of common stock outstanding includes the shares of U.S., Inc., converted at a ratio of 1:3, held by two shareholders of the Company as discussed further in Note 1.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the three years ended on December 31, 2001, respectively (in thousands €, except per share data):

Year Ended December 31,	1999	2000	2001
Net loss attributable to common shareholders	(18,389)	(38,923)	(131,798)
Basic and diluted net loss per share:			
Weighted average common shares outstanding	82,633	85,884	88,133
Less: Weighted average shares subject to repurchase	(2,750)	(1,750)	-
Total weighted average common shares	79,883	84,134	88,133
Basic and diluted net loss per share	**(0.23)**	**(0.46)**	**(1.50)**

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, “Business Combinations“ and SFAS No. 142, “Goodwill and Other Intangible Assets“. SFAS No. 141 requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are "separable" i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. As a result, it is likely that more intangible assets will be recognized under SFAS No. 141 than its predecessor, APB Opinion No. 16, although in some instances previously recognized intangibles will be included as part of goodwill.

Under SFAS No. 142, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a SFAS No. 131 operating segment or one level lower. Goodwill will no longer be allocated to other long-lived assets for impairment testing under SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of“. Additionally, goodwill on equity method investments will no longer be amortized; however, it will continue to be tested for impairment in accordance with Accounting Principles Board Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock“. Under SFAS No. 142, intangible assets with indefinite lives will not be amortized. Instead, they will be carried at the lower cost or market value and tested for impairment at least annually. All other recognized intangible assets will continue to be amortized over their estimated useful lives.

SFAS No. 142 is effective for the fiscal years beginning after December 15, 2001, i.e., beginning January 1, 2002 for the Company. Upon adoption, all goodwill and indefinite-lived intangible assets must be tested for impairment and a cumulative effect adjustment to net income recognized at that time. Had the company adopted SFAS No. 142 on January 1, 2001, the Company would not have recorded a goodwill amortization charge, excluding impairment, of €9.1 million for the year ended on December 31, 2001. The Company adopted SFAS No. 142 on January 1, 2002. The Company will reclassify intangible assets (i.e., assembled workforce) as goodwill, which will result in an increase in reported goodwill of €0.3 million. The Company has not yet determined any additional impact that SFAS No. 142 will have on goodwill or whether a cumulative effect adjustment will be required upon adoption.

In August 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets“. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS No. 121. While it supersedes portions of APB Opinion 30, “Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions“, it retains the discontinued operations presentation, yet it broadens that presentation to include a component of an entity (rather than a segment of a business). However, discontinued operations are no longer recorded at net realizable value and future operating losses are no longer recognized before they occur. SFAS No. 144 also establishes criteria for determining when an asset should be treated as held for sale.

SFAS No. 144 is effective for the fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. The provisions of SFAS No. 144 are generally to be applied prospectively. The Company adopted SFAS No. 144 on January 1, 2002 and does not expect that it will have a material impact on its results of operations, financial position, or cash flows, although it may require a change in the way that the Company presents certain transactions in its financial statements.

Reclassifications

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year presentation.

| 3. Prepaid Expenses and Other Current Assets |

Prepaid expenses and other current assets consisted of the following (in thousands €):

Year Ended December 31,	2000	2001
Trade shows and advertising prepayments	203	
Receivables from employees	568	293
VAT and other tax receivables	2,616	3,926
Prepaid insurance	1,499	859
Unbilled receivables	738	2,519
Other	2,170	2,379
Total	**7,793**	**9,976**

The Company has recorded a doubtful debt allowance of €1.1 million against receivables due from employees in the year ended on December 31, 2001. No such allowance existed in the previous year.

| 4. Property and Equipment |

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

	2000	Currency	Additions	Disposals	Impairment	2001
Computer equipment	20,301	320	4,065	(608)	(226)	32,852
Furniture and fixtures	5,906	140	1,379	(282)	(1,699)	5,444
Leasehold improvements	6,322	209	718	(311)	(3,823)	3,115
Subtotal	**32,529**	**669**	**6,162**	**(1,201)**	**(5,748)**	**32,411**
Accumulated depreciation	(10,475)	(213)	(8,855)	654		18,889
Property and equipment, net	**22,054**					**13,522**

The Company does not have any equipment under capital leases as at December 31, 2001 and December 31, 2000.

| 5. 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 represented an ownership interest of approximately 6%. Due to difficult economic conditions and the financial condition and performance of this non-public company, the Company has written down the whole value of this investment. This has resulted in a non-operational charge of €1.7 million to the income statement for the year ended on December 31, 2001.

Investments in debt and marketable equity securities are categorized as available-for-sale and are stated at fair value, with unrealized gains and losses, net of deferred income taxes, reported as a component of other comprehensive income.

In 1999, the Company acquired approximately €1.5 million of common stock in a public company in the United Kingdom. This investment was classified as an available-for-sale security and recorded at fair value. In June 2001, the Company determined that the decline in market value of this investment was other than temporary in nature and recorded a write-down of €0.7 million included in Write-down of Investments. In October 2001, the Company sold this investment for €0.9 million. The related gain of €0.2 million is included in other income.

As of December 31, 2000 and 2001, available-for-sale securities consisted of the following (in thousands €):

	Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
December 31, 2000				
Equity securities	1,490	-	(650)	840
Investment funds	27,039	470	-	27,509
December 31, 2001				
Equity securities	-	-	-	-
Investment funds	19,350	8	-	19,358

| 6. Acquisitions |

Owis Software GmbH

In July 2000, the Company acquired the assets of Owis Software GmbH (“Owis“) for 26,550 shares of the Company's capital stock, the market value of which was approximately €2.4 million, and approximately €2.5 million in cash, resulting in an aggregate purchase price of approximately €4.9 million. The value assigned to the shares issued was determined based on the market price of the Company's common stock over a period of time before and after the Company and Owis had reached agreement on the purchase price and the proposed transaction was announced. The Company did not assume any options in the transaction. The acquisition was accounted for using the purchase method. Accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed, based on the completion of the evaluation of the fair values of Owis's assets and liabilities at the date of acquisition.

The following is a summary of the purchase price allocation (in thousands €):

Current assets and other tangible assets	1,263
Liabilities assumed	(1,292)
Assembled workforce	530
Goodwill	4,409
	4,910

The acquired assembled workforce and goodwill are being depreciated over a period of three years from the acquisition date. The operating results of Owis have been included in the consolidated income statements from the date of acquisition.

Subotnic GmbH

In December 2000, the Company acquired the assets of Subotnic GmbH ("Subotnic") for 248,461 shares of the Company's capital stock, the market value of which was approximately €20.3 million. The value assigned to the shares issued was determined based on the market price of the Company's common stock over a period of time before and after the Company and Subotnic had reached agreement on the purchase price and the proposed transaction was announced. The Company did not assume any options in the transaction. The acquisition was accounted for using the purchase method. Accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed, based on the completion of the evaluation of the fair values of Subotnic's assets and liabilities at the date of acquisition.

The following is a summary of the purchase price allocation (in thousands €):

Current assets and other tangible assets	348
Liabilities assumed	(1,353)
Assembled workforce	360
Goodwill	21,019
	20,374

The acquired assembled workforce and goodwill are being depreciated over a period of three years from the acquisition date. The operating results of Subotnic have been included in the consolidated income statements from the date of acquisition.

The following unaudited pro forma financial information presents results as if the acquisition of Owis and Subotnic had occurred at the beginning of the respective periods (in thousands €):

Year Ended December 31,	1999 (unaudited)	2000 (unaudited)
Pro forma total revenue	47,776	123,090
Pro forma net loss	(28,258)	(48,801)
Pro forma net loss per share - basic/diluted	(0.35)	(0.58)

These pro forma results have been prepared for illustrative purposes only and include certain adjustments such as additional amortization expense as a result of intangible assets arising from the purchase. The pro forma results are not necessarily indicative of the results of operations which actually would have resulted had the purchase been in effect at the beginning of the respective periods or of future results.

| 7. Goodwill and acquired intangible assets |

Goodwill and acquired intangible assets consisted of the following (in thousands €):

	2000	2001
Goodwill	25,518	13,983
Assembled workforce	890	420
	26,408	**14,403**
Accumulated amortization	(846)	(9,930)
Goodwill and acquired intangible assets, net	25,562	4,473

The decrease in the cost basis of goodwill is due to an impairment charge of €12.0 million. See Note 2 - Enterprise level goodwill.

| 8. Accrued Liabilities |

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

Year Ended December 31,	2000	2001
Vat payable	2,923	1,535
Accrued commissions	2,464	814
Employee compensation	2,105	2,550
Payroll taxes payable	768	670
Social security	950	715
Deferred tax liability	264	21
Other	8,499	9,297
Total	**17,973**	**15,602**

| 9. Restructuring Charges and Asset Impairments |

During 2001, the Company took steps to align the Company's cost structure with changing market conditions and to create a more efficient organization by reducing the employee base and by consolidating existing facilities. The Company completed these restructuring measures by December 2001. The Company has announced further restructuring plans for 2002.

The following table summarizes restructuring charges for the year and accrued restructuring costs as at December 31, 2001 (in thousands €):

	Employee Related Charges	Facility Related Charges	Other	Total
Restructuring charges for the year	5,428	17,242	606	23,276
Cash Payments	(5,247)	(1,407)	(452)	(7,106)
Currency Adjustments	2	226	3	231
Non-Cash portion	-	(5,748)	-	(5,748)
Accrued restructuring costs as at December 31, 2001	183	10,313	157	10,653

Employee Related Charges

The Company recorded a charge of approximately €5.4 million related to headcount reductions in the various international locations during the course of the year. These charges include all costs relating to the termination of employment contracts including severance payments, payroll taxes and legal costs.

The Company has reduced the number of employees globally by 485 since January 1, 2001. This reduction has affected 244 employees in Europe, 189 employees in the Americas and 52 employees in Asia Pacific. Employee reductions affected each functional department with 155 employees affected in services, 99 employees in general and administrative functions, 94 employees in sales, 84 employees in marketing and 53 employees in research and development. Headcount reductions occurred in all employee groups within each function.

The number of employees on December 31, 2001 is 733 and it is further planned to reduce this to approximately 500 by June 30, 2002.

Facility Related Charges

The Company recorded a charge of approximately €17.2 million related to the consolidation of facilities and impairment of certain assets. Included in this charge is approximately €5.7 million of asset impairments related to certain long-lived assets that were either abandoned during the year or for which the resulting estimated future cash flows were insufficient to cover the carrying amounts. This relates entirely to assets associated with facilities consolidation. Also included in the charge is approximately €11.5 million related to the consolidation of facilities and represents remaining lease commitments, net of expected sublease income and associated professional fees.

Other

The Company recorded a charge of approximately €0.6 million for various non-cancelable contracts, for which there is no future benefit to the Company.

The Company has built a restructuring reserve, based on a financial model, to account for the restructuring costs arising from an exit plan. Adjustments to this restructuring reserve will be made in future periods, if necessary, based upon actual events and available information at that moment in time.

| 10. Notes payable to Shareholders |

During 2000, the Company entered into a secured loan agreement for US $10.0 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 6.13%. The note was paid in full in October 2000.

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 note was paid in full in November 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 was €20,000 on December 31, 1999. The note was repaid in 2000.

| 11. Commitments and Contingencies |

Operating Leases

Facilities and certain furniture and equipment are leased under operating leases. As of December 31, 2001, future minimum annual lease payments are as follows (in thousands €):

Year Ended December 31,	
2002	8,889
2003	7,946
2004	7,654
2005	7,389
2006	7,341
Subsequent years	22,130
Total	**61,349**

Rent expense was €2,022,000, €6,095,000 and €10,290,000 for the years ended on December 31, 1999, 2000 and 2001, respectively. Rent expense for 2001 excludes any facility related restructuring costs discussed in Note 9.

Legal Matters

The Company is a defendant in various legal matters arising in the normal course of business. It is possible that an adverse ruling in any such matter individually, or some or all of the matters collectively, may have a materially adverse effect on our results of operations. The Company expenses legal costs associated with loss contingency as such legal costs are incurred.

At the beginning of 2001, a consolidated class action lawsuit was filed in the U.S. against Intershop Communications AG, our management board members and certain other officers and the underwriters of our September 2000 public offering. The complaints allege that the defendants made material misrepresentations and omissions of material facts concerning our business performance. The complaints seek an unspecified amount of damages. The Company believes there is no merit to these cases and intends to defend the cases vigorously. There can be no assurance that the Company will be able to prevail in the lawsuit, or that the pendency of the lawsuit will not adversely affect the Company's operations. As the outcome of this matter cannot reasonably be determined, the Company has not accrued for any potential loss contingencies.

In January 2001, the German Federal Supervisory Office for Securities Trading (Bundesaufsichtsamt fur den Wertpapierhandel - BAWe) announced that it had initiated an investigation regarding a possible violation of the duty to disclose material information in connection with the release on January 2, 2001 of Intershop Communications AG's Preliminary results for 2000. BAWe has handed this case over to the public prosecutor in Hamburg and the prosecutor's office in Hamburg initiated an investigation into complaints about stock price manipulations in May of 2001. Intershop is cooperating with these investigations and, to our knowledge, has never been the subject of such investigations previously.

In January 2001, a U.S. company filed a suit in federal district court in Delaware against U.S., Inc., claiming violation of certain patent rights. The complaint seeks compensation for damages based on the alleged patent infringements. This case was settled on September 24, 2001. As part of the settlement, the parties exchanged certain licenses and rights for a limited term under certain of their respective United States patents and patent applications, in addition to other terms and conditions of the settlement agreement which were not disclosed.

| 12. Shareholders` Equity |

Stock Splits and Change in Stated Value

In conjunction with the share exchange, discussed in Note 1, between the shareholders of U.S., Inc. and the Company in June 1998, the shares of U.S., 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 noted otherwise, 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.

On June 27, 2000, the Company's Annual Shareholder Meeting authorized a 5-for-1 stock split and authorized management to repurchase up to 10% of its outstanding common stock through November 2001. The stock split became effective on August 16, 2000, when it was registered in the commercial register in accordance with the German Stock Corporation Act. All share and per share amounts presented in the accompanying financial statements have been restated to retroactively reflect the stock split for all periods presented.

In February 2002, the Company announced it had changed the ratio of its American Depositary Shares (ADS). The ratio of American Depositary Shares (ADS) to underlying Ordinary Shares will be changed from 2 ADSs equaling 1 Ordinary Share, to 1 ADS equaling 5 Ordinary Shares. With this ratio change, each of Intershop's Nasdaq-listed ADSs will evidence ownership of five underlying ordinary shares listed on its primary stock exchange, the Neuer Markt in Frankfurt, Germany. The ratio change does not affect the value of an investor's ADR holdings. Stockholders of Intershop Ordinary Shares will not see any change in the number of shares held. The ratio change is non-dilutive and has no impact on Intershop's balance sheet.

Share Purchase Subsequent to Balance-Sheet Date

On March 12, 2002, the Company's Chief Executive Officer, Stephan Schambach, completed the purchase of 8,334,000 shares of common stock from the Company at a price of €1.20 per share, in a private placement transaction. The transaction resulted in total proceeds of approximately €10.0 million to the Company. The purchase price per share was based on the XETRA daily closing price at the Frankfurt Stock Exchange on March 1, 2002, the last trading day prior to the day on which the Company's Supervisory Board granted Mr. Schambach the right to purchase the shares.

Appropriation of Paid-In Capital

Consistent with the provisions of German stock corporation law, management of Intershop Communications AG resolved to appropriate €155.5 million of paid-in capital to reduce the accumulated deficit. This resolution has been reflected as a reclassification between paid-in capital and accumulated deficit and has no impact on total stockholders' equity.

Equity Transactions in 2000

In January 2000, the Chairman of the Company's Supervisory Board purchased 250,000 shares from a trust that administers certain shares issued under the Company's 1997 Equity Incentive Plan. Consistent with the terms of the trust, the proceeds of the sale, €12.5 million, net of related tax effects, were recorded as a capital contribution in paid-in capital.

In March 2000, the Company issued 1,675,000 shares related to its registration with the U.S. Securities and Exchange Commission to register shares of its common stock in the form of American Depositary Shares ("ADSs"). The shares were sold to the public in the form of a secondary offering on September 29, 2000 for net proceeds of approximately €112 million.

In August 2000, the Company sold 500,000 shares at €80 per share in a private placement. The Company will use the net proceeds of approximately €38.9 million for general corporate purposes.

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, € 308,000 and € 273,000 was expensed during the years ended on December 31,1998, 1999 and 2000, respectively. The balance was expensed in full on December 31, 2000. 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 10,000,000 shares of common stock for issuance to employees, directors and consultants under its 1997 Equity Incentive Plan (the 1997 Plan). The Board of Supervisors 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 Supervisors, 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 at 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 665,000 shares for grants of stock options to members of the management board and general managers of subsidiaries and 7,500,000 shares for grants of stock options to all other employees.

2001 Equity Incentive Plan

Effective as of January 1, 2001, the Company adopted a new stock option plan (the 2001 Plan) covering all employees. No options under this plan have been allocated to the Management Board or executive officers. The options under the 2001 Plan vest ratably over a fifty month period beginning 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 six months after the date of grant. The exercise price of the options is fair market value at the date of grant, defined as equivalent to the XETRA closing quotation at the Frankfurt Stock Exchange for voting shares of stock of the Company.

The Company has reserved 8,753,094 shares of common stock for issuance to employees under its 2001 Equity Incentive Plan (the 2001 Plan).

Stock-Based Compensation

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan. If compensation cost for the Plan had been determined based on the fair 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 €, except per share amounts):

Year Ended December 31,	1999	2000	2001
Net loss attributable to common shareholders			
As reported	(18,389)	(38,923)	(131,798)
Pro forma	(21,204)	(74,851)	(187,549)
Basic and diluted earnings per share			
As reported	(0.23)	(0.46)	(1.50)
Pro forma	(0.27)	(0.89)	(2.12)

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

Year Ended December 31,	1999	1999	2000	2000	2001	2001
	Number of Shares Outstanding	Weighted Average Exercise Price (€)	Number of Shares Outstanding	Weighted Average Exercise Price (€)	Number of Shares Outstanding	Weighted Average Exercise Price (€)
Outstanding at beginning of period	5,625	0.59	2,365	14.78	4,930	66.48
Granted	2,235	15.66	4,086	99.89	3,926	4.65
Exercised	(4,235)	0.43	(882)	5.01	(188)	2.15
Forfeited	(1,260)	1.11	(639)	61.11	(2,903)	50.06
Outstanding at end of period	2,365	14.78	4,930	66.48	5,794	34.85

The following table summarizes information with respect to the stock options outstanding on December 31, 2001:

Range of Exercise Price	Number of Options Outstanding	Weighted Average remaining Contractual Life (Years)	Weighted Average Exercise Price (€)	Number Exercisable on 12/31/01	Weighted Average Exercise Price (€)
	(000s)			(000s)	
0.00 - 15.16	3,571	5.1	4.61	964	5.96
15.17 - 30.32	415	2.4	21.63	261	21.46
30.33 - 45.48	128	3.8	36.06	44	35.75
45.49 - 60.64	50	2.9	50.48	24	51.85
60.65 - 75.80	300	3.3	67.33	117	67.00
75.81 - 90.96	41	3.1	78.99	19	79.11
90.97 - 106.13	255	3.6	96.88	86	96.96
106.13 - 121.29	918	3.2	115.16	396	115.25
121.30 - 136.45	88	2.9	132.05	43	131.88
136.45 - 151.61	27	2.9	142.32	13	142.73
	5,794	**4.3**	**34.85**	**1,967**	**43.21**

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, 2001, no shares of common stock issued and outstanding were unvested and subject to repurchase by the Company. 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 based on the date of grant utilizing risk-free interest rates based on the date of grant (4.6%-6.2% in 1999, 6.3% in 2000, 4.5% in 2001) with maturities equal to the expected option term of 3.8 years. The dividend assumed is estimated at 0% in 1999, 2000 and 2001, and the volatility is assumed to be 69% in 1999, 86% in 2000 and 115% in 2001.

Shares Reserved for Future Issuance

As of December 31, 2001, the Company had authorized and conditional capital of 43,490,459 and 43,955,897 shares, respectively. Authorized capital is equivalent to additional authorized shares for acquisitions or sales of common stock with the approval of the Company's Supervisory Board. Shares reserved for future issuance, out of authorized and conditional capital is as follows:

Conversion of remaining U.S., Inc. shares	13,644,500
Stock options	17,614,788
	31,259,288

| 13. 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 (53.2%, 53.2%, and 40.4% in 1999, 2000, and 2001, respectively) to the loss before taxes, as follows (in thousands €):

Year Ended December 31,	1999	2000	2001
Provision (benefit) at German statutory rate	(9,783)	(20,707)	(53,246)
Foreign income/losses taxed/benefited at a different tax rate	2,998	5,914	3,611
Change in valuation allowance	9,775	58,914	68,715
Tax credits	-	-	-
Permanent differences	214	(394)	270
Consolidation differences	-	(60,597)	(13,096)
Change in statutory tax rate	(2,490)	15,949	-
Other	(714)	921	(6,254)
Provision (benefit) for income taxes	-	-	-

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

Year Ended December 31,	2000	2001
Net operating loss carryforwards	75,063	140,236
Tax credit carryforwards	82	82
Accruals not currently deductible	1,966	4,173
Capitalized start-up costs and other intangibles not currently deductible	300	296
Interest expense not currently deductible	1,150	1,775
Revenue recognition	150	582
Tax deductible goodwill	273	429
Other	**189**	**315**
	79,173	147,888
Valuation allowance	(79,173)	(147,888)
Net deferred tax asset	-	-

A valuation allowance has been recorded for the entire deferred tax asset for all periods through December 31, 2001 as a result of uncertainties regarding the realization of the asset including the limited operating history of the Company and the lack of profitability through December 31, 2000 and 2001.

For the year ended December 31, 2001, the Company had net operating loss carryforwards for tax reporting purposes in various tax jurisdictions as follows (in thousands €):

U.S. Federal	125,425
U.S. State	125,425
German	194,983
Other	53,661
Total	**499,494**

In addition, as of December 31, 2001, the Company had U.S. Federal and U.S. State income tax credit carryforwards of approximately €70,000 and €40,000, respectively. U.S. Federal and State net operating losses carryforwards expire in various periods through 2019. The German net operating loss carryforwards 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 laws contain 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.

| 14. 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 legal entities within each geographic location. Under this organizational structure, the Company considers 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, partners and independent distributors in Europe, North America, South America, Australia, and Asia. In prior years, the Company was primarily organized based on the nature of the products and services it offers. As a result of the Company's reorganization based upon legal entities within each geographic location, segment information for earlier periods has been restated to conform to the current presentation.

The information in the following tables is derived directly from the Company's internal financial reporting used by the Company's chief operating decision makers for corporate management purposes. The Company evaluates its segments' performance based on several factors, of which the primary financial measures are indicated in the tables below (in thousands €):

2001

	Germany	United States	United Kingdom	Asia Pacific	Other*	Total
Revenues						
Licenses	13,331	1,832	793	1,538	2,986	20,480
Services, maintenance and other	30,496	6,353	7,672	789	2,864	48,174
Total Revenues	43,827	8,185	8,465	2,327	5,850	68,654
Gross profit						
Licenses	12,906	1,530	566	1,049	2,091	18,142
Services, maintenance and other	7,407	(2,096)	2,116	(1,717)	1,031	6,741
Total gross profit (loss)	20,313	(566)	2,682	(668)	3,122	24,883
Total Operating expenses	82,682	41,952	10,362	12,531	10,893	158,420
Operating income (loss)	(62,369)	(42,518)	(7,680)	(13,199)	(7,771)	(133,537)
Other income (expense) net						1,739
Net loss						(131,798)
Long-lived assets	8,501	1,635	2,380	645	361	13,522

2000

	Germany	United States	United Kingdom	Asia Pacific	Other*	Total
Revenues						
Licenses	28,145	26,946	7,667	7,856	3,454	74,068
Services, maintenance and other	25,320	12,669	5,304	-	5,633	48,926
Total Revenues	53,465	39,615	12,971	7,856	9,087	122,994
Gross profit						
Licenses	37,283	22,459	3,690	2,339	3,008	68,779
Services, maintenance and other	5,346	(2,847)	1,588	116	1,270	5,473
Total gross profit (loss)	42,629	19,612	5,278	2,455	4,278	74,252
Total Operating expenses	41,961	50,354	8,287	7,185	7,214	115,001
Operating income (loss)	668	(30,742)	(3,009)	(4,730)	(2,936)	(40,749)
Other income (expense) net						1,826
Net loss						(38,923)
Long-lived assets	9,106	7,937	3,188	1,308	515	22,054

1999

	Germany	United States	United Kingdom	Asia Pacific	Other*	Total
Revenues						
Licenses	10,284	11,032	5,887	-	2,331	29,534
Services, maintenance and other	6,906	7,334	1,113	-	1,379	16,732
Total Revenues	17,190	18,336	7,000	-	3,710	46,266
Gross profit						
Licenses	13,874	9,356	1,380	-	138	24,748
Services, maintenance and other	2,909	3,202	1,132	-	1,290	8,267
Total gross profit (loss)	16,783	12,558	2,248	-	1,426	33,015
Total Operating expenses	20,134	25,407	4,547	-	3,004	53,092
Operating income (loss)	(3,353)	(12,849)	(2,298)	-	(1,577)	(20,077)
Other income (expense) net						1,688
Net loss						(18,389)
Long-lived assets	1,644	2,671	716	-	579	5,610

* Other significant geographic locations include France and Sweden in 1999 and 2000, and France, Sweden and Dubai in 2001.

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 generated the following license revenues from its Enfinity and Intershop 4 product lines, as follows (in thousands €):

Year Ended December 31,	1999	2000	2001
Enfinity	3,069	43,268	17,391
Intershop 4	26,465	30,800	3,089
Total	**29,534**	**74,068**	**20,480**

| 15. Local Disclosure Requirements |

Board Membership

Management Board
Stephan Schambach, Chief Executive Officer
Wilfried Beeck, Chief Operating Officer (resigned February 8, 2002)

Supervisory Board
Eckhard Pfeiffer, Chairman
Theodore J. Smith, Vice Chairman
Professor Dr. Hartmut Esslinger

Hans W. Gutsch (appointed August 15, 2001)
Dr. Hagen Hultzsch (appointed November 19, 2001)
Joerg Menno Harms (resigned June 30, 2001)
Lorenzo Pelliciolo (resigned June 30, 2001)

Board Compensation

In 2001, the annual compensation, accrued but not paid, for the Supervisory Board was €97,400. In 2001, the total annual compensation for the Management Board was €9,700.

Investments

The following table lists directly and indirectly held investments of the Company that are included in the consolidated financial statements as of December 31, 2001:

	Ownership %
Intershop Communications, Inc., San Francisco, U.S.A.	82.5
Intershop Communications GmbH, Jena	100
Intershop Software Entwicklungs GmbH, Jena	100
Intershop Communications Ventures GmbH, Hamburg	100
Intershop (U.K.) Ltd., London, United Kingdom	100
Intershop Communications S.a.r.l., Paris, France	100
IS Nordic, AB, Stockholm, Sweden	100
Intershop Communications Hong Kong Co. Ltd., Hong Kong, China	99.99
Intershop Communications Singapore Pte Ltd., Singapore	100
Intershop Communications Australia Pty Ltd., Sydney, Australia	100
Intershop Communications Taiwan Co. Ltd., Taipei, Taiwan	100
Intershop Communications Korea Co. Ltd., Seoul, Korea	99.98
Intershop Communications K.K., Tokyo, Japan	100

Employees

During 2001, the Company had an average of 981 employees.

| 16. Subsequent Events - unaudited |

In February 2002, the Company appointed a new management team to be led by Stephan Schambach, the Company's Chief Executive Officer. As part of the management changes, Wilfried Beeck resigned as the Chief Operating Officer. The new management team will be located in Jena, Germany, the new corporate headquarters for the Company. The Company also announced plans to centralize certain operations in Jena and the termination of approximately 230 employees worldwide.

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 Communications AG“) as of December 31, 2001 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“) and on the basis of the German Accounting Standards No 1 (DRS 1) from the German Standardization Committee (Deutscher Standisierungsrat DRSC e.V.). 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, furniture, 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. To date, the Company has charged all software development costs to research and development as incurred.

| 2. 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 as of December 31, 2001, due to uncertainties regarding the realization of the asset.

| 3. 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 at 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 chosen 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 at 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.

| 4. 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 Communications 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 Communications AG reflect the individual group structures.

▸ | 5. Revenue Recognition |

In accordance with U.S. GAAP, sales revenue is recognized in compliance with American Institute 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. According to HGB, service revenue would only be taken into account upon completion of work.

▸ | 6. Costs Associated with Certain Equity Transactions |

According to U.S. GAAP, costs associated with certain equity transactions (for example, public offerings of stock), net of any related income tax effects, are treated as a reduction of the proceeds from the transaction. According to HGB, these costs represent extraordinary income or expense.

▸ | 7. Foreign Currency Transactions |

Under U.S. GAAP, foreign currency transactions (for example, foreign currency denominated trade receivables or payables) are valued at the current rate on the balance sheet date with the corresponding gain or loss recorded in the income statement. Under HGB, at each balance sheet date revaluation losses are recognized, while gains are only recognized when realized (for example, upon payment of a foreign currency liability).

▸ | 8. Acquisitions |

Under U.S. GAAP, there are two mutually exclusive methods of accounting for business combinations purchase accounting and pooling-of-interests. Pooling-of-interest accounting is done by simply combining the historical accounts of the parties both retroactively and prospectively. No fair value adjustments are made. The pooling-of-interests method must be used if certain conditions exist. These conditions are very complex and restrictive. Under purchase accounting, the valuation is based on fair market values of the net assets at the time of combination. The difference between the fair market values of the net assets acquired and the consideration given represents goodwill, which is amortized over its estimated useful life. Income of the acquired company is reflected only from the acquisition date forward. Effective June 30, 2001, all acquisitions will be accounted for using the purchase method under U.S. GAAP. Effective January 1, 2002 for Intershop, goodwill will no longer be amortized on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis. Under HGB, only the purchase method is used, and, in certain circumstances, the income of the acquired company may be reflected retroactively.

Financial Statements Intershop Communications AG

| Balance Sheet Intershop Communications AG |

(in €)

As of December 31,	2000	2001
ASSETS		
Fixed Assets		
Intangible assets		
Software licenses	0	1,933,555
Property and equipment		
Other facilities, furniture and equipment	22,837	69,237
Financial assets		
Investments in affiliated companies	29,708,439	29,128,642
Loans to affiliated companies	0	30,000,000
	29,708,439	59,128,642
	29,731,276	61,131,434
Current Assets		
Receivables and other assets		
Receivables due to affiliated companies	47,794,819	0
Other assets	976,007	2,500,024
	48,770,826	2,500,024
Short term security investments		
Other Securities	27,038,947	19,349,557
Cash and cash equivalents	70,952,061	9,198,411
	146,761,834	31,047,992
Deferred charges	10,233	246,934
Total Assets	176,503,343	92,426,360

As of December 31,	2000	2001
SHAREHOLDER'S EQUITY AND LIABILITIES		
Shareholders' Equity		
Common stock		
conditional capital: €43,955,897 (previous year: €22,694,500)	88,003,016	88,191,322
Capital surplus	178,809,681	23,644,500
Accumulated deficit	(91,406,257)	(38,898,941)
	175,406,440	72,936,881
Accrued Liabilities		
Other accrued liabilities	292,722	17,351,440
Liabilities		
Liabilities due to banks	1,025	1,013
Accounts payable	38,811	293,781
Liabilities due to affiliated companies	729,481	1,712,025
Other liabilities thereof from taxes: €34,384 (previous year: €0) thereof from social security benefits: €11,469 (previous year: €13,396)	34,864	131,220
	804,181	2,138,039
Total Shareholders` Equity and Liabilities	176,503,343	92,426,360

| Statement of Operations Intershop Communications AG |

(in €)

For the Year Ended December 31,	2000	2001
Other operating income	461,004	96,825
Personnel costs		
Salaries	(709,444)	(1,029,648)
Social security contributions	(104,459)	(106,171)
Depreciation		
of intangible fixed and current assets and capitalized business expansion expense	(10,140)	(668,274)
of current assets to the extent it exceeds depreciation which is normal for the company	(71,486,106)	(84,137,534)
Other operating expense	(4,392,555)	(23,111,229)
Interest income		
thereof from affiliated companies: €8,288,743 (previous year: €4,142,682)	5,258,750	11,686,082
Depreciation of financial assets and short term security investments	(17,253,122)	(5,699,998)
Interest expense		
thereof from affiliated companies: €15,977 (previous year: €0)	(551,145)	(18,179)
Loss from ordinary operations	**(89,327,216)**	**(102,988,126)**
Extraordinary income	12,500,000	0
Extraordinary expense	(10,628,182)	0
Income from extraordinary operations	**1,871,818**	**0**
Net Income/Loss	**(87,455,398)**	**(102,988,126)**
Accumulated deficit carried forward	(3,950,859)	(91,406,257)
Transfer from capital surplus	0	155,495,442
Accumulated Deficit	**(91,406,257)**	**(38,898,941)**

Notes to the Financial Statements Intershop Communications AG

| 1. Accounting and Valuation Methods |

Property and equipment are stated at cost, less scheduled depreciation.

Investment assets are stated at cost, less necessary adjustments.

Receivables and other assets are stated at face value, less any necessary adjustments.

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 or the principle that losses not realized must be shown, whereas income not realized must not be shown.

| 2. Explanatory Comments on the Financial Statements |

Balance Sheet

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

	At Cost Jan. 1, 2001	At Cost Additions	At Cost Retirements	At cost Dec. 31, 2001
	€	€	€	€
Intangible Assets				
Software licenses	0	2,578,074	0	2,578,074
Property and Equipment				
Other facilities, furniture and equipment	34,152	70,155	351	103,956
Financial Assets				
Investments in affiliated companies	46,961,562	5,120,199	0	52,081,761
Loans to affiliated companies	0	30,000,000	0	30,000,000
	46,961,562	35,120,199	0	82,081,761
	46,995,714	**37,768,428**	**351**	**84,763,791**

	Depreciation for the period Jan. 1, 2001	Additions	Retirements	Depreciation for the period Dec. 31, 2001	Net book value Dec. 31, 2001	Net book value Dec. 31, 2000
	€	€	€	€	€	€
Intangible Assets						
Software licenses	0	644,518	0	644,518	1,933,555	0
Property and Equipment						
Other facilities, furniture and equipment	11,316	23,755	351	34,719	69,237	22,837
Financial Assets						
Investments in affiliated companies	17,253,122	5,699,997	0	22,953,120	29,128,642	29,708,439
	17,264,438	**6,368,270**	**351**	**23,632,357**	**31,131,434**	**29,731,276**

Receivables due from affiliated companies and other assets have maturities of up to one year.

Cash and cash equivalents identified in balance sheet item cash and cash equivalents amounting to €7,873,000 are mortgage-backed (restricted cash).

Common stock to the amount of €88,191,322.00 consists of 88,191,322 common bearer shares with no par value.

The authorized capital to the amount of €43,490,459.00 entitles management to issue an additional 43,490,459 common bearer shares with no par value.

The resolution of the general shareholders' meeting on June 27, 2000, together with the approval of the Supervisory Board, entitles management to increase the Company's common stock up to a total amount of €35,012,376 up through July 24, 2005. This increase may be carried out by issuing, on one occasion or on multiple occasions, up to 35,012,376 new common bearer shares with no par value (Authorized Capital I). With the Supervisory Board's approval, management is further entitled to exclude the shareholders' subscription rights.

Based on increases in capital goods, the common stock was increased by a total of €275,011 in the fiscal year 2000.

Therefore, as of December 31, 2001, Authorized Capital I amounted to €34,737,365.00.

Furthermore, the resolution of the general shareholders' meeting of June 27, 2000, together with the approval of the Supervisory Board, entitles management to increase the Company's common stock up through July 24, 2005 to a total amount of €8,753,094.00 for purposes approved by the general shareholders' meeting on June 27, 2001. This increase may be carried out by issuing, on one occasion or on multiple occasions, up to 8,753,094 new common bearer shares with no par value (Authorized Capital II), excluding shareholders' subscription rights.

Conditional capital amounting to €43,955,897.00 is available for issuing 43,955,897 common bearer shares with no par value, of which 8,861,694 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), 8,165,000 shares (Conditional Capital I) are reserved for options. Conditional Capital I is reserved for exercising the subscription rights based on the 1999 option model. These options must be exercised within five years but no earlier than two years from the time they were granted. The exercise price is based upon the average price of the shares during the last 10 trading days prior to the day the options were granted plus 20%.

Moreover, 696,694 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 5:15. In fiscal year 2001, a total of 188,306 shares were issued from Conditional Capital II at an average exercise price of €2.15.

To permit the exchange of the remaining shares in Intershop Communications, Inc., €13,644,500.00 remained available from Conditional Capital III at the balance sheet date.

The resolution of the general shareholders' meeting of June 13, 2001 entitles management to grant, on one or multiple occasions up through May 31, 2006, convertible bonds as well as warrants up to a total of 21,449,703 common stock shares with no par value, in which case shareholders' subscription rights can be excluded. In order to cover these convertible bonds, the Company's common stock was conditionally increased up to €21,449,703 (Conditional Capital IV).

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

	€
Capital surplus as of Dec. 31, 2000	178,809,681
Premium from capital increase through contributions in cash	330,261
Transfer from capital surplus	(155,495,442)
	23,644,500

Other accrued liabilities consist primarily of contingent losses from the utilization of a letter of comfort and litigation risks, financial statement costs and the costs of the general shareholders' meeting, as well as other outstanding charges.

Liabilities consist of the following (in thousands €):

	Maturities up to 1 year	Maturities 1-5 years	Maturities over 5 years	Total	With mortgage debenture
Liabilities due to banks	1	0	0	1	0
Accounts payable	294	0	0	294	0
Liabilities due to affiliated companies	1,712			1, 712	
Other liabilities	131	0	0	131	0
	2,138	0	0	2,138	0

Contingent liabilities
Intershop Communications AG gave Intershop Software Entwicklungs GmbH a letter of comfort on October 20, 1999. The letter of comfort states that Intershop Communications AG shall be responsible for ensuring that in the event Intershop Software Entwicklungs GmbH is unable to pay all or part of its rent and utilities plus value-added tax, Intershop Software Entwicklungs GmbH shall meet all its commitments on time, and that the lessor shall retain payments made to the lessor in full. On the basis of the letter of comfort, the lease agreement was signed and became effective on October 1, 2000 and shall remain in effect up until and including November 14, 2013. As of December 31, 2001, the other financial commitments of Intershop Software Entwicklungs GmbH arising from this lease agreement come to approximately €35.1 million up until November 14, 2013.

Furthermore, Intershop Communications AG has given letters of comfort to affiliated companies which are covering losses due to potential bad debt expenses. These letters of comfort are valid through March 31, 2003 up to an amount of €30.0 million. The contingent liability due to the letters of comfort totals approximately €15.0 million and has been accrued for following the principle of caution.

Statement of operations
According to § 253 paragraph 2 and 3 of the HGB (German Commercial Code), exceptional write-offs amounting to €5,699,997.36 and €84,137,534 respectively were posted (compared with €17,253,122.44 and €71,486,105.98 respectively in the previous year).

| 3. Other information |

The Company had an average of fourteen employees in the course of the 2001 fiscal year.

The Supervisory Board consisted of the following members in 2001:

Eckhard Pfeiffer
Chairman of the Supervisory Board
Investor
Former President and Chief Executive Officer, Compaq Computer Corporation
Other board memberships:
General Motors Corporation
Hughes Electronics Corporation

L.M. Ericsson AB
NXView Technologies
IFCO Systems NV
Synetc Capital AG

Theodore J. Smith
Vice Chairman of the Supervisory Board
Investor
Founder and former President, FileNET Corporation
Other board memberships:
FileNET Corporation

Joerg Menno Harms
Self-employed (up to June 30, 2001)
Former Chairman of the Management Board, Hewlett-Packard GmbH
Other board memberships:
Hewlett-Packard GmbH (Chairman of the Supervisory Board)
Hewlett-Packard Holding GmbH (Chairman of the Supervisory Board)
Dürr AG
Heraeus Holding GmbH
Jenoptik AG
Württembergische Hypothekenbank AG
CAA AG (up to July 2001)
Heidelberger Druckmaschinen AG (up to December 2001)

Prof. Dr. Hartmut Esslinger
Designer and Entrepreneur
Founder and Chief Executive Officer, Frogdesign, Inc.
Other board memberships:
Frogdesign, Inc. (Chairman of the Supervisory Board)

Lorenzo Pellicioli
(up to June 30, 2001)
Chief Executive Officer, Seat Pagine Gialle SpA and
Director of Internet Business Unit, Telekom Italia Group
Other board memberships:
Matrix
Giallo Dat@
Various companies of the Seat Group

Hans W. Gutsch
(since August 15, 2001)
Business graduate
Former Senior VP Human Resources and Organization, Compaq Computer Corporation
Other board memberships:
EyeTicket Corporation (Vice Chairman of the Supervisory Board)
El-Nets, Ltd., Singapore
RYNEX Corporation New York, USA

Dr. Hagen Hultzsch
(since November 19, 2001)
Physicist
Former Member of the Management Board and former Chief Technical Officer, Deutsche Telekom AG,
Other board memberships:
Heraeus Tenevo AG
T-Systems International GmbH, Bonn (Chairman of the Supervisory Board)
T-Venture Holding (Chairman of the Supervisory Board)
Universitätsklinikum Bonn GmbH
Leybold Optics GmbH, Alzenau

The Management Board included the following persons in 2001:

Stephan Schambach
Chief Executive Officer

Wilfried Beeck
Chief Operating Officer (up to February 8, 2002)

The Management Board received remuneration from the Company to the amount of T€ 9.7. The total remuneration for the members of the Supervisory Board for the fiscal year amounted to T€ 97.4.

Unaudited information concerning directors' share holdings of the members of the Supervisory and Management Boards as of December 31, 2001 can be found outside of the audited financial statements.

Intershop Communications AG is a public listed company incorporated in Germany, and it is listed on the Neuer Markt. According to § 292a of the German Commercial 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, Germany
Intershop Communications, Inc., San Francisco, U.S.A.
Intershop Communications S.a.r.l., Paris, France
Intershop Software Entwicklungs GmbH, Jena, Germany
Intershop (U.K.) Ltd., London, United Kingdom
Intershop Communications Ventures GmbH, Hamburg, Germany
IS Nordic AB, Stockholm, Sweden
Intershop Communications Hong Kong Co. Ltd., Hong Kong, China
Intershop Communications Korea, Seoul, Korea
Intershop Communications Taiwan, Taipei, Taiwan
Intershop Communications Dubai LLC, Dubai, United Arab Emirates
Intershop Communications Singapore Pte Ltd., Singapore
Intershop Communications Japan, Tokyo, Japan
Intershop Communications Australia Pty Ltd., North Sidney, Australia

The following list shows the subsidiaries of Intershop Communications AG and the Company 's respective interest:

			Authorized	Shareholders	Profit (Loss)
	Interest in %	Currency	capital	´equity*	for the year*
Intershop Communications, Inc. San Francisco, U.S.A	82.5	€	7,332,682	(92,291,912)	(44,447,570)
Intershop Communications Ventures GmbH, Hamburg, Germany	100	€	1,000,000	(1,697,028)	(2,444,981)
Intershop Software Entwicklungs GmbH, Jena	100	€	25,000	(38,272,381)	(34,425,231)
Intershop (U.K.) Ltd., London, Great Britain	100	€	1,586	(13,370,133)	(8,034,350)
Intershop Communications S.a.r.l., Paris, France	100	€	300,000	(351,927)	(638,904)
Intershop Nordic AB, Stockholm, Sweden	100	€	11,437	27,872	(2,118,439)
Intershop Communications Hong Kong Co. Ltd., Hong Kong, China	99.99	€	1,435	(9,234,813)	(6,087,893)
Intershop Communications Korea, Seoul, Korea	99.98	€	45,455	(2,952,583)	(2,535,452)
Intershop Communications Taiwan, Taipei, Taiwan	100	€	36,740	(560,327)	(561,671)
Intershop Communications Singapore Pte Ltd., Singapore	100	€	61,571	(856,032)	(769,652)
Intershop Communications Japan, Tokyo, Japan	100	€	104,755	(3,020,781)	(2,757,760)
Intershop Communications Australia Pty Ltd., North Sydney, Australia	100	€	260,833	(1,664,532)	(1,735,228)

* The above figures for shareholders' equity and profit/loss for the year are provisional.

| 4. Use of Annual Profit/Loss |

The financial statements have been prepared with the appropriation of paid-in capital in a total amount of €155,495,442 to offset the year's net loss of €102,988,125 and to offset the accumulated deficit in the amount of €91,406,257. The Management Board of Intershop Communications AG proposes to carry forward the remaining accumulated deficit of €38,898,941.

Hamburg, February 2002

The Management Board
Stephan Schambach

Report of Independent Auditors, Intershop Communications AG

We have audited the financial statements, including the accounting system, and the combined management and group management report of Intershop Communications AG for the fiscal year from January 1 to December 31,2000.The legal representatives of the Company are responsible for the accounting system and preparation of the financial statements and combined management and group management report in compliance with German commercial law and the supplementary regulations in the articles of incorporation. Our responsibility is to express an opinion, based on our audit, on the financial statements, including the accounting system, and on the combined management and group management report.

We conducted our audit of the financial statements pursuant to Sec.317 of the German Commercial Code (HGB)and in compliance with the in Germany generally accepted German standards for the audit of financial statements issued by the German Institute of Auditors (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 net worth, financial position and results of operations as conveyed by the financial statements, in compliance with generally accepted accounting principles, and by the combined management and group 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 accounting controls was assessed, and the disclosures made in the books and records, financial statements and combined management and group management report were verified, mainly on a test basis. 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 combined management and group 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 present a true and fair view of the Company 's net worth, financial position and results of operations in accordance with generally accepted accounting principles. In all material respects, the combined management and group management report accurately presents the situation of the Company and the risks to its future development.

Without qualifying this opinion, we refer to the Company's discussion in the combined management and group management report. In the section “Intershop Communications AG Highlights and Risks,“ the Company refers to the fact that the carrying values of the investments in and loans to its subsidiaries could require further valuation allowances in the future if the future development of the respective companies is materially different from the expected results. The Company further discusses in this section the planned measures to improve the results of operations and cash flows. The successful implementation of these measures is of significant importance to the continuation of the Company's operations.

Arthur Andersen
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Nendza	Schneider
Wirtschaftsprüfer	Wirtschaftsprüfer

Hamburg, March 13, 2002

Report of the Supervisory Board

The Supervisory Board oversaw and monitored the activities of the Management Board in accordance with the tasks imposed upon it by law and the Articles of Association. The Supervisory Board assured that corporate governance standards and good business practices were implemented and observed throughout the Company. The Supervisory Board convened for meetings on February 16, 2001, June 12, 2001, September 11, 2001, and November 7, 2001.

During 2001, the Supervisory Board continued to support the activities of the Management Board. The Supervisory Board was consulted by the Management Board on a multitude of strategic decisions in numerous telephone- and video-conferences. The Management Board regularly reported to the Supervisory Board both on the Company's progress towards achieving annual targets and on the prospects for future periods.

In 2001, we had several changes in the composition of the Supervisory Board. Messrs. Joerg Menno Harms and Lorenzo Pellicioli resigned from the Supervisory Board effective June 30, 2001, for personal reasons. The Supervisory Board would like to thank Messrs. Harms and Pellicioli for their contributions to the success of Intershop Communications AG. As new Supervisory Board members, we welcomed Mr. Hans W. Gutsch and Dr. Hagen Hultzsch, who joined the Supervisory Board on August 15, 2001 and November 19, 2001, respectively.
These changes led to the appointment of new Corporate Committee chairmen.
Mr. Theodore J. Smith, co-chairman of the Supervisory Board, was appointed chairman of the Corporate Audit Committee and Mr. Hans W. Gutsch was appointed chairman of the Corporate Human Resources (HR) and Compensation Committee.

There were no changes to the Management Board in the fiscal year 2001. However, effective February 8, 2002, Mr. Wilfried Beeck resigned as Chief Operating Officer and member of the Management Board.

Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH (auditors and tax consultants) audited the Company's accounts, its annual financial statements, and the management report and gave an unqualified auditor's opinion. Arthur Andersen was appointed Intershop's auditor for the fiscal year 2001 at Intershop's annual shareholders' meeting on June 13, 2001. After detailed reviews by the Corporate Audit Committee, the Supervisory Board reviewed the financial statements and the consolidated financial statements, covering the year up to December 31, 2001, and the related management reports. On March 26, 2002, the Supervisory Board agreed with the audit results and approved the annual financial statements prepared by the Management Board.

The Supervisory Board would like to thank management and all employees for their commitment in the past year.

Hamburg, March 26, 2002

Eckhard Pfeiffer
Chairman of the Supervisory Board
Intershop Communications AG

Corporate Information

| Corporate Structure |

Intershop Communications AG:

	Ownership %
Intershop Communications, Inc., San Francisco, U.S.A.	82.5
Intershop Communications GmbH, Jena, Germany	100
Intershop Software Entwicklungs GmbH, Jena, Germany	100
Intershop Communications Ventures GmbH, Hamburg, Germany	100
Intershop (U.K.) Ltd., London, United Kingdom	100
Intershop Communications S.a.r.l., Paris, France	100
IS Nordic, AB, Stockholm, Sweden	100
Intershop Communications Hong Kong Co. Ltd., Hong Kong, China	99.99
Intershop Communications Singapore Pte Ltd., Singapore	100
Intershop Communications Australia Pty Ltd., Sydney, Australia	100
Intershop Communications Taiwan Co. Ltd., Taipei, Taiwan	100
Intershop Communications Korea Co. Ltd., Seoul, Korea	99.98
Intershop Communications K.K., Tokyo, Japan	100

| Directors` Holdings - unaudited |

Supervisory Board:

As of December 31, 2001	Shares
Eckhard Pfeiffer Chairman of the Supervisory Board	400,000
Theodore J. Smith Vice Chairman of the Supervisory Board	107,290
Joerg Menno Harms (up to June 30, 2001)	0
Prof. Dr. Hartmut Esslinger	0
Lorenzo Pellicioli (up to June 30, 2001)	0
Hans W. Gutsch (since August 15, 2001)	30,000
Dr. Hagen Hultzsch (since November 19, 2001)	0

Management Board:

Stephan Schambach Chief Executive Officer	2,500*
Wilfried Beeck Chief Operating Officer (up to February 8, 2002)	7,000,000

*As of December 31, 2001, Stephan Schambach held 4,166,667 shares in Intershop Communications, Inc. These shares can be converted into 12,500,000 Intershop Communications AG common bearer shares at any time prior to 2004. On January 23, 2002, Mr. Schambach announced his intention to exchange his 4,166,667 shares in Intershop Communications, Inc. into 12,500,000 Intershop Communications AG common bearer shares. On March 4, 2002, Mr. Schambach announced his intention to purchase 8,334,000 new Intershop Communications AG common bearer shares to be issued from authorized capital. On March 13, 2002, Mr. Schambach subscribed for these new shares. After these two transactions, Mr. Schambach will hold 20,836,500 Intershop Communications AG common bearer shares.

| Offices |

Berlin / Boston / Chicago / Copenhagen / Dubai / Hamburg / Helsinki / Hong Kong / Ilmenau / Jena / London / Oslo / Paris / San Francisco / Stockholm / Stuttgart / Tokyo.

| Financial calendar 2002 |

Date	Event
February 12, 2002	Release of Q4- and FY 2001 financials
March 28, 2002	Publication annual report 2001
April 30, 2002	Release of Q1 financials
June 06, 2002	Annual stockholders' meeting (Hamburg, Germany)
July 31, 2002	Release of Q2- and 6-months financials
October 31, 2002	Release of Q3- and 9-months financials

INTERSHOP™

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