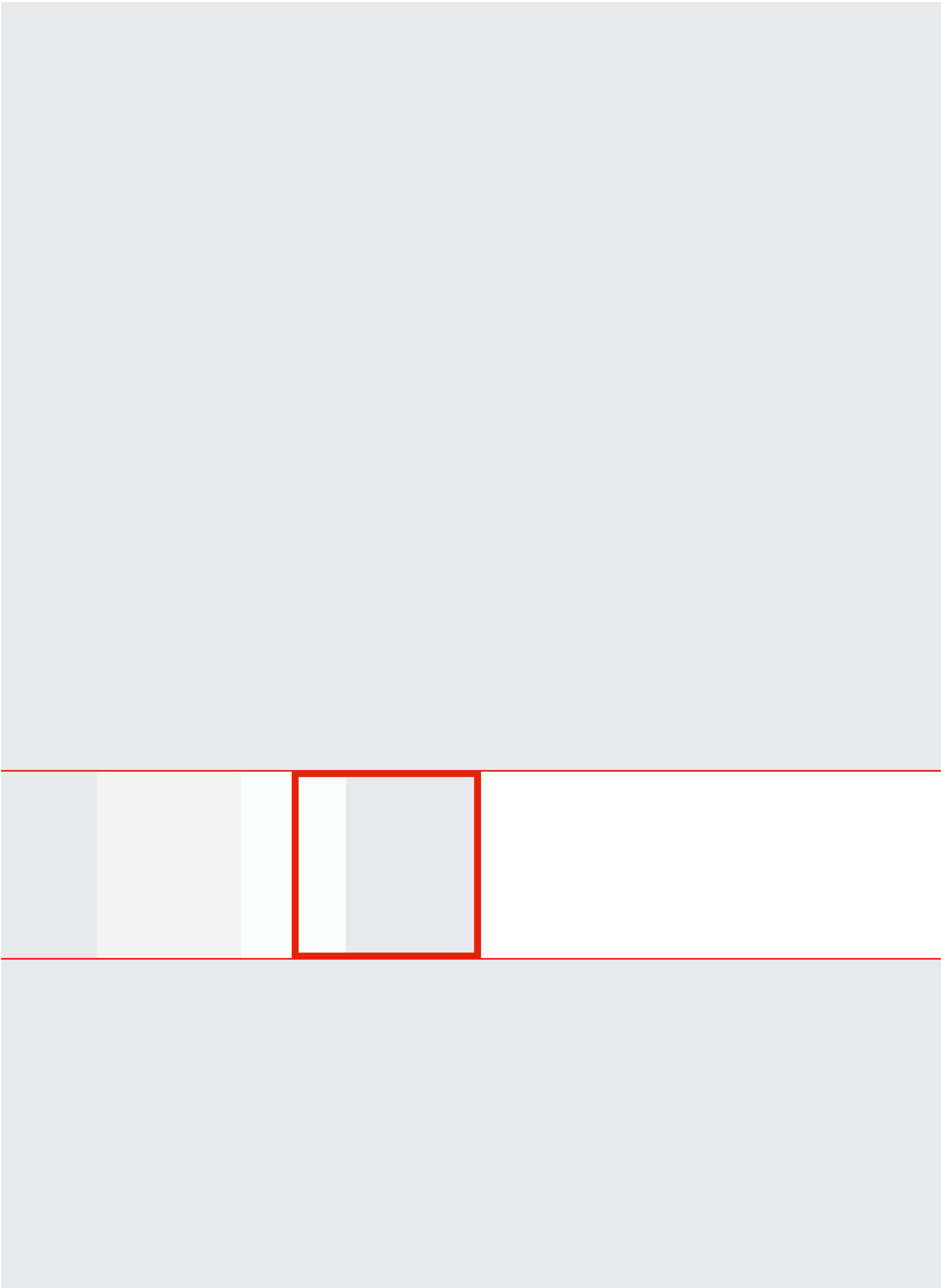
INTERSHOP™

Annual Report 2004



Annual Report
2004

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Letter to the Stockholders

Dear stockholders, customers, partners, and employees,

2004 proved to be another very challenging year for Intershop. As in the previous year, we were operating in a difficult market environment, characterized by continuing economic weakness and a reluctance to invest on the part of companies. Where do we stand now?

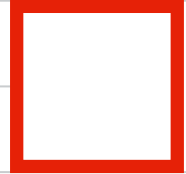
Intershop has taken radical restructuring measures in recent years. A major part of consolidating our operations was a sharp reduction in our workforce to the current worldwide total of 222. Intershop's direct sales activities are now focused solely on the German and US markets. Other key markets in Europe and Asia are served by our sales partners. Intershop's legal corporate structure has been simplified. Not least, we are the first German company to achieve delisting from Nasdaq and SEC deregistration. All in all, we have succeeded in reducing costs drastically since 2002.

Moreover, our restructuring measures have always aimed to preserve the Company's technological excellence. Constant innovation is the driving force behind Intershop. Intershop's products occupy the top spots in international industry rankings year after year. And the success of our customers backs us up. Our major existing customers, such as Otto, Quelle, Deutsche Telekom and Tchibo, are achieving significant sales growth in their online business. In the past year, we achieved a first for the e-commerce sector with the launch of a new standard software package. Our Enfinity Suite 6 software, which we presented at CeBIT 2004, consolidates different individual systems and applications.

The difficult market environment meant that Intershop was indeed faced with demanding challenges in 2004. As producers of capital goods, we are dependent on large companies' willingness to invest. In addition to product-specific criteria, customers took into account other factors such as Intershop's financial stability, before deciding to place an order. It was therefore of prime importance for us to stabilize our liquidity position by raising new capital and reducing costs via our restructuring measures. It was also necessary to bring the staffing and structure of our sales organization into line with the needs of our customers.
Intershop has now established a cost-effective basis for its operations. We are confident that we will reap the benefits of the radical restructuring measures of recent years, as well as of our technological expertise and attractive customer portfolio in the future.

In addition, two events which were announced at the beginning of the year have left Intershop in a good starting position for fiscal 2005. Firstly, we were able to negotiate a settlement with the plaintiffs in the class-action lawsuit in the USA. As a result, the Company no longer faces the enormous burden of mounting a legal defense whose duration and cost were uncertain, nor the risk of having to pay an unspecified amount of damages. Secondly, we were able to report the successful placement of our zero coupon convertible bond, with total bond subscriptions amounting to 11.3 million. This has strengthened our liquidity position and given us the ability to make urgently needed investments in our sales operations, as well as increasing our customers' confidence in us.

On behalf of all Intershop employees, we would like to thank you, our stockholders, customers and partners for your support. We attach great importance to your ongoing confidence in us and will continue to keep you regularly informed of developments at Intershop in the future.



Sincerely,

Dr. Jürgen Schöttler
Chief Executive Officer

This annual report contains 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, significant dependence on large single customer deals, consumer trends, the level of competition, seasonality, risks related to electronic security, possible governmental regulation, and general economic conditions.

Market Environment

In fiscal 2004, the business development of the Intershop Communications AG Group ("Intershop," "the Company," or "the Intershop Group") and Intershop Communications AG (the "AG"), which acts as the holding entity for the Intershop Group, was again affected by continued muted demand for enterprise software and a general reluctance on the part of companies to invest in information technology (IT).

Nonetheless, the past year showed the first signs of consolidation and stabilization in the IT customer market. In particular, online shopping continued to grow in importance in Germany throughout 2004. In view of the substantial rates of revenue growth generated by retailers over the Christmas period of the preceding year, German online traders seemed to have some catching up to do.

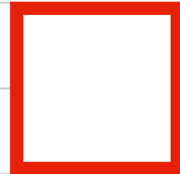
The 2003 Christmas season clearly showed that e-commerce has long become an established reality for retail customers. In these circumstances, the focus of efforts in the IT area had to be the consolidation of companies' existing e-commerce systems in order to increase customer satisfaction. Buying and selling on the Internet already went without saying.

The market research company Gartner forecast at the end of 2003 that IT budgets in 2004 would increase by an average of 3.4 percent, on the basis of a survey of over 2000 international CIOs (Gartner, 2003). Completely new e-commerce projects accounted for only a very small share of this. In 2004, the focus was more on transferring successful products to more powerful platforms and to consolidating e-commerce solutions, and some steps were already taken in this direction. Central management was the dominant theme in every forward-looking company.

In keeping with this, Intershop primarily concentrated its sales efforts in fiscal 2004 on the sale of e- selling solutions to existing large customers such as Deutsche Telekom, Otto and Quelle. The same was true of our competitors operating in the same market.

On the other hand, 2004 saw growth in demand for e-procurement solutions. Customers make extremely high demands of a purchasing solution: different ordering and information channels, incompatible catalog formats, organizational adjustments and complex internal purchasing processes all have to be harmonized. A solution is offered by the Procurement Channel and Supplier Channel of Intershop's Enfinity Suite 6, and we won a number of new customers in industry and the public sector in the purchasing solutions area.

Overall, fiscal 2004 for Intershop was a year in which we completed our restructuring and consolidation measures, with the aim of stabilizing the liquidity of the Company as a whole and finding solutions to problems dating from our hype phase, such as the long-term lease on the Intershop Tower and the class-action lawsuit.



Operational Consolidation

As part of the implementation of the Company's regional restructuring plans started in 2003, operations in Asia were discontinued and Asian sales activities were transferred to local distributors in Japan and China (as of Juli 1, 2004). Even before that date, European sales activities outside Germany had been transferred to local distributors in Sweden, Norway, Denmark, and the United Kingdom (as of January 1, 2004).

To support operational realignment efforts within the Company, Intershop adjusted its cost structure in line with the lower level of revenue recorded in the fiscal year 2004.

Total revenue fell from € 23.2 million in fiscal 2003 to € 17.6 million in fiscal 2004. As a result, the number of employees declined across all areas of the Group. As of December 31, 2004, the Group had 222 full-time equivalent employees, representing a decrease of 20 % or 56 full-time equivalent employees as against the previous year. As of December 31, 2004, Intershop employed 73 % of its global workforce in technical departments such as research and development as well as services; 13 % were employed in sales and marketing; and 14 % were employed in general and administrative functions.

Product and Sales Strategy

Intershop is one of the leading providers of e-commerce software for the central management of all business channels. The market for online commerce has changed extremely quickly and dynamically over the course of recent years. Against the background of the rapid development of e-commerce software and services, completely new perspectives are opening up both for large companies with global operations and also for middle-market companies. Successful companies today regard the Internet as a driving force behind their economic success. Their requirements for a complex e-commerce system are therefore correspondingly high: more revenue in less time at lower cost.

In fiscal 2004, Intershop responded to the changing market with the launch of our new standard software solution. This was the result of a product development process with a long-term focus aimed at meeting the needs of our customers as well as responding to trends in the market. The market launch of Intershop's new Enfinity Suite 6 software solution for the central management of all sales channels took place at CeBIT 2004, the world's largest trade fair for information and telecommunications technology. With Enfinity Suite 6, Intershop is extending its lead in the market for e-commerce software. The product suite is constructed on a fully modular basis. In addition to the three sales modules Consumer Channel, Business Channel and Partner Channel, three further modules have also been integrated, namely, the Supplier Channel, the Procurement Channel and the Content Channel. This architecture and the unique functionalities of this new standard software enable companies to bring all their online business channels together on one platform and to manage them centrally. This allows dealings with suppliers, business customers, partners and end customers to be harmonized with each other and conducted in the most effective manner.

In the past year, Intershop succeeded in winning prestigious new clients such as NetCologne, smart, Teledanmark, ver.di, Dutch and Norwegian government ministries, as well as the German middle-market company Mindfactory. At the same time, existing customers accounted for a large proportion of Intershop's licenses and services revenue. A considerable number of Intershop's existing customers

such as MAN, T-Com, Swarovski and bofrost*, greatly expanded their online business and migrated their existing e-commerce portals to Intershop's latest software product, Enfinity Suite 6. Intershop also recorded increased revenue in the area of e-procurement solutions.

2004 saw the implementation of extensive restructuring and rationalization measures within the sales organization. Intershop's direct sales activities are now focused solely on the German and US markets. Other key markets in Europe and Asia are served by our sales partners. On July 5, 2004, the Supervisory Board appointed Ralf Männlein as the new Management Board member responsible for sales and marketing. He has developed a new strategic, conceptual and structural approach for his area of responsibility. As part of this, Intershop increased its investment in direct sales in the Central European market in the course of the last fiscal year and intends to continue with these measures in 2005.

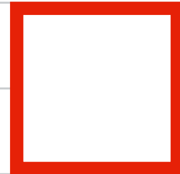
Intershop's product offering in 2004 was rounded off with special product solutions based on Intershop's standard software and flexible price models. Specifically, this involved the introduction of "software on demand" models, which allow customers access to software solutions on a low-cost rental basis corresponding to their individual patterns of usage, and employing Intershop's hosting partners such as the Dutch service provider ESIZE. Additionally, Intershop introduced a new transaction-based price system in 2004, which helps potential customers decide in favor of Intershop by allowing a definite figure for the initial investment to be calculated. Another milestone for Intershop in 2004 was the announcement that Enfinity Suite 6 will be available for the first time on the SUSE LINUX open source operating system. This will be an important factor for business in 2005, as companies investing in e-commerce will continue to be looking for increases in revenue from high-performance e-commerce standard software as well as further cost reductions through the use of an open source infrastructure.

Intershop's product portfolio also offers attractive options to middle-market companies with limited IT infrastructures and budgets. Intershop identified this segment of the market as a target area during 2004, because of its substantial backlog of demand in e-commerce and its attractive growth potential for Intershop as a software producer.

Revenue

Due to the continued weakness in corporate IT spending, Intershop's total revenue in 2004 fell to € 17.6 million from € 23.2 million in the previous year. License revenue totaled € 2.6 million in 2004, compared with € 6.5 million in the comparable prior-year period. Service revenue (including consulting, customer support, maintenance, and other revenue) totaled € 15.0 million in 2004 as against € 16.7 million in 2003.

Europe remained Intershop's primary market, accounting for € 14.4 million or 82 % of total global revenue in 2004 as against € 19.2 million or 83 % in the previous year. Intershop reduced its European workforce by 17 % year-on-year to 206 full-time equivalent employees (as of December 31, 2004). This reduction was achieved mainly through headcount reductions in Germany, and the transfer of sales activities to local distributors in Sweden, Norway, Denmark and in the United Kingdom. This means that Germany is the only country in Europe where Intershop is still operating using a direct sales model via its offices in Jena, Hamburg, and Stuttgart.



The AG, which is responsible for the Group's business in Germany, generated revenue of € 13.8 million in the year under review as against € 17.5 million in the previous year. In 2004, the AG employed average 260 employees, as against an average of 371 employees in 2003.

In the fiscal year 2004, Intershop generated € 3.0 million in total revenue or 17 % of total global revenue in the Americas region, compared with € 3.3 million or 14 % in 2003. Intershop's U.S. branch in San Francisco ensured that it was represented in the strategically important U.S. software market in 2004. Intershop had 16 full-time equivalent employees as of December 31, 2004 in the US, as against 19 full-time equivalent employees in as of December 31, 2003.

In the Asia Pacific region, Intershop generated € 0.2 million in revenue in the fiscal year 2004, representing 1 % of total global revenue, compared with € 0.7 million or 3 % of total global revenue in the comparable prior-year period. The revenue in that region was made by June 30, 2004. As of July 1, 2004, Intershop closed direct business activities in Asia and transferred all sales activities of Intershop products to local distributors in Japan and China. Therefore, the headcount in the Asia Pacific office locations in Tokyo, Japan, and Hong Kong, China, decreased from 11 full-time equivalent employees in 2003 to 0 employees as of December 31, 2004.

Due to the operative consolidation of the Company and the transfer of sales activities in various regions to partners and distributors, the revenue generated through partners increased from 12 % in 2003 to 30 % in 2004.

In further developing its indirect sales channels, Intershop established new sales and development partnerships in 2004 as well, and strengthened existing partnerships including with HP, Novell, Data Solutions in France, Crimsonwing in the United Kingdom and Ireland and InterBrains in Japan.

Gross Profit

Gross profit generated in the fiscal year 2004 was € 8.6 million, as against € 11.1 million in the fiscal year 2003. Gross margin on sales for 2004 was 49 %, down from 48 % in the previous year. This absolute decrease was primarily due to the decline in high-margin license revenues.

The license gross margin in 2004 amounted to 89 %, compared with 92 % in 2003.

The Company's service gross margin (including consulting, customer support, maintenance, and other revenue) amounted to 42 % in the fiscal year 2004, as against 31% in the fiscal year 2003.
This year-on-year improvement in the service gross margin was driven primarily by a better utilization of service personnel in conjunction with a reduction in the service workforce, and reduced use of external consultants.

Expense and Income

During the course of the final implementation of the restructuring measures from prior years, Intershop reduced its global workforce by 56 employees in the course of 2004, to 222 full-time equivalent employees as of December 31, 2004. Due to these measures and the resulting efficiency gains, Intershop reduced total operational costs (cost of revenue and operating expense) by 40 %, from € 45.0 million in 2003 to € 27.0 million in 2004.

Headcount reductions affected all areas of the Company but were aimed at largely preserving Intershop's core technological expertise in research and development. As of December 31, 2004, Intershop employed 163 full-time equivalents in technical departments such as research and development and services, 28 full-time equivalents in sales and marketing, and 31 full-time equivalents in general and administrative functions.

As a result of implementing its cost savings measures finally, the Company recorded restructuring charges of € 0.4 million in the fiscal year 2004, driven primarily by facility-related consolidation charges. By comparison, the Company recorded restructuring costs of € 3.6 million in the fiscal year 2003.

In the research and development (R&D) department, Intershop's costs decreased from € 6.3 million in the previous year to € 4.2 million in 2004.

Due to lower revenue-dependent commission payments to sales employees, as well as a lower number of sales and marketing employees, sales and marketing expenses were further reduced in the fiscal year 2004. They decreased from € 14.2 million in 2003 to € 5.0 million in 2004. Included in the Company's sales and marketing expenses for 2004 were costs for the 2004 CeBIT trade fair in Hanover, Germany, as well as for a marketing campaign to roll out Enfinity Suite 6.

Due to further headcount reductions, general and administrative (G&A) expenses decreased from € 9.0 million in the fiscal year 2003 to € 8.5 million in the fiscal year 2004, although the expenses contain extraordinary costs amounting to € 2.3 million for accruals for payments in connection with the settlement with the plaintiffs of the security class action in the United States.

Depreciation and amortization charges amounted to € 0.5 million in 2004, as against € 3.2 million in the previous year since investments in 2004 focused on capital replacements to adequately support the Company's ongoing operations in line with reduced business activities and current restructuring measures.

Due to the significant year-on-year decline in total operational costs, Intershop reduced its operating loss from € 21.8 million in 2003 to € 9.4 million in 2004 despite generating lower revenues year-on-year.

The operating loss generated by the AG fell from € 15.5 million in the fiscal year 2003 to € 14.3 million in the fiscal year 2004. This was primarily due to reduced expenses within the AG.

Reflecting significant cost reductions, Intershop reduced its net loss from € 20.1 million or a net loss of € 0.97 per share in 2003 to € 8.8 million or a net loss of € 0.37 per share in 2004; this represents a fall of 56 %. The mentioned net loss numbers from 2003 are corrected numbers. We refer to the Note "Restatement of the previous year´s consolidated financial statements".

Liquidity and Balance Sheet

Net cash usage related to operating activities decreased from € 13.1 million in the fiscal year 2003 to € 5.4 million in the fiscal year 2004, primarily driven by lower net losses from operating activities.

Net cash usage related to investing activities was € 0.8 million in 2004. In comparison, investing activities generated net cash of € 4.9 million in 2003; this was primarily due to proceeds from the sale of marketable securities.

Financing activities generated a total of € 5.2 million due to two capital increases in 2004. Financing activities in the fiscal year 2003 generated no net cash.

Cash, cash equivalents, marketable securities, and restricted cash totaled € 8.4 million as of December 31, 2004, compared with € 8.8 million as of December 31, 2003. The successful placement of the zero-coupon convertible bond after the balance sheet date (see “Subsequent Events”) generated cash inflows of € 11.3 million before costs for the Company and thereby strengthened our liquidity position for 2005.

Days sales outstanding (DSO) fell from 63 as of December 31, 2003 to 47 as of December 31, 2004, reflecting the improvements in receivables management achieved in the fiscal year 2004.

Trade receivables amounted to € 2.3 million as of December 31, 2004, compared with € 3.3 million as of December 31, 2003. This decrease was driven primarily by a year-on-year reduction in sales in the fiscal year 2004, as well as a lower DSO as of December 31, 2004 compared with December 31, 2003.

As of December 31, 2004, Intershop had short-term deferred revenues of € 4.6 million, compared with € 5.1 million as of December 31, 2003. This decrease is primarily due to lower service revenue.

Capital Structure

Effective January 1, 2003, Intershop’s common bearer shares were admitted to the Prime Standard trading segment of the Frankfurt Stock Exchange. The Prime Standard trading segment, newly created at the beginning of 2003, essentially replaced the former Neuer Markt trading segment, on which Intershop’s common bearer shares had previously been traded. With admission to the Prime Standard, Intershop complies with the comprehensive transparency requirements of this segment, including quarterly financial reporting, use of internationally accepted accounting standards (e.g., U.S. GAAP), publication of a financial calendar, at least one analyst conference per year, ad-hoc disclosures, and ongoing financial communication in both German and English.

On January 14, 2004, Intershop announced that it would voluntarily delist from the Nasdaq National Market (“Nasdaq”), and gave notice to Citibank, N.A., the depositary for Intershop’s American Depositary Receipts (ADR) facility (the “Depositary”), to terminate the ADR facility effective as of the close of trading on February 17, 2004. From this date, ADRs issued by Intershop were no longer tradable on Nasdaq. Effective January 15, 2004, Intershop also terminated its F-6 registration statement with the U.S. Securities and Exchange Commission in respect of all 98,550,000 unissued ADRs in its ADR facility.

On January 27, 2004, Intershop announced that it had agreed with Citibank, N.A. to shorten the six-month period for holders of Intershop ADRs to surrender them in order to withdraw the underlying Intershop common bearer shares ("surrender period"). In accordance with the termination provision, which was amended as of January 27, 2004, holders of Intershop ADRs were entitled to surrender their Intershop ADRs for withdrawal of the underlying Intershop common bearer shares at any time up to February 27, 2004, i.e., ten days after conclusion of the surrender agreement on February 17, 2004 rather than six months as previously. Intershop ADR holders who chose not to surrender their Intershop ADRs for withdrawal of the underlying Intershop common bearer shares received cash proceeds from the sale of such underlying Intershop common bearer shares at the price obtained on the Frankfurt Stock Exchange. The Depositary then remitted the cash proceeds from the sale, net of any applicable charges, expenses, taxes, or governmental charges, to such Intershop ADR holders.

Intershop's issued and outstanding ADRs were deregistered with the SEC by submission of Form 15, effective as of June 26, 2004.

On March 5, 2004 Intershop announced that the Company's Executive Board (Vorstand) and Supervisory Board (Aufsichtsrat) had decided to implement a public rights issue from authorized capital.

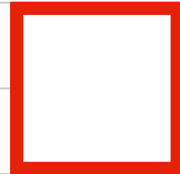
As part of the subscription offer published on March 9, 2004 in the electronic Bundesanzeiger (Federal Gazette) and the Frankfurter Allgemeine Zeitung (FAZ), a German daily newspaper, the Company offered all current Intershop shareholders the opportunity to subscribe for one new Intershop common bearer share per 11.5 existing Intershop common bearer shares held at a price of € 2.00 per share (indirect pre-emptive right) during the period from March 10, 2004 to March 24, 2004. To this end, Intershop issued 1,916,113 new common bearer shares from authorized capital. Any shares not subscribed by shareholders were placed with institutional investors by Munich, Germany-based VEM Aktienbank AG, the investment bank handling the transaction.

The new shares increased the total number of Intershop issued and outstanding shares by 1,916,113, from 22,035,299 before the transaction to 23,951,412 after the transaction. The capital increase took legal effect by entry in the commercial register at the Local Court of Gera, Germany on March 30, 2004. The new shares were admitted to trading on the Frankfurt Stock Exchange on April 6, 2004. The new shares were traded for the first time on April 8, 2004.

On September 15, 2004, Intershop announced resolutions adopted by the Management and Supervisory Boards for the implementation of a cash capital increase from authorized capital excluding the shareholders' subscription rights.

VEM Aktienbank AG was admitted to subscribe the new shares at a price of € 1.00 per share. Pricing was based on the average XETRA daily closing price at the Frankfurt Stock Exchange in a ten banking day reference period preceding the resolutions.

The issue of the new shares increased the total number of Intershop issued and outstanding shares by 1,600,000, from 23,951,412 before the transaction to 25,551,412 after the transaction. The cash capital increase took legal effect by entry in the commercial register at the Local Court in Gera, Germany, on September 27, 2004. The new shares were admitted to trading on the Frankfurt Stock Exchange on October 15, 2004 and were first quoted on October 18, 2004.



On November 24, 2004, Intershop announced that the Management Board had resolved the issue of a zero-coupon convertible bond with a total amount of up to € 20 million from the conditional capital created for these purposes by the Stockholders' Meeting on June 13, 2001. Stockholders were granted an indirect right to subscribe for the bond in proportion to their existing stockholdings.

As part of the subscription offer published in the electronic Bundesanzeiger (Federal Gazette) and in the Börsen-Zeitung newspaper, the Company offered all Intershop shareholders the opportunity to subscribe indirectly for one bond for every 1.3 Intershop common bearer shares held at a price of € 1.00 per bond in the period November 30, 2004 through December 14, 2004. Stockholders also had the option to subscribe for bonds in excess of their pre-emptive rights. The investment bank handling the transaction, VEM Aktienbank AG, Munich, Germany, offered bonds not subscribed by stockholders to private and institutional investors.

The principal features of the convertible bond are a term of four years to December 14, 2008 and an effective yield of 10 % p.a. with a one-time payment at maturity of 146 % of par. Each bond with a nominal value of € 1.00 can be exchanged for one no-par value bearer share on predetermined dates. The exchange ratio will be unaffected by any capital decreases. The convertible bond is secured on the rights to Intershop software.

The convertible bond was successfully placed after the balance sheet date on January 26, 2005. 11.3 million bonds were subscribed (see "Subsequent Events").

In 2004, 9,600 employee stock options were exercised and exchanged for Intershop Communications AG common bearer shares.

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 2004 business was conducted in euro. The Company's foreign exchange exposure was therefore limited to business transactions conducted in currencies that were not in euro, notably the U.S. dollar and the pound sterling.

Organizational Changes

On February 4, 2004 Intershop announced that Stephan Schambach had asked the Supervisory Board to be immediately released of his duties as a Member of the Management Board. The Company's Supervisory Board accepted Mr. Schambach's decision; his contract of employment was terminated by mutual agreement and he left the Company effective February 4, 2004. As of February 4, 2004, Mr. Schambach held a 19.26 % interest in the Company and was therefore one of the Company's major shareholders.

The Company's Supervisory Board appointed Ralf Männlein as member of Executive Management Board with overall responsibility for the Company's Sales and Marketing in Europe with effect from July 5, 2004. Before joining Intershop, Ralf Männlein was a member of the Executive Management Board of

Beta Systems Software AG, a stock exchange-listed provider of software solutions for data centers, security, document and storage management. In the course of his career he also held executive positions at Loewe Opta, Alcatel and Bosch.

The Intershop Annual Stockholders' Meeting on July 7, 2004 approved – among others - the reduction in the size of the Supervisory Board from six to three members. The remaining members of the Supervisory Board are Eckhard Pfeiffer as Chairman of the Supervisory Board, Hans W. Gutsch as Deputy Chairman of the Supervisory Board and Peter Mark Droste.

Group Risks and Risks Intershop Communications AG

Various risks could prove to be a threat to the financial situation, assets, earnings, and continued existence of Intershop, including (but not limited to) the following:

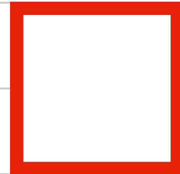
The increasingly strained financial situation in 2004 had a negative effect on confidence among customers, partners, and employees as regards the long-term future of the Company and may also result in Intershop's customers being reluctant to place orders in the future, which would significantly impact the Company's operating activities. Nevertheless, the Company expects positive effects from the stabilization of its liquidity due to the successfully placed convertible bond after the balance sheet date.

In the past three fiscal years, Intershop's business has been heavily impacted by the economic downturn, both globally and in particular in Germany, and the subsequent weakness in corporate IT spending, especially in Europe. This may adversely affect Intershop's ability to generate revenue from business with corporate customers, significantly impact operating results in the future, and substantially increase the need for additional funding.

The market for e-commerce applications is maturing 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-commerce solutions with regard to customer requirements correctly.

Intershop's quarterly revenue in the past has frequently included a certain number of large single deals that represented relatively large portions of overall quarterly revenue. Furthermore, the Company generated more than 16.2% and 10.9% of total revenue in 2004 from two individual customers. The Company's significant dependence on large single deals and single customers may in the future continue to hamper revenue forecasts and may adversely affect the Company's financial performance if certain large deals cannot be signed during a quarter.

Operating results for future periods are never entirely predictable, even in the most stable 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 volatility in the price of Intershop's stock and could harm the Company's ability to obtain future funding.



Intershop competes directly with other providers of e-commerce 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 the 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. 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.

In Germany, BAFin announced in January 2001 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. BAFin handed this case over to the public prosecutor in Hamburg, Germany, who initiated an investigation into complaints about stock price manipulations in May 2001. The Company is cooperating fully with these investigations and, to the best of the management's knowledge, has never previously been the subject of such investigations. The Company believes there is no merit to these allegations.

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. Patent disputes are widespread in the software industry, particularly in the U.S., 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 enterprise 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 also sold and implemented by IT 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, this 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.

License revenue accounts for a significant share of Intershop's overall revenue. Under 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 lead to corresponding fluctuations in operating results.

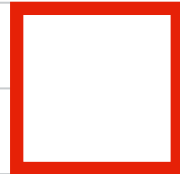
In the software industry, a large portion of license revenue is often not recorded evenly over a quarter, but rather toward the end of a quarter. This is due to the fact that, in many cases, contracts are not awarded until the last third of a quarter. Because of this, a high level of uncertainty as to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

To a certain extent, Intershop's operating and financial results are reported in foreign currencies, and are therefore 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.

As part of the substantial restructuring measures that are being implemented within the Intershop Group, headcount as well as of fluctuation of employees, headcount was reduced further in the fiscal year 2004. As of December 31, 2004, Intershop employed 222 full-time equivalents, representing a decline of 56 full-time equivalents or 20% as against December 31, 2003. The headcount reduction in 2004, particularly in the finance department, meant a fall in the number of full-time employees responsible for both external financial reporting and internal financial planning and control. The headcount reduction increases the risk of incomplete, inaccurate, or delayed financial reporting, both externally and internally.

The financial statements of Intershop Communications Aktiengesellschaft show that as of December 31, 2004, the Company had investments in affiliated companies of € 10.7 million relating to its investment in Intershop Communications Inc. The carrying value of the investment was examined using discounted cash flow analysis performed by the Company itself. This carrying value represents a reduction compared with the value shown in the previous year's financial statements of € 5.1 million.

The measurement of the carrying value is based on a detailed forecast for 2005 through 2007, followed by a transition to a perpetual annuity. The reduction in the carrying value of the investment reflects the smaller sales base resulting from sales actually generated in 2004, as well as lower sales forecasts for 2005 based on recent information at our disposal. Based on the sales forecast of Intershop Communications Inc., revenue is expected to grow by 37 % in 2005, from the very low level achieved the previous year. Revenue is expected to grow annually by 28 % in 2006 and by 21 % in 2007. Based on these assumptions the operating result of Intershop Communications Inc. will be € 0.7 million in 2005, and is expected to grow further over the period covered by the forecast. The continuous growth assumption is based on general analyst expectations with regard to investment activity in the area of information technology in the US market, as well as projects expected with existing and new customers. The present value is calculated by discounting free cash flows by 15 %.



If the described expectations are not met, or if Intershop Communications Inc. cannot achieve the expected results for other reasons, the carrying value of the investment in affiliated companies would have to be written down for impairment in the financial statements of Intershop Communications Aktiengesellschaft.

Risk Management

Intershop's objective has been to exploit business opportunities worldwide in order to maximize shareholder value. Yet, along with these opportunities, Intershop has faced a number of risks that are intrinsically linked with such opportunities. Generally, 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 is anxious to minimize operating risks by continuously expanding its comprehensive risk management system.

At Intershop, a variety of systems and procedures are in place to monitor, analyze, and document corporate risks. Intershop's strategy to mitigate and manage risk has included a forward-looking product strategy 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 were 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 that market, sell, and deploy Intershop products, as well as measures to retain and recruit executive officers and key personnel, and to provide the necessary organizational infrastructure.

In the fiscal year 2004, the Company has continued to monitor market trends and the activities of its competitors on an ongoing basis and has made use of market analyses and forecasts provided by leading market research companies. Intershop has maintained a comprehensive system of project management and quality controls in the area of product development, where risk awareness plays a major role.

Intershop has used financial accounting, controlling, and forecasting software by SAP and Hyperion as well as customer relationship management (CRM) software by Siebel Systems to monitor and manage key corporate information worldwide. Quarterly financial statements have ensured that information on business trends has remained up-to-date. In addition to the annual budget planning process, the Company has used time-adjusted forecasts regarding short-time cost and revenue development. Ongoing accounting and controlling activities have provided information on variances between actual and target figures.

In addition, management has regularly analyzed the Company's assets, financial position, and earnings. Frequent meetings at all hierarchy levels worldwide have ensured that there is an efficient exchange of information and a rapid decision-making process throughout the Company. The Management Board has informed the Supervisory Board at least once a quarter, but typically more often, about important corporate developments. The Supervisory Board's audit committee held meetings with the CFO and the head of accounting on a regular basis to discuss, analyze, and monitor corporate financial issues of day-to-day business operations. Due to Intershop's internal policies on risk management and internal controls, on insider trading, and on the disclosure of material information, it is assumed that regulatory requirements are met, and that best management practices and the corporate governance recommendations contained in the German Corporate Governance Code were implemented.

Subsequent Events

On January 26, 2005, Intershop announced the successful placement of a zero-coupon convertible bond (see "Shareholders' Equity, capital increases in fiscal 2004"), with bonds amounting to 11.3 million being subscribed by the closing date of the tranche. The gross proceeds will strengthen Intershop's liquidity in 2005.

On the same day, the Company announced that settlement had been agreed with the plaintiffs of the class-action lawsuit that has been pending in the USA for a number of years, in relation to alleged inaccurate information disseminated by the company in 2000. The Company is of the opinion that the class-action lawsuit would not have been successful. Nevertheless, the Company has decided to agree to the settlement in order to avoid the continuing expense of legal action. The settlement envisages a payment of US$ 2 million, and of an additional amount equal to 20 % of the proceeds in excess of € 6 million which Intershop receives from the issue of the convertible bond of November 29, 2004. As a result of this settlement, the Company is no longer obliged to meet the costs of mounting a legal defense, which were estimated at around € 1 million for 2005 alone. The settlement also means that the Company no longer faces the risk of paying an unspecified amount of damages in the event that the plaintiffs were to win. The Company has recognized appropriate accruals in its financial statements for fiscal 2004 for the cost of settling the legal dispute which, after the placement of the first tranche of the convertible bond, amounts to a total of € 2.3 million. The settlement still requires the formal approval of the competent court, which had not yet been granted at the date of printing of the annual report. The Company expects this approval to be granted shortly.

Business Outlook

The euphoria which reigned in the e-commerce sector for years has now given way to a realistic assessment of the market's potential. E-commerce has come of age. In keeping with that, the use of e-commerce software and solutions has become a measure of the competitiveness of globally operating companies. E-commerce activities will lead to fundamental changes in conventional commerce structures in the future.

The commercial use of the Internet by companies and their trading partners is expanding. Against the difficult economic background of recent years, the challenge for successful companies will no longer be simply to keep up with the competition, but to leave the competition behind and occupy a leading position. Price wars will become more frequent and competitive pressure will increase further. The Internet is a driving factor behind this. To maintain a successful leading position in online commerce, companies will have to come to terms with changing market circumstances. For this reason, a professional approach to multi-channel sales will be particularly important. This is confirmed by the most important trend indicators published by leading market researchers.

Overall, the omens for economic development in fiscal 2005 are good. According to the German Association for Information Technology, Telecommunications and New Media (BITKOM), companies in this sector are expecting substantial increases in revenues in the coming year (BITKOM, 2004).

While IT expenditure showed a minimal increase of 0.8 % in 2003, Forrester Research estimates IT budget growth at 2.6 percent in 2004 and as much as 2.9 percent in 2005 (Forrester, 2002). Other

analysts are of the opinion that decision-makers in companies will again increasingly invest in e-commerce solutions in 2005. Experts estimate that the budget for this type of expenditure in Germany has increased by 3.7 %. By way of comparison, the increase in expenditure on e-business in 2004 was a mere 1.5 % (BDI/IAO/Wegweiser: E-Business Jahrbuch 2004).

Multi-channel online commerce will be the keynote of future trends and developments. Multi-channel models allow multiple sales and purchasing channels to be combined systematically on a unified platform, and therefore offer a transparent and cost-effective alternative to traditional e-commerce strategies. As a result, online and offline sales channels are increasingly growing closer.

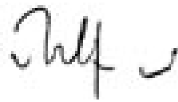
Intershop has many years' experience with software for electronic commerce, and its new Enfinity Suite 6 is targeted at companies aiming to coordinate their sales and purchasing channels. Companies investing in e-commerce in 2005 will be looking for further cost reductions through open source infrastructure as well as increases in revenues from high-performance e-commerce standard software. Multi-channel strategies enable companies to access new groups of potential purchasers, and to offer customers the option to use multiple purchasing methods. Companies are able to exploit the synergies between offline and online sales as powerful instruments for revenue growth and cost reduction.

On the basis of the substantial reduction in our total operating costs as of the end of fiscal 2004, the stabilized financial position of the Company at the start of 2005 and the forecast growth in corporate IT expenditure, Intershop expects to be able to continue the positive trend of previous years as regards an improvement in its net income.

Jena, March 1, 2005

The Management Board

Dr. Jürgen Schöttler



Ralf Männlein

We have issued the following audit opinion on the consolidated financial statements and the report on the situation of the Company and the Group:

Independent Auditor's Report
We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the Intershop Communications AG, Jena for the business year from January 1, 2004 to December 31, 2004. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US-GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Intershop Communications-Group for the business year in accordance with Accounting Principles Generally Accepted in the United States of America.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, 2004 to December 31, 2004, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 2004 to December 31, 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Leipzig, March 1, 2005

KPMG Deutsche Treuhand-Gesellschaft,
Aktiengesellschaft,
Wirtschaftsprüfungsgesellschaft

Dr. Georg Flascha
Wirtschaftsprüfer

Maik Pülmanns
Wirtschaftsprüfer

Consolidated Balance Sheets

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

As of December 31,	2003 (corrected)	2004
ASSETS		
Current assets		
Cash and cash equivalents	2,611	1,632
Restricted cash	6,190	6,754
Trade receivables, net of allowances for doubtful accounts of € 1,578 in 2004 and € 5,254 in 2003	3,345	2,257
Prepaid expenses and other current assets	1,370	810
Total current assets	13,516	11,453
Property and equipment, net	1,106	923
Goodwill	4,473	4,473
Other assets	557	459
Total assets	**19,652**	**17,308**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	249	1,689
Accrued restructuring costs	2,657	1,778
Other accrued liabilities	5,327	6,565
Deferred revenue	5,058	4,612
Total current liabilities	13,291	14,644
Deferred revenue	23	10
Total liabilities	**13,314**	**14,654**
Shareholders' equity		
Common share, stated value € 1—authorized: 75,051,106 shares; outstanding: 25,551,412 shares at December 31, 2004, and 22,035,299 shares at December 31, 2003, respectively	22,035	25,551
Additional paid-in capital	-	1,710
Accumulated deficit/ retained earnings	(18,745)	(27,525)
Accumulated other comprehensive income	3,048	2,919
Treasury Stock	-	(1)
Total shareholders' equity	**6,338**	**2,654**
Total liabilities and shareholders' equity	**19,652**	**17,308**

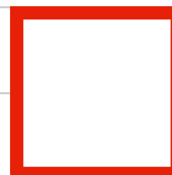
The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Operation

(In thousands €, except per-share amounts)

For the year ended December 31,	**2002**	**2003 (corrected)**	**2004**
Revenues			
Licenses	22,462	6,505	2,566
Services, maintenance, and other	22,635	16,654	15,002
Total revenues	**45,097**	**23,159**	**17,568**
Cost of revenues			
Licenses	1,288	523	288
Services, maintenance, and other	17,814	11,522	8,630
Total costs of revenues	**19,102**	**12,045**	**8,918**
Gross profit	**25,995**	**11,114**	**8,650**
Operating expenses			
Research and development	7,225	6,260	4,149
Sales and marketing	29,363	14,181	5,007
General and administrative	12,760	8,942	8,501
Restructuring costs and asset impairment	5,326	3,576	406
Total operating expenses	**54,674**	**32,959**	**18,063**
Operating loss	**(28,679)**	**(21,845)**	**(9,413)**
Other income (expense)			
Interest income	651	609	141
Interest expense	(31)	(374)	(271)
Other income	504	1,470	767
Total other income	**1,124**	**1,705**	**637**
Net loss	**(27,555)**	**(20,140)**	**(8,776)**
Basic and diluted loss per share	**(1.47)**	**(0.97)**	**(0.37)**
Shares used in computing for basic and diluted loss per share	18,731	20,749	23,865

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



Consolidated Statements of Cash Flows

For the year ended December 31 (in thousands €)	2002	2003 (corrected)	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(27,555)	(20,140)	(8,776)
Adjustments to reconcile net loss to cash used in operating activities			
Depreciation and amortization	9,115	3,181	456
Non-cash income from deconsolidation	-	(1,021)	(679)
Provision for doubtful accounts	(4,686)	(1,614)	(239)
(Gain) loss on disposal of marketable securities	152	(40)	-
(Gain) loss on disposal of property and equipment	689	(114)	(26)
Changes in operating assets and liabilities			
Accounts receivable	4,809	8,751	1,266
Prepaid expenses and other current assets	2,497	5,772	542
Other assets	1,104	1,599	100
Accounts payable	(2,643)	(483)	1,392
Deferred revenue	818	(504)	(308)
Accrued restructuring costs	(5,773)	(1,455)	(879)
Accrued expenses and other liabilities	(1,270)	(7,033)	1,705
Net cash used in operating activities	**(22,743)**	**(13,101)**	**(5,446)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Restricted cash	800	882	(564)
Proceeds on disposal of equipment	536	286	21
Purchases of property and equipment, net of capital leases	(670)	(368)	(305)
Proceeds from sales of marketable securities	47,541	8,294	-
Purchases of marketable securities	(32,498)	(4,162)	-
Net cash (used in) provided by investing activities	**15,709**	**4,932**	**(848)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchase of common shares	-	-	(40)
Proceeds from re-issuance of treasury stock	-	-	35
Proceeds from sale of common shares	10,005	-	5,226
Repayment of indebtedness	-	(250)	-
Net cash provided by investing activities	**10,005**	**(250)**	**5,221**
Effect of change in exchange rates on cash	(775)	(273)	94
Net change in cash and cash equivalents	2,196	(8,692)	(979)
Cash and cash equivalents, beginning of period	**9,107**	**11,303**	**2,611**
Cash and cash equivalents, end of period	**11,303**	**2,611**	**1,632**
Supplemental cash flow information			
Interest paid	**31**	**374**	**271**
Taxes paid	**93**	**136**	**137**

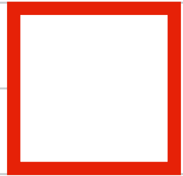
The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Shareholders' Equity

(in thousands €, except share data)

	Common Shares	Common Shares Stated Value
Balance, January 1, 2002	**88,191,322**	**88,191**
Other comprehensive loss		
Net loss		
Foreign currency translation adjustments		
Unrealized gain (loss) on available–sale security, net		
Comprehensive loss		
Exercise of stock options	6,678	7
Private placement of common stock, net	8,334,000	8,334
Allocation of par value resulting from reverse stock split	(77,225,600)	(77,226)
Appropriation of additional paid-in capital		
Balance, December 31, 2002	**19,306,400**	**19,306**
Other comprehensive loss:		
Net loss (corrected)		
Foreign currency translation adjustments		
Unrealized gain (loss) on available-for-sale security, net		
Comprehensive loss (corrected)		
Conversion of common stock of subsidiary to common stockof parent, net of share amounts not converted	2,499,999	2,500
Conversion of preferred stock of subsidiary to common stockof parent, net of share amounts not converted	228,900	229
Balance, December 31, 2003 (corrected)	**22,035,299**	**22,035**
Other comprehensive loss:		
Net loss		
Foreign currency translation adjustments		
Comprehensive loss		
Purchase of common stock		
Re-issuance of treasury stock		
Issuance of common bearer stock	3,516,113	3,516
Balance, December 31, 2004	**25,551,412**	**25,551**

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



	Additional Paid-InCapital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
	13,420	**(60,632)**	**2,894**	-	**43,874**
		(27,555)			(27,555)
			157		157
			(109)		(109)
					(27,507)
	(3)				4
	1,667				10,001
	77,226				
	(92,310)	92,310			
	-	**4,124**	**2,942**	-	**26,372**
		(20,140)			(20,140)
			(83)		(83)
			189		189
					(20,034)
		(2,500)			
		(229)			
	-	**(18,745)**	**3,048**	-	**6,338**
		(8,776)			(8,776)
			(129)		(129)
					(8,905)
				(40)	(40)
		(4)		39	35
	1,710				5,226
	1,710	**(27,525)**	**2,919**	**(1)**	**2,654**

Restatement of the previous year's consolidated financial statements

During the preparation of the consolidated financial statements for fiscal 2004, an error was discovered in the consolidated financial statements for fiscal 2003. The prior-year figures shown in the consolidated financial statements of fiscal 2004 have therefore been restated.

The error arose in connection with the deconsolidation of Intershop Communications S.a.r.l., France in the previous year. The gain on deconsolidation was calculated on the basis that the assets and liabilities of the subsidiary included in the consolidated financial statements amounted to € 0.5 million and € 3.0 million respectively. In fact, however, the liabilities deconsolidated amounted to € 1.5 million. As a result of this error, the consolidated financial statements for fiscal 2003 overstated the gain on deconsolidation by € 1.5 million and understated other accrued liabilities by € 1.5 million.

The effects of making this correction on the consolidated balance sheet and consolidated statement of operations for 2003 are shown below *(in thousands of €, except for amounts per share):*

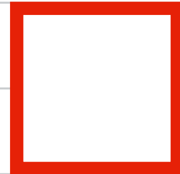
	Consolidated Financial Statements 2003		
	Published numbers	Restatement	Restated numbers
Consolidated Balance Sheets			
Accumulated deficit	(17,245)	(1,500)	(18,745)
Other accrued liabilities	3,827	1,500	5,327
Consolidated Statement of Operations			
Total other income	3,205	(1,500)	1,705
Net loss	(18,640)	(1,500)	(20,140)
Basic and diluted loss per share	(0.90)	(0.07)	(0.97)

The error had no effect on the single-entity financial statements of Intershop Communications AG.

Organization and Operations of the Company

The Company

Intershop (Intershop Communications AG together with its subsidiaries and predecessors; hereinafter referred to as the “Company,” “Intershop,” or the “Group”) is a leading provider of software solutions that help organizations evolve their trading relationships with consumers and business partners online. Founded in 1992, Intershop has a long tradition of driving innovation in e-commerce by automating and simplifying sales and buying processes. Intershop Solutions enable organizations to consolidate and manage unlimited online commerce channels on a single platform. As a result, Intershop customers benefit from reduced operating expenses and competitive advantages in their online sales activities. More than 300 enterprise customers worldwide, including HP, BMW, Bosch and TRW run Intershop Solutions. Four of the five largest ecommerce sites in Germany rely on Intershop Solutions: Otto, Tchibo, Deutsche Telekom, and Quelle.



Enfinity Suite 6 is the latest evolution of Intershop's multi-award-winning e-commerce software. The unique functionalities of Enfinity Suite 6 allow enterprises to aggregate and manage all of their online business channels on a single platform, thereby streamlining and enhancing relationships with suppliers, business customers, partners and consumers.

The Company also offers its customers support, professional consulting services, and education services in relation to its software products.

Share swap agreement

In December 1996, Intershop Communications, Inc. ("US, Inc.") entered into a share swap 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 US, Inc. Holders of existing debt (approximately € 1.1 million) and capital (approximately € 200,000) in GmbH – approximately € 1.4 million in total – received 6,720,000 shares of preferred stock in US, Inc. The fair value of the preferred stock issued was equal to the carrying amount of the debt and capital for which it was exchanged. The share swap did not alter the relative ownership interest of the parent company. Upon completion of the transaction, US, Inc. became the parent company of GmbH and its subsidiaries.

On June 23, 1998, the holders of 79.26 % of the shareholders' equity of US, Inc. exchanged their shares of preferred and common stock of US, Inc. (20,591,348 in total) for 61,729,050 shares of the Company. As a result of this transaction, US, Inc. became a majority-owned subsidiary of the Company.

Conversions of US, Inc. shares into AG shares subsequent to the initial conversion in June 1998 are treated as an increase in the stated value of the common stock and a corresponding decrease in the capital surplus. During 1999, the two stockholders converted 744,500 common shares of US, Inc. into 2,233,500 shares of the Company. During 2000, these stockholders converted 93,333 common shares of US, Inc. into 280,000 shares of the Company. During calendar years 2001 and 2002, these stockholders did not convert any shares of US, Inc. into shares of the Company. On June 18, 2003, Intershop confirmed that the share swap announced on January 23, 2002, under which the CEO and co-founder Stephan Schambach exchanged his shares in subsidiary Intershop Communications, Inc. for common bearer shares in the parent Company, Intershop Communications AG, had been completed. Under the transaction, Mr. Schambach exchanged his 4,166,665 shares in Intershop Communications, Inc., the U.S. subsidiary majority-owned by Intershop Communications AG, for 2,499,999 common bearer shares of Intershop Communications AG. Similarly, on June 17, 2003, Burgess Jamieson, a member of the Supervisory Board of Intershop Communications AG, exchanged his 381,500 shares in Intershop Communications, Inc. for 228,900 new common bearer shares of Intershop Communications AG on the basis of an existing exchange option. The transaction by Mr. Schambach increased the number of shares of Intershop Communications AG that have been issued by 12.8 %, from 19,535,300 before the implementation of the share swap to 22,035,299 afterwards.

Going Concern

As of December 31, 2004, the Company had cash and cash equivalents (including restricted cash) of € 8.4 million, compared with € 8.8 million as of December 31, 2003. The Company has incurred significant operating losses since inception, and had an accumulated deficit of € 276.7 million (prior to the appropriation of the additional paid-in capital of € 249.2 million) as of December 31, 2004 In 2004 as a whole, the Company's operating activities used cash and cash equivalents of € 5.4 million, although cost-cutting measures improved cash flow during the course of the year. In January 2005, after the balance sheet date, the Company was able to announce the successful placement of the zero-coupon convertible bond. Subscriptions were received for 11.3 million bonds at a price of € 1.00 each.

The Company anticipates that, taking into account the stabilization of its liquidity position, the reorganization of its cost structure and the expected results of operations, it will be able to continue as a going concern in 2005 without additional external financing.

Summary of Significant Accounting Policies

The accompanying financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the accompanying notes.

Principles of Consolidation

The consolidated financial statements reflect the consolidated results of the Company and its wholly- and majority-owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). All significant intercompany transactions and balances between the consolidated companies have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

Foreign Currency Translation

The functional currency for the Company and its subsidiaries is the local currency of the country in which the subsidiary is located. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation," assets and liabilities of operations outside euro-denominated countries 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 in accumulated other comprehensive income 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 and are shown in "other income (expense), net." Currency gains and losses were € 59,073 in 2002, € 51,025 in 2003 and € 3,268 in 2004.

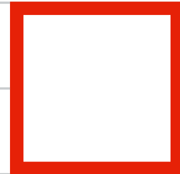
Cash Equivalents

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 checks on its customers and the risk with respect to trade receivables is further mitigated by the fact that the Company's customer base is diversified. Beyond this, the Company does not require collaterals from its customers.

In 2004, customer A accounted for 16.2 % of total revenue and was responsible for 11.7 % of trade receivables. Customer B accounted for 10.9 % of total revenue and was responsible for 10.3 % of trade receivables as of December 31, 2004. In 2003, customer A accounted for 16.6 % of total revenue and was responsible for 13.6 % of trade receivables. Customer B accounted for 15 % of total revenue and was responsible for 13.8 % of trade receivables as of December 31, 2003.



Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash, and cash equivalents, restricted cash, accounts receivable, and accounts payable, approximate their fair values. Marketable securities designated as available for sale are recorded at market value.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally ranging from three to five years. 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 SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" in connection with SOP 98-1. 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. Since technological feasibility can be proved only in further development phases, internal software development costs to be activated have not been significant regularly.

Long-Lived Assets

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. Under SFAS No. 144, it is no longer necessary to allocate goodwill to long-lived assets and then perform impairment testing. Furthermore, it has been stipulated that in situations where it is expected that certain flows of capital will be accumulated in areas subject to impairment testing, these can be calculated on the basis of a probability-weighted cash flow estimate. SFAS No. 144 also establishes criteria for determining when an asset should be treated as held for sale.

SFAS No. 144 was effective for the fiscal years beginning after December 15, 2001. Accordingly, the Company adopted SFAS No. 144 as of January 1, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position, results of operations, or cash flows.

Goodwill

Since the beginning of 2002, the Company has adopted the accounting standard SFAS No. 142, "Goodwill and Other Intangible Assets," which was published in June 2001. Under SFAS No. 142, goodwill is no longer amortized, but must be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test is to be performed on a reporting unit level. Since the Company's products and services are not divided into different segments or reporting units, goodwill is tested for impairment at the enterprise level. As a first step, the fair value of the enterprise is compared with its carrying amount, whereby the fair value is derived from the Company's market capitalization. Only if the fair value is lower than the carrying amount is the need for goodwill to be written down determined in a second step. At the balance sheet dates for 2003 and 2004, there were no impairment losses requiring to be recognized.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses of € 0.5 million, € 0.3 million and € 0.1 million were included in sales and marketing expenses for 2002, 2003 and 2004, 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. The Company has elected to continue to account for its stock-based compensation arrangements under the provisions of APB 25, and, accordingly, has included in Note 12 the pro forma disclosures required under SFAS No. 123. 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 of €, except per-share amounts):*

Year ended December 31,	**2002**	**2003 (corrected)**	**2004**
Net loss attributable to common shareholders			
As reported	(27,555)	(20,140)	(8,776)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(11,271)	(259)	(7)
Pro forma	(38,826)	(20,399)	(8,783)
Basic and diluted loss per share			
As reported	(1.47)	(0.97)	(0.37)
Pro forma	(2.07)	(0.98)	(0.37)

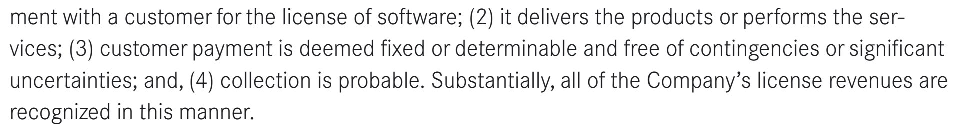
The following assumptions have been made to estimate the fair value of the options:

	2002	**2003**	**2004**
Risk-free interest on the date of grant	4.0 %	3.0 %	3.0 %
Assumed dividend	-	-	-
Volatility	92 %	107 %	117 %
Expected option lives (in years)	4.1	3.7	3.5

Revenue Recognition

Intershop derives revenues from two primary sources: (1) software license revenues and (2) services revenues, which include maintenance, consulting, and education. The basis for software license revenue recognition is substantially governed by the provisions of Statement of Position No. 97-2, "Software Revenue Recognition," as amended by SOP 98-4 and SOP 98-9 and related Interpretations (collectively, "SOP 97-2") issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants.

For software license arrangements that do not require significant modification or customization of the underlying software, the Company recognizes revenue when: (1) it enters into a legally binding arrange-



ment with a customer for the license of software; (2) it delivers the products or performs the services; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and, (4) collection is probable. Substantially, all of the Company's license revenues are recognized in this manner.

Some of the Company's software arrangements include implementation services sold separately under consulting engagement contracts. Revenues from these arrangements are generally accounted for separately from the license revenue because the arrangements qualify as "service transactions," as defined in SOP 97-2. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments, and impact of milestones or acceptance criteria on the realizability of the software license fee.

If an arrangement does not qualify for separate accounting of the license and service transactions, then license revenue is generally recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method as described below. Contract accounting is also applied to any arrangements: (1) that include milestones or customer-specific acceptance criteria, which may affect collection of the license fees; (2) where services include significant modification or customization of the software; (3) where significant consulting services are provided for in the contract without additional charges; or, (4) where the license payment is tied to the performance of consulting services.

Where several services are covered by a single agreement (so-called multi-component contracts) and contract accounting principles do not apply, the Company allocates total income to the individual elements of the transaction on the basis of their respective fair values. These fair values are determined using vendor-specific objective evidence ("VSOE"). Vendor-specific objective evidence of fair value for all elements of an arrangement is based upon the normal pricing and discounting practices for those products and services when sold separately. If the Company cannot objectively determine the fair value of any undelivered element included in bundled software and service arrangements, it defers revenue until all elements are delivered, services have been performed, or until fair value can objectively be determined. When VSOE of a license or other delivered element has not been established, the Company uses the residual method to record license revenue if VSOE of all undelivered elements is determinable. Under the residual method, VSOE of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Intershop's license arrangements generally do not include acceptance provisions. However, if acceptance provisions exist within previously executed terms and conditions that are referenced in the current agreement, the Company then applies judgment in assessing the significance of the provision. If the Company determines that the likelihood of non-acceptance of these arrangements is remote, it then recognizes revenue once all of the criteria described above have been met. If such a determination cannot be made, revenue is recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

Intershop assesses whether fees are fixed or determinable at the time of sale and recognizes revenue if all other revenue recognition requirements are met. The Company's standard payment terms are net 30 days; however, terms may vary based on the country in which the agreement is executed. Payments

that extend beyond the country's standard payment terms are generally deemed not to be fixed or determinable, and thereby do not satisfy the required criteria for revenue recognition. Revenues for these agreements are deferred and recognized upon cash payment by the customer.

Revenue for consulting services is generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved.

The determination of the amount of revenues to be recognized is partly based upon the use of estimates. The Company estimates, for example, the percentage of completion on contracts with fixed or "not to exceed" fees on a monthly basis, utilizing hours incurred to date as a percentage of total estimated hours to complete the project. If Intershop does not have a sufficient basis to measure progress towards completion, revenue is recognized when the Company receives final acceptance from the customer. When total cost estimates exceed revenues, Intershop accrues for the estimated losses immediately based upon an average fully burdened daily rate applicable to the consulting organization delivering the services.

The complexity of the estimation process and issues related to the assumptions, risks, and uncertainties inherent in the application of the percentage-of-completion method of accounting affect the amounts of revenues and related expenses reported in the Company's consolidated financial statements. A number of internal and external factors can affect Intershop's estimates, including costs for employees, utilization and efficiency variances, and specification and testing requirement changes.

Allowances for Doubtful Accounts

The Company makes judgments as to its ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these percentages, Intershop analyzes its historical collection experience and current economic trends. If the historical data the Company uses to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

Segment Reporting

The Company's primary line of business is the production and marketing of e-commerce software that enables customers to automate and simplify their purchasing and sales processes, and to consolidate and manage all their sales and procurement channels from a central platform. Accordingly, the Company does not disclose significant additional segment information as defined by SFAS No. 131.

Comprehensive Income

The Company accounts for comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income is the total of net income and all other changes in shareholders' equity that are not connected with changes at shareholder level. At the balance sheet dates for 2003 and 2004, accumulated other comprehensive income consisted entirely of foreign currency translation adjustments.

Income Taxes

The Company uses the asset and liability method in accounting for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Earnings Per Share

The basic net loss per common share is presented in conformity with SFAS No. 128, “Earnings Per Shares” for all periods presented. Basic net loss per share is computed using the weighted-average number of vested outstanding shares of common stock.

The diluted net loss per share is computed using the weighted-average number of vested shares of common stock outstanding and, in the case of dilution, the unvested common stock outstanding and the potential number of common shares from options and warrants to purchase common stock using the treasury stock method. In the case of convertible securities the “if-converted method” is used. 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 the diluted net loss per share for 2002, 2003, and 2004 because the effect would be antidilutive.

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 December 31 respectively *(in thousands of €, except per-share data):*

Year ended December 31,	**2002**	**2003 (corrected)**	**2004**
Net loss	(27,555)	(20,140)	(8,776)
Basic and diluted net loss per share:			
Weighted-average common shares outstanding	18,731	20,749	23,864
Basic and diluted net loss per share	**(1.47)**	**(0.97)**	**(0.37)**

Due to the share swap involving shares of US, Inc. and the AG detailed in the Note “Organization and Operations of the company”, the weighted-average number of common shares increased by 1,442,325 in the previous year. Due to the capital increase in 2004 detailed in the Note “Shareholders’ Equity“, the weighted-average number of common shares increased by 1,829,453 in the year under review.

Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145 “Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” Effective for fiscal year 2003, under SFAS No. 145, gains and losses on extinguishments of debt will be required to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under Statement 4. Extraordinary treatment will be required for certain extinguishments as provided in APB Opinion No. 30. All other provisions for SFSA No. 145 became effective for transactions occurring after May 15, 2002. Statement 145 also amends Statement 13 to require certain modifications to capital leases be treated as a sale-leaseback and modifies the accounting for sub-leases when the original lessee remains a secondary obligor (or guarantor). In addition, the FASB rescinded Statement 44, which addressed the accounting for intangible assets of motor carriers and made numerous technical corrections. The adoption of SFAS No. 145 did not have a material impact on the Company’s Group’s financial position, results of operations or cash flows.

In June 2002, the FASB published SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes the preliminary provisions of the Emerging Issues Task Force

(EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity must be recognized when the liability is incurred. Under Issue 94-3, the liability for an exit cost was recognized as the date of an entity's commitment to a concrete exit or disposal plan. The new standard holds that a company's commitment to a plan does not represent a direct obligation to another party that would be defined as a liability. SFAS No. 146 therefore rescinds the definitions and requirements for the accounting of exit costs contained in Issue 94-3 until a liability is actually incurred and stipulates that the amount of the liability be initially measured at the current fair value. However, this standard does not apply to expenses arising in connection with the retirement of activities in divisions acquired by way of a combination or covered by SFAS No. 144. The Company has adopted SFAS No. 146 since January 1, 2003. The adoption of SFAS No. 146 did not have a material adverse effect on its financial position, results of operations, or cash flows.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by it in issuing the guarantee. It also expands the disclosure requirements in the financial statements of the guarantor with respect to its obligations under certain guarantees that it has issued. The Company is required to adopt the initial recognition and initial measurement accounting provisions of this interpretation on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption did not have a material effect on the Company's financial position, results of operations, or cash flows.

At the November 21, 2002 EITF meeting, the Task Force reached a consensus that cash consideration received by a customer from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of sales when recognized in the customer's income statement. That presumption is overcome when the consideration is either (a) a reimbursement of costs incurred by the customer to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost when recognized in the customer's income statement, or (b) a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue when recognized in the customer's income statement. The Task Force also reached a consensus that a rebate or refund of a specified amount of cash consideration that is payable only if the customer completes a specified cumulative level of purchases or remains a customer for a specified time period should be recognized as a reduction of the cost of sales based on a systematic and rational allocation of the cash consideration offered to each of the underlying transactions that results in progress by the customer toward earning the rebate or refund, provided the amounts are reasonably estimable. The Company does not expect the adoption of EITF 02-16 to have a material effect on it's financial position, results of operations, or cash flows.

In January 2003, the FASB issued FASB Interpretations No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective February 1, 2003 for variable interest entities created after January 31, 2003, and July 31,

2003 for variable interest entities created prior to February 1, 2003. The Company does not anticipate the adoption of FIN 46 to have a material impact on its financial position, results of operations, or cash flows.

In May 2003, the FASB published SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity”. The Standard describes how the issuer classifies and measures such financial instruments. The financial instruments that are within the scope of this Standard must therefore be classified as liabilities (or assets in some circumstances) because these financial instruments embody an obligation of the issuer. SFAS No. 150 is effective for financial instruments issued or modified after March 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have any material effect on the Company’s financial position, results of operations, or cash flows.

At the July 31, 2003 meeting, the ETIF discussed whether non-software deliverables (e.g., non-software related equipment or services) included in an arrangement that contains software that is more than incidental to the products or services as a whole are included within the scope of AICPA Statement of Position 97-2, “Software Revenue Recognition”. The Task Force reached the following consensus: In an arrangement that includes software that is more than incidental to the products or services as a whole, software and software-related elements are included within the scope of SOP 97-2. Software-related elements include software-products and services such as those listed in paragraph 9 of SOP 97-2 (examples of software deliverables include software products, upgrades/enhancements, postcontract customer support, and services) as well as any non-software deliverable(s) for which a software deliverable is essential to its functionality. For example, in an arrangement that includes software, computer hardware that will contain the software, and additional unrelated equipment, if the software is essential to the functionality of the hardware, the hardware would be considered software-related and, therefore, included within the scope of SOP 97-2. However, because the software is not essential to the functionality of the unrelated equipment, the equipment would not be considered software-related and would, therefore, be excluded from the scope of SOP 97-2. The Task Force agreed that the consensus in Issue 03-5 should be applied to arrangements entered into in the first reporting period (annual or interim) beginning after the date of Board ratification of the consensus, which was August 13, 2003. As a result of the application of this interpretation, revenues amounting to US$ 1.0 million (€ 0.7 million) could not be recognized in 2004.

In December 2003, the Securities & Exchange Commission (“SEC”) published Staff Accounting Bulletin (“SAB”) No. 104, “Revenue Recognition.” This SAB updates portions of the SEC staff’s interpretive guidance provided in SAB 101 and included in Topic 13 of the Codification of Staff Accounting Bulletins. SAB 104 deletes interpretative material no longer necessary, and conforms the interpretive material retained, because of pronouncements issued by the FASB’s EITF on various revenue recognition topics, including EITF 00-21, “Revenue Arrangements with Multiple Deliverables.” SAB 104 also incorporates into the SAB Codification certain sections of the SEC staff’s “Revenue Recognition in Financial Statements – Frequently Asked Questions and Answers.” To the extent not incorporated into the SAB codification, the SEC staff’s FAQ on SAB 101 (Topic 13) has been rescinded. The adoption of SAB 104 will not have a material effect on the Group’s financial position, results of operations or cash flows.

In March 2004, the EITF reached a consensus on Issue No. 03-01 “The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments“. EITF No. 03-01 defines analytical methods of assessing the other-than-temporary impairment of available-for-sale debt and equity instruments, taking account of SFAS No. 115 and SFAS 124.

The adoption of EITF No. 03-01 will not have a material impact on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaced SFAS 123, "Accounting for Stock-Based Compensation", and supersedes Accounting Principal Board Opinion (ABP) 25, "Accounting for Stock Issued to Employees", and related Interpretations. SFAS 123R requires companies to recognize the cost resulting from all share-based payment transactions in the financial statements. With certain limited exceptions, the new standard establishes a grant-date fair-value-based measurement method in accounting for share-based payment transactions. Liability-classified awards are to be remeasured to fair value at each reporting date until the award is settled. Equity-classified awards are measured at grant-date fair value whereas related compensation cost is recognized based on the estimated number of instruments for which the requisite service is expected to be rendered. SFAS 123R is effective as of the beginning of the first interim reporting period that begins after June 15, 2005.
Because of the switch to financial reporting under IFRS in 2005, the adoption of SFAS 123R will not have a material impact on the Company's financial position, results of operations or cash flows.

Restricted Cash

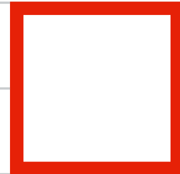
A bank issued a guarantee to cover the lease payments on leased property in Jena, Germany, should the Company fail to fulfill its obligations under the lease agreement. This cash account has been placed in a restricted account. In 2004, restricted cash increased by € 0.6 million. The increase is the result of a lien on cash and cash equivalents in connection with a pending court case.

Prepaid Expenses and Other Current Assets

At December 31, 2003 and 2004, prepaid expenses and other current assets consisted of the following (in thousands of €):

As of December 31,	**2003**	**2004**
VAT and other tax receivables	453	174
Pre-payments	479	67
Unbilled receivables	37	133
Receivables from employees	49	76
Other	352	360
Total	**1,370**	**810**

The Company recorded a doubtful debt allowance of € 0.9 million and € 0.6 million against receivables due from employees in the fiscal years ended December 31, 2003 and 2004 respectively.



Property and Equipment

At December 2003 and 2004, property and equipment consisted of the following (in thousands of €):

	2003	Currency	Additions	Disposals	**2004**
Computer equipment	17,211	(843)	266	(2,020)	14,614
Furniture and fixtures	3,058	(7)	5	(310)	2,746
Leasehold improvements	1,145	-	34	(426)	753
Subtotal	**21,414**	**(850)**	**305**	**(2,756)**	**18,113**
Accumulated depreciation	(20,308)	846	(456)	2,728	(17,190)
Property and equipment, net	**1,106**				**923**

Marketable Securities

Investments in debentures 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, and reported as a component of accumulated other comprehensive income.

As of December 31, 2002, the Company hold available-for-sale securities with costs as well as an estimated fair value of € 4.2 million.
The Company did not hold any available-for-sale securities at December 31, 2003 and 2004 respectively. For the years ended December 31, 2002, 2003, and 2004, the gross realized gains on sales of available-for-sale securities totaled € 46,953, € 39,802, and € 0 respectively, and the gross realized losses totaled € 198,745, € 0 and € 0, respectively. The net adjustment to unrealized holding gains (losses) on available-for-sale securities included in other comprehensive income totaled € 80,981, € 189,539 and € 0 in 2002, 2003, and 2004 respectively.

Changes to the Bases of Consolidation

Intershop Communications S.a.r.l. (corrected)

In September 2003, the Company discontinued the funding of operations of its French subsidiary, Intershop Communications S.a.r.l. The subsidiary sought relief through filing petitions under bankruptcy in France. Due to a court order as of that date requiring its liquidation and a preliminary receiver being appointed, Intershop Communications S.a.r.l. was removed from the consolidation effective October 21, 2003. Prior to that liquidation order, Intershop Communications S.a.r.l. had assets of € 0.5 million and liabilities of € 1.5 million. As a result of the liquidation order, the Company received complete relief from its liabilities while surrendering all of its assets. The Company's consolidated financial statements contain a gain from the deconsolidation of Intershop Communications S.a.r.l. of € 1.0 million. This gain has been recorded in other income in the statement of operations for the year ended December 31, 2003. With reference to the correction in 2004 of the error made in 2003, we draw your attention to the section entitled "Restatement of Prior-year Consolidated Financial Statements" in the Notes to the financial statements.

Intershop Communications Hong Kong Co. Limited

Effective June 29, 2004, the Company disposed of its subsidiary Intershop Communications Hong Kong Co. Limited to the head of its operations in Asia, Mr. Felix Ko, by way of a management buyout. At this date, control over the operating activities passed to Mr. Felix Ko, with the result that Intershop Communications Hong Kong Co. Limited was deconsolidated as of this date. The shares in the company had not yet been transferred at the balance sheet date.

Intershop Communications Singapore Pte. Limited

Effective June 29, 2004, the Company disposed of its subsidiary Intershop Communications Singapore Pte. Limited to the head of its operations in Asia, Mr. Felix Ko, by way of a management buyout. At this date, control over the operating activities passed to Mr. Felix Ko, with the result that Intershop Communications Singapore Pte. Limited was deconsolidated as of this date. The shares in the company had not yet been transferred at the balance sheet date.

Intershop Communications Taiwan Co. Limited

Effective June 29, 2004, the Company disposed of its subsidiary Intershop Communications Taiwan Co. Limited to the head of its operations in Asia, Mr. Felix Ko, by way of a management buyout. At this date, control over the operating activities passed to Mr. Felix Ko, with the result that Intershop Communications Taiwan Co. Limited was deconsolidated as of this date. The shares in the company had not yet been transferred at the balance sheet date.

Intershop Communications Korea Co. Limited

Effective June 29, 2004, the Company disposed of its subsidiary Intershop Communications Korea Co. Limited to the head of its operations in Asia, Mr. Felix Ko, by way of a management buyout. At this date, control over the operating activities passed to Mr. Felix Ko, with the result that Intershop Communications Korea Co. Limited was deconsolidated as of this date. The shares in the company had not yet been transferred at the balance sheet date.

The deconsolidated subsidiaries in Hong Kong, Singapore, Taiwan and Korea were regarded as the sales geography “Asia” up to the point of deconsolidation.
Prior to that Management Buy Out, this sales geography had assets of € 0.01 million and liabilities of € 0.69 million. As a result of the Management Buy Out, the Company received complete relief from its liabilities while surrendering all of its assets. The Company’s consolidated financial statements contain a gain from the deconsolidation of the sales geography “Asia” of € 0.68 million. This gain has been recorded in other income in the statement of operations for the year ended December 31, 2004. The comparability of the statements of operations for 2003 and 2004 has not been significantly affected by the deconsolidation.

Other Accrued Liabilities

Other accrued liabilities consist of the following (in thousands of €):

Year ended December 31,	**2003 (corrected)**	**2004**
VAT payable	188	35
Employee compensation	1,251	1,193
Unvouchered invoices	970	746
Accrued legal costs	135	2,962
Other	2,783	1,629
Total	**5,327**	**6,565**

"Accrued legal costs" contain accruals for payments in connection with the settlement with the plaintiffs of the security class action in the United States amounting to € 2.3 million. For details to the class action and the settlement, we refer to Note "Legal Matters" as well as to Note "Subsequent Events".

Restructuring Charges and Asset Impairments

In 2002, the Company adopted measures to reduce its workforce and to consolidate existing facilities, among other things. These steps were aimed at aligning the Company's cost structure with changing market conditions and accelerating its path to profitability. The Company kept implementing the restructuring measures in 2003 and transferred the majority of its European sales activities outside Germany to local distributors.

In 2004, the restructuring measures implemented in the previous years were finalized to a great extent. Sales activities in Asia were transferred to local distributors as well.

The following table summarizes restructuring charges for the fiscal year 2004 and accrued restructuring costs as at December 31, 2004 (in thousands of €):

	Employee-related charges	Facility-related charges	Other costs	Total
Accrued restructuring costs as of January 1, 2003	**618**	**4,181**	**82**	**4,881**
Restructuring charges for the year	2,236	1,219	33	3,488
Cash payments	(2,593)	(2,849)	(114)	(5,556)
Currency adjustments	(37)	(30)	(1)	(68)
Impairment of property and equipment	-	(88)	-	(88)
Accrued restructuring costs as of December 31, 2003	**224**	**2,433**	**-**	**2,657**
Restructuring charges for the year	65	342	-	407
Cash payments	(84)	(1,158)	-	(1,242)
Currency adjustments	(10)	(34)	-	(44)
Accrued restructuring costs as of December 31, 2004	**195**	**1,583**	**-**	**1,778**

The above costs are broken down as follows:

Employee-Related Charges

As of December 31, 2003, Intershop employed 278 full-time equivalents worldwide. As of December 31, 2004 the number of employees was reduced by 56 full-time equivalents. Reasons are final restructuring measures at the beginning of 2004, the transfer of business activities in Asia to local partners and distributors in the middle of the year as well as fluctuation of employees.

In 2004, this related to 40 full-time employees in Europe, 5 full-time employees in the Americas and 11 full-time employees in Asia. Employee reductions affected all functional departments, with 24 full-time employees affected in services, 11 full-time employees in general and administrative functions, 12 full-time employees in sales, and 9 full-time employees in research and development. Headcount reductions occurred in all employee groups within each function.

As of December 31, 2004, the Group employed 222 full-time equivalents.

The accruals for employee-related charges mainly comprise expected future payments relating to the termination of contracts, including severance payments, payroll taxes, and legal costs.

Facility-Related Charges

In the fiscal year 2004, the Intershop Group recorded restructuring costs of approximately € 0.3 million in connection with the consolidation of existing facilities, which principally relate to probable future payments for existing lease commitments for property no longer in use, net of sublease income. The determination of the related accrual is based on assumptions with regards to the period during which vacant spaces cannot be sublet. This period varies between six and twelve months.

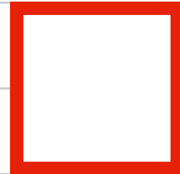
The sublease income has been estimated on the basis of the contractual agreements in place as of the date the financial statements were prepared.

The lessor of the Group headquarters in Jena gave notice of termination of the lease on the building in November 2004. The reasons for termination were rent reductions and the set-off of contractual penalties that the Company deducted from the rent payable in 2003 and 2004. Intershop considers that the termination is without justification because the Company was entitled to make deductions from the rent payable. Nonetheless, the Company has returned parts of the leased property which are no longer required and vacant to the lessor. Now that the lessor has served notice to vacate the property, the Company expects that there may be a termination or variation of the lease in 2005, irrespective of its opinion that the notice to terminate has no legal justification. The Company believes that any payments due in the course of a settlement involving the termination or variation of the lease will not differ significantly from the amount of the liabilities already recognized. For this reason we have retained the basis of measurement described above.

Other Costs

The accruals for other restructuring costs principally relate to various non-cancelable contracts for which there is no future benefit to the Company.

Restructuring accruals are calculated on the basis of financial estimates and data available as of December 31, 2004. 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.



Commitments and Contingencies

Operating Leases

Facilities and certain furniture and equipment are leased under operating leases. The minimum long-term annual lease payments shown in previous years' annual reports related mainly to the rental obligations for the headquarters building in Jena. In November 2004, the lessor served notice to terminate this long-term lease, due to run until the year 2013. The Company is of the opinion, however, that the notice to terminate is invalid. Nonetheless, the notice of termination and notice to vacate give rise to the possibility that occupation of our business premises will cease at the end of 2005. On that basis, future minimum annual lease payments as of December 31, 2004 were as follows (in thousands of €):

Year ending December 31	
2005	2,422
2006	115
2007	60
Total	**2,597**

In the event that the Company's opinion that the termination is legally invalid is upheld, future minimum annual lease payments as of December 31, 2004 were as follows (in thousands of €):

Year ending December 31	
2005	3,356
2006	2,884
2007	2,829
2008	2,768
2009	2,768
Subsequent years	10,751
Total	**25,356**

Rent expense in 2002, 2003, and 2004 amounted to € 4.0 million, € 3.0 million, and € 2.8 million, respectively. Rent expense for 2002, 2003 and 2004 excludes any facility-related restructuring costs discussed in Note " Restructuring Charges and Asset Impairments". Rental income of € 0.2 million, € 1.4 million and € 1.9 million was received in 2002, 2003 and 2004 respectively and was offset against rent expense, with the exception of € 0.4 million in 2004.

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.

The Company is a defendant in a consolidated class-action lawsuit in the United States and an investigation by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BAFin; formerly German Federal Supervisory Office for Securities Trading (Bundesauf-

sichtsamt für den Wertpapierhandel, BAWe)). At the beginning of 2001, several securities class-action lawsuits were filed in the U.S. against Intershop Communications AG, Management Board members, certain other officers, and the underwriters of the Company's September 2000 public offering. The plaintiffs allege that the defendants made material misrepresentations and omissions of material facts concerning the Company's business performance. The plaintiffs seek an unspecified amount of damages. The Management Board believes there is no merit to these allegations and intends to defend itself vigorously. Nonetheless the Company decided to negotiate with the plaintiffs to try to reach a settlement of their claims. We were able to reach such a settlement on January 26, 2005. The settlement envisages a payment of US$ 2 million, and of an additional amount equal to 20 % of the proceeds in excess of € 6 million that Intershop receives from the issue of the convertible bond of November 29, 2004. In addition, the plaintiffs will receive a further payment in the event that Intershop is taken over within a year of the date of the settlement. Following the plaintiffs' agreement to the settlement, the settlement still requires the approval of the competent court in California, United States.
In Germany, BAFin announced in January 2001 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. BAFin handed this case over to the public prosecutor in Hamburg, Germany, who initiated an investigation into complaints about stock price manipulations in May 2001. The Company is cooperating in full with these investigations and, to the best of the management's knowledge, has never previously been the subject of such investigations. The Company believes there is no merit to these allegations.

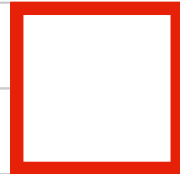
In 2002, a claim of € 5 million regarding the violation of a license agreement was legally asserted by another software company. An out-of-court settlement was initially agreed, but the software company declined to take up the terms of the settlement. In 2004, the Munich Regional Court dismissed its claim for monetary compensation. However, the court required Intershop to provide details of the supply of software owned by the other software company. Intershop will now collate and submit these details. Intershop is of the opinion that the other software company has no basis for asserting any further claims.

In the year under review, a claim against the Company for approximately US$ 750,000 was filed with a court in New York on behalf of a bank that advised the Company in connection with its IPO in 2000. The claim relates to costs that the bank is alleged to have incurred in mounting a defense against the plaintiffs of the class action lawsuit, in which a claim was also made against the bank. The Company will defend itself vigorously against the claims for compensation and is of the opinion that a claim for reimbursement of costs is invalid for formal reasons, and that in any event the level of costs asserted is open to question.

Shareholders' Equity

Stock Splits and Change in Stated Value

On September 11, 2002, the Management Board of Intershop Communications AG announced that the Company's capital stock had been reduced by 50 % and convened a Special Stockholders' Meeting. This meeting on October 30, 2002 approved a simplified reduction of capital by way of a 5:1 reverse stock split to offset losses and other impairments. This took effect on its entry in the commercial register on December 12, 2002 and was technically implemented at the close of trading on January 17, 2003. The Company's common stock amounted to € 19,306,400 on December 31, 2002.



The 5:1 reserve stock split of the Company's common bearer shares admitted to trading was implemented on January 17, 2003 at the close of trading; the first trading date for the converted common bearer stock was January 20, 2003.

Capital Increase in Fiscal Year 2002

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 capital increase was made from authorized capital, and shareholders' subscription rights were excluded. 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.

Capital Increase in Fiscal Year 2003

On June 18, 2003, the share swap under which then CEO and co-founder Stephan Schambach exchanged his shares in subsidiary Intershop Communications, Inc. for common bearer shares in the parent Company, Intershop Communications AG, was completed. Under the transaction, Mr. Schambach exchanged his 4,166,665 shares in Intershop Communications, Inc., the U.S. subsidiary majority-owned by Intershop Communications AG, for 2,499,999 common bearer shares of Intershop Communications AG. To this end, Intershop Communications AG issued 2,499,999 new common bearer shares from Conditional Capital III.

In addition, on June 17, 2003, Burgess Jamieson, a member of the Supervisory Board of Intershop Communications AG, exchanged his 381,500 shares in Intershop Communications, Inc. for 228,900 new common bearer shares of Intershop Communications AG on the basis of an existing exchange option. To this end, Intershop Communications AG issued 228,900 new common bearer shares from Conditional Capital III.

As a result of these two transactions, the common stock of Intershop Communications AG was increased from Conditional Capital III by a total of € 2,728,899 to € 22,035,299 in 2003.

The capital increase took legal effect by entry in the commercial register on March 18, 2004.

Capital Increase in Fiscal Year 2004

On March 5, 2004 Intershop announced that the Company's Executive Board (Vorstand) and Supervisory Board (Aufsichtsrat) had decided to implement a public rights issue from authorized capital. All current Intershop shareholders received the opportunity to subscribe for one new Intershop common bearer share per 11.5 existing Intershop common bearer shares held at a price of € 2.00 per share (indirect pre-emptive right). To this end, Intershop issued 1,916,113 new common bearer shares from authorized capital. The new shares were admitted to trading on the Frankfurt Stock Exchange on April 6, 2004. The transaction resulted in total proceeds to the Company of approximately € 1.7 million. The common stock increased to € 23,951,412.

On September 15, 2004, Intershop announced resolutions adopted by the Management and Supervisory Boards for the implementation of a cash capital increase from authorized capital excluding the shareholders' subscription rights. A number of 1,600,000 new shares at a price € 1.00 per share were subscribed. The common stock increased to € 25,551,412. The new shares were admitted to trading on the Frankfurt Stock Exchange on October 15, 2004. The transaction resulted in total proceeds to the Company of approximately € 1.6 million.

On November 24, 2004, Intershop announced its intention to issue a zero-coupon convertible bond with a total amount of up to € 20 million, as authorized by the resolution of the Annual Stockholders' Meeting of June 13, 2001, which created conditional capital of up to € 21,449,703 in order to allow the grant of conversion rights to holders of the bonds. The zero-coupon convertible bond has a maturity date of December 14, 2008 and is composed of individual bonds with a nominal value of € 1 each. The principal features of the zero-coupon convertible bond are the repayment amount of € 1.46 per bond at maturity, if conversion has not taken place, corresponding to an effective interest rate of 10 % p.a., and the right to convert into bearer voting ordinary shares of the Company during specified conversion periods (starting in November 2005). The conversion price on each occasion will be € 1.00, irrespective of any capital decreases. Automatic conversion will take place if the share price exceeds €5.00 on ten consecutive trading days at any time after January 1, 2006.
Stockholders were granted an indirect right to subscribe at a ratio of 1.3 to 1; they also received the right to subscribe for additional bonds. However, the minimum amount of € 5 million required for the issue of the convertible bond to proceed was not achieved during the subscription period. Additional bonds were offered to investors in the form of a private placement. The convertible bond was successfully placed after the end of the period under review. Further details can be found in the section headed "Subsequent Events".

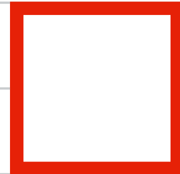
American Depositary Receipts (ADRs)

In February 2002, the Company changed the ratio of its American Depositary Receipts (ADRs). The ratio of ADRs to underlying Intershop Communications AG common bearer shares was changed from two ADRs equaling one common bearer share to one ADR equaling five common bearer shares. With this ratio change, each of Intershop's Nasdaq-listed ADRs evidenced ownership of five underlying common bearer shares listed on its primary stock exchange, the Prime Standard in Frankfurt, Germany. The ratio change did not affect the value of an investor's ADR holdings. Stockholders of Intershop common bearer shares did not see any change in the number of shares held. The ratio change was non-dilutive and had no impact on Intershop's balance sheet.

In connection with the Company's reverse stock split, a change in the exchange ratio of ADRs to the underlying common bearer shares from 1:5 to 1:1 took legal effect on February 6, 2003. This means that since February 6, 2003 each of Intershop Communications AG's Nasdaq-listed ADRs evidences ownership of one underlying common bearer share listed on the Company's primary stock exchange, the Prime Standard in Frankfurt.

On January 14, 2004, Intershop announced that it would voluntarily delist from the Nasdaq National Market ("Nasdaq"), and gave notice to Citibank, N.A., the depositary for Intershop's American Depositary Receipts (ADR) facility (the "Depositary"), to terminate the ADR facility effective as of the close of trading on February 17, 2004. From this date, ADRs issued by Intershop were no longer tradable on Nasdaq. Effective January 15, 2004, Intershop also terminated its F-6 registration statement with the U.S. Securities and Exchange Commission in respect of all 98,550,000 unissued ADRs in its ADR facility.

On January 27, 2004, Intershop announced that it had agreed with Citibank, N.A. to shorten the six-month period for holders of Intershop ADRs to surrender them in order to withdraw the underlying Intershop common bearer shares ("surrender period"). In accordance with the termination provision, which was amended as of January 27, 2004, holders of Intershop ADRs were entitled to surrender their Intershop ADRs for withdrawal of the underlying Intershop common bearer shares at any time up to February 27, 2004, i.e., ten days after conclusion of the surrender agreement on February 17, 2004



rather than six months as previously. Intershop ADR holders who chose not to surrender their Intershop ADRs for withdrawal of the underlying Intershop common bearer shares received cash proceeds from the sale of such underlying Intershop common bearer shares at the price obtained on the Frankfurt Stock Exchange. The Depositary then remitted the cash proceeds from the sale, net of any applicable charges, expenses, taxes, or governmental charges, to such Intershop ADR holders.

Intershop's issued and outstanding ADRs were deregistered with the SEC by submission of Form 15, effective as of June 26, 2004.

1997 Equity Incentive Plan (all data subsequent to 5:1 reverse stock split)

The Company had originally reserved 2,000,000 shares of common stock for issuance to employees, directors, and consultants under its 1997 Equity Incentive Plan (the 1997 Plan). The Supervisory Board may grant incentive or non-statutory stock options at prices not less than 100 % or 85 %, respectively, of the fair value as determined by the Supervisory Board 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 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 (all data subsequent to 5:1 reverse stock split)

Effective as of June 21, 1999, the Company adopted a new stock option plan (the 1999 Plan) for the issuance of shares to Management 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 Prime Standard for the 10 trading days prior to the date of grant.

There are two pools of shares authorized under the 1999 Plan. There are 133,000 shares for grants of stock options to members of the Management Board and general managers of subsidiaries and 1,500,000 shares for grants of stock options to all other employees.

2001 Equity Incentive Plan (all data subsequent to 5:1 reverse stock split

As of January 1, 2001, the Company adopted a new stock option plan (the 2001 Plan) for the issuance of shares to all employees. No options under this plan have been allocated to the Management Board. 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 the fair value at the date of grant, defined as equivalent to the XETRA closing price on the Frankfurt Stock Exchange for voting shares of stock of the Company.

The Company has reserved 1,930,500 shares of common stock for issuance to employees under its 2001 Equity Incentive Plan.

Appropriation of Additional Paid-In-Capital

In accordance with the German Stock Corporation Act (Aktiengesetz), the Company reclassified € 92.3 million in 2002 of its additional paid-in capital to accumulated deficit, thus fully offsetting the losses carried forward. In 2003, the exchange of shares in Intershop Communications Inc. (see capital increase in fiscal 2003) was reported as a reclassification from accumulated deficit because reclas-

sification from capital reserves was not possible after the withdrawals in previous years. Without this reclassification, the accumulated deficit would be as follows (in thousands of €):

As of December 31,	2002	2003 (corrected)	2004
(Accumulated deficit) retained earnings, as reported	4,124	(18,745)	(27,525)
Add: appropriation of additional paid-in capital	(247,805)	(249,200)	(249,200)
Accumulated deficit, pro forma	**(243,681)**	**(267,945)**	**(276,725)**

Stock-Based Compensation

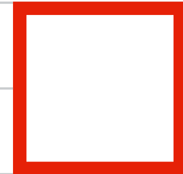
The Company applies APB Opinion No. 25 and related interpretations in accounting for the 1997 Plan, 1999 Plan, and 2001 Plan.

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

Year Ended December 31,	2002	2002	2003	2003	2004	2004
	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	1,158	174.25	1,979	77.60	2,055	36.50
Granted	1,325	6.90	882	1.82	21	2.01
Exercised	1	3.19	-	-	(10)	1.65
Forfeited	(505)	103.75	(806)	85.94	(496)	12.45
Outstanding at end of period	**1,979**	**77.60**	**2,055**	**36.50**	**1,570**	**40.20**
Exercisable options at end of period	681	141.98	767	82.66	971	61.81
Weighted average fair market valueof options granted during the year (€)	1,325	4.63	882	1.31	21	1.26

The following table summarizes information with respect to the stock options outstanding on December 31, 2004:

Range of Exercise Price	Number of options outstanding (000s)	Weighted average remaining contractual life (in years)	Weighted average exercise price (€)	Number exercis-able on December 31, 2004 (000s)	Weighted average exercise price (€)
0.00–5.99	733	7.3	2.54	303	2.93
6.00–6.99	168	6.1	6.03	117	6.03
7.00–16.99	341	5.0	7.98	250	7.98
17.00–49.99	201	1.8	21.35	175	21.49
50.00–758.04	127	0.5	417.4	126	417.66
	1,570	**5.40**	**40.20**	**971**	**61.81**



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. As of December 31, 2004, 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 Company repurchases the unvested shares from the employee at a price equal to the original issuance price and sells the shares in the open market, with the proceeds of the sale being contributed to the Company.

Shares Reserved for Future Issuance

As of December 31, 2004, the Company had authorized and conditional capital of € 44,746,387 and € 30,304,719, 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. Conditional capital is reserved for employee stock options as well as for shares issued as a result of conversion rights attaching to the zero-coupon convertible bond.

Treasury Stock

In 2004, the Company borrowed 20,000 own shares for a total price of € 40,000. 9,600 options to buy shares at a price of € 1.65 were exercised under the stock option program, for which a corresponding number of treasury shares was made available. The Company returned a further 10,000 shares for a total consideration of € 20,000 to the lender. At the balance sheet date, the Company held 400 treasury shares.

Income Taxes

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

The income tax benefit differs from the amounts that would result by applying the applicable German statutory rates 38.1 % (40.4 % in 2003), to the loss before taxes, as follows (in thousands of €):

Year ended December 31,	**2002**	**2003**	**2004**
Provision (benefit) at German statutory rate	(11,132)	(7,531)	(501)
Foreign income/losses taxed/benefited at a different tax rate	880	889	(2,758)
Change in valuation allowance	31,623	(7,476)	(22,509)
Permanent differences	49	15	79
Differences resulting from prior years	-	-	29,413
Consolidation differences	(19,088)	8,745	-
Other	(2,332)	5,358	(3,724)
Provision (benefit) for income taxes	**-**	**-**	**-**

The tax rate reconciliation as of December 31, 2004, contains the following details (in thousands of €):

US GAAP pretax income	(8,776)
Corporate tax rate	38.10 %
Expected income tax expense	(3,344)
Effects of prior years	29,413
Increase of valuation allowance	(22,509)
Foreign Tax Rate Differentials	1,246
Effects of currency translation adjustments	(3,329)
Effects of non-deductible expenses	15
Effects of changes of permanent differences	79
Effects of changes in basis of consolidation and others	(1,571)
Income taxes	**-**

The effect of prior years is a result of an adjustment of tax loss carryforwards due to tax assessment notices of Intershop Communications AG, that are now available for the relevant fiscal years including 2003.

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

Year ended December 31,	**2003**	**2004**
Net operating loss carryforwards	160,687	185,112
Other	2,559	923
Deferred tax assets	**163,246**	**186,035**
Deferred tax liabilities	**-**	**280**
Valuation allowance	(163,246)	(185,755)
Net deferred tax assets	**-**	**-**

As of December 31, 2004, other deferred tax assets are arising from temporary differences in accruals. Deferred tax liabilities result from a turnover approval pursuant to “Percentage-of-Completion”-method.

A valuation allowance has been recorded for the entire deferred tax assets for all periods through December 31, 2004 as a result of uncertainties regarding the realization of the assets due to the limited operating history of the Company and its lack of profitability through December 31, 2004.

For the year ended December 31, 2004, the Company had net loss carryforwards for tax reporting purposes in various tax jurisdictions as follows (in thousands of €):

US Federal	100,658
US State	34,893
German corporate income tax	377,232
German municipal trade tax	370,031
Other	17,511

US federal and state net operating loss carryforwards expire in various periods through 2020. The German net operating loss carryforwards relate to corporate income tax and municipal trade tax and carry forward indefinitely. The US Tax Reform Act of 1986 and German tax laws contain provisions that 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.

Industry Segment and Geographic Information

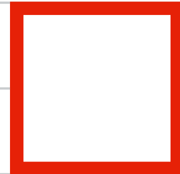
The Company's primary line of business is the production and marketing of e-commerce software that enables customers to automate and simplify their purchasing and sales processes and to consolidate and manage all their sales and procurement channels from a central platform. Accordingly, the Company does not disclose significant additional segment information as defined by SFAS No. 131. However, the Company's business had five international sales geographies: Germany, United States, United Kingdom, Asia Pacific, and other (which includes France, Denmark, Norway, and Sweden) by December 31, 2003. These geographies were supported by the central General Administration as well as by the Research & Development and Technical Support departments. The Company's products were developed at its headquarters in Jena, Germany, and were sold in Europe, North America, Australia, and Asia via the Company's own direct distribution, sales partners, and independent distributors. In 2004, the sales geographies in France, Northern Europe, the United Kingdom (effective January 1, 2004), and Asia (effective June 30, 2004) were transferred to independent distributors. At the balance sheet date, the Company retained direct control over only two sales geographies: Germany and the United States.

For the years ended December 31, 2004, 2003, and 2002, information concerning the Company's geographic locations is summarized as follows (in thousands of €):

2004	Germany	United States	United Kingdom	Asia / Pacific	Other	Total
Revenues						
Licenses	1,830	646	21	69	-	2,566
Services, maintenance, and other	12,188	2,389	332	93	-	15,002
Total revenues	14,018	3,035	353	162	-	17,568
Gross profit						
Licenses	1,567	621	21	69	-	2,278
Services, maintenance, and other	4,112	1,836	332	92	-	6,372
Total gross profit (loss)	5,679	2,457	353	161	-	8,650
Total operating expenses	22,086	2,786	1,055	747	307	26,981
Operating income (loss)	**(8,068)**	**249**	**(702)**	**(585)**	**(307)**	**(9,413)**
Other income (expense), net						**637**
Net loss						**(8,776)**
Long-lived assets	**642**	**21**	**254**	**-**	**6**	**923**

2003	Germany	United States	United Kingdom	Asia / Pacific	Other	Total
Revenues						
Licenses	3,473	1,149	1,123	491	269	6,505
Services, maintenance, and other	12,042	2,191	582	163	1,676	16,654
Total revenues	15,515	3,340	1,705	654	1,945	23,159
Gross profit						
Licenses	2,949	1,151	1,123	491	269	5,983
Services, maintenance, and other	1,978	1,166	371	163	1,453	5,131
Total gross profit (loss)	4,927	2,317	1,494	654	1,722	11,114
Total operating expenses	31,714	4,226	2,566	2,173	4,325	45,004
Operating income (loss)	**(16,199)**	**(886)**	**(861)**	**(1,519)**	**(2,380)**	**(21,845)**
Other income (expense), net (corrected)						**1,705**
Net loss (corrected)						**(20,140)**
Long-lived assets	**713**	**37**	**333**	**16**	**7**	**1,106**

2002	Germany	United States	United Kingdom	Asia / Pacific	Other	Total
Revenues						
Licenses	14,669	4,580	685	751	1,777	22,462
Services, maintenance, and other	14,151	4,368	861	326	2,929	22,635
Total revenues	28,820	8,948	1,546	1,077	4,706	45,097
Gross profit						
Licenses	13,400	4,514	684	751	1,825	21,174
Services, maintenance, and other	263	2,497	(195)	192	2,064	4,821
Total gross profit (loss)	13,663	7,011	489	943	3,889	25,995
Total operating expenses	47,235	9,570	6,351	2,814	7,806	73,776
Operating income (loss)	**(18,415)**	**(622)**	**(4,805)**	**(1,737)**	**(3,100)**	**(28,679)**
Other income (expense), net						**1,124**
Net loss						**(27,555)**
Long-lived assets	**3,473**	**189**	**451**	**2**	**186**	**4,301**



The accounting policies followed by the Company's business segments are the same as those described in Note "Summary of Significant Accounting Policies" to the consolidated financial statements.

The Company generated the following license revenues from its Enfinity and Intershop 4 product lines (in thousands of €):

Year ended December 31,	2002	2003	2004
Enfinity	20,259	6,505	2,566
Intershop 4	2,203	–	–
Total	**22,462**	**6,505**	**2,566**

The service revenue generated by Intershop can be broken down into consulting, customer support, and training revenue as follows (in thousands of €):

Year ended December 31,	2002	2003	2004
Consulting	15,335	9,203	7,530
Customer Support	6,171	6,862	6,679
Training	581	392	254
Other revenue	548	197	539
Total	**22,635**	**16,654**	**15,002**

Local Disclosure Requirements

Management Board

- Dr. Jürgen Schöttler, Management Board Chairman, Chief Executive Officer and Chief Financial Officer
- Stephan Schambach, Management Board member responsible for Strategy and Product Development (retired from Management Board on February 4, 2004)
- Ralf Männlein, Management Board member responsible for Sales and Marketing (since July 5, 2004)

Supervisory Board

- Eckhard Pfeiffer, Chairman (re-elected July 7, 2004)
- Hans W. Gutsch, Deputy Chairman (re-elected July 7, 2004)
- Peter Mark Droste (re-elected July 7, 2004)

Theodore J. Smith, formerly Deputy Chairman, and Burgess Jamieson left the Supervisory Board in accordance with the resolution of the Annual Stockholders' Meeting of July 7, 2004 and the entry in the commercial register on September 14, 2004.

Board Compensation

The compensation of the Management Board for the fiscal year 2004 amounted to € 806,235, of which € 342,500 in unpaid performance-related remuneration was set aside. The members of the Management Board were granted a total of 70,000 stock options from the 1999 Equity Incentive Plan in 2004.

In 2004, the current members of the Supervisory Board decided to waive their annual compensation from 2003. In the fiscal year 2004, the annual compensation, accrued but not paid, for the Supervisory Board was € 62,188. According to the Articles of Association, this consists solely of fixed, not performance-related remuneration.

Directors' Holdings

As of December 31, 2004, post one-for-five reverse stock split

Name	Title, Function	Shares held*	Stock options held*, **
Eckhard Pfeiffer	Chairman of the Supervisory Board	50,000	–
Hans W. Gutsch	Vice-Chairman of the Supervisory Board	76,086	–
Peter Mark Droste	Member of the Supervisory Board	–	–
Dr. Jürgen Schöttler	Chief Executive Officer, Chairman of the Management Board, Chief Financial Officer	15,217	160,000
Ralf Männlein	Member of Management Board	–	70,000

** All information post one-for-five reverse stock split. As part of the Company's initiative to strengthen its balance sheet and increase its financial flexibility, on October 30, 2002 Intershop's stockholders approved the reduction of the company's capital by € 77,225,600, or a ratio of five to one, from € 96,532,000 to € 19,306,400. This reduction in share capital took legal effect on December 12, 2002, when a resolution on a simplified reduction of capital was entered in the commercial register of Gera, Germany, local court, in accordance with sections 229 ff. of the Aktiengesetz (German Stock Corporation Act). The new shares began trading on a consolidated basis on January 20, 2003. Following the stock split, the International Securities Identification Number (ISIN) of Intershop Communications AG's common bearer shares changed from ISIN DE 000 622 700 2 to ISIN DE 000 747 292 0.*

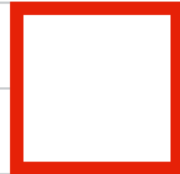
*** The stock options were granted under the conditions of the 1999 Equity Incentive Plan. Details on the 1999 Equity Incentive Plan can be found in the Notes to the Consolidated Financial Statements in the Company's 2003 annual report (section 12). Jürgen Schöttler's stock options have an average reverse stock split adjusted exercise price of € 4.16 per share, and Ralf Männlein's stock options have an exercise price of € 1.89 per share.*

Securities Transactions subject to Reporting Requirements

The members of the Company's executive bodies made the following sales of Intershop common bearer shares during the fiscal year 2004:

Name	Date	Type of transaction	Amount	Total value (€)
Supervisory Board:				
Eckhard Pfeiffer	December 29, 2004	Sale	30,000	19,500

Notes to the Consolidated Financial Statements



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, 2004:

	Ownership %
Intershop Communications, Inc., San Francisco, USA	100
Intershop Communications Ventures GmbH, Jena, Germany	100
Intershop (UK) Ltd., London, United Kingdom	100
Intershop Communications S.a.r.l., 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

The Intershop Group had an average of 244 full-time employees in the fiscal year 2004

Declaration of Conformity

The Company has published and made available permanently its declaration of conformity as required by sec. 161 AktG (German Stock Corporation Law) in 2004.

Events Subsequent to the Balance Sheet Date

On January 26, 2005, Intershop announced the successful placement of a zero-coupon convertible bond (see “Shareholders’ Equity, capital increases in fiscal 2004”), with bonds amounting to 11.3 million being subscribed by the closing date of the tranche. The gross proceeds will strengthen Intershop’s liquidity in 2005.

Members of the Company’s executive bodies subscribed for the following amounts of the zero-coupon convertible bond:

Name	Date	Type of transaction	Amount	Total value (€)
Supervisory Board:				
Eckhard Pfeiffer	January 25, 2005	Purchase	120,000	120,000
Hans W. Gutsch	January 26, 2005	Purchase	152,990	152,990
Peter Mark Droste	January 26, 2005	Purchase	100,000	100,000
Management Board:				
Dr. Jürgen Schöttler	January 25, 2005	Purchase	111,519	111,519
Ralf Männlein	January 26, 2005	Purchase	50,000	50,000

On January 26, 2005 as well, the Company announced that settlement had been agreed with the plaintiffs of the class-action lawsuit that has been pending in the USA for a number of years, in relation to alleged inaccurate information disseminated by the company in 2000. The Company is of the opinion that the class-action lawsuit would not have been successful. Nevertheless, the Company has decided to agree to the settlement in order to avoid the continuing expense of legal action. The settlement envisages a payment of US$ 2 million, and of an additional amount equal to 20 % of the proceeds in excess of € 6 million which Intershop receives from the issue of the convertible bond of November 29, 2004. As a result of this settlement, the Company is no longer obliged to meet the costs of mounting a legal defense, which were estimated at around € 1 million for 2005 alone. The settlement also means that the Company no longer faces the risk of paying an unspecified amount of damages in the event that the plaintiffs were to win. The Company has recognized appropriate accruals in its financial statements for fiscal 2004 for the cost of settling the legal dispute which, after the placement of the first tranche of the convertible bond, amounts to a total of € 2.3 million. The settlement still requires the formal approval of the competent court, which had not yet been granted at the date of printing of the annual report. The Company expects this approval to be granted shortly.

Jena, March 1, 2005

The Management Board

Dr. Jürgen Schöttler   Ralf Männlein

Differences between US GAAP and HGB

General

The consolidated financial statements of Intershop Communications Aktiengesellschaft (hereinafter referred to as the "Company" or "Intershop Communications AG") as of December 31, 2004 were prepared as exempting consolidated financial statements in accordance with section 292a of the German Commercial Code–HGB (Handelsgesetzbuch) in conformity with US generally accepted accounting principles ("US GAAP") and on the basis of the German Accounting Standard No 1 (GAS 1) issued by the German Standardization Committee (Deutscher Standisierungsrat DRSC e.V.). The provisions of the HGB and the German Stock Corporation Act (Aktiengesetz–AktG) differ from US GAAP in certain significant respects. The main differences that may be relevant to an evaluation of the net assets, financial position, and results of operations of the Company are described below. Pursuant to the HGB, all items in the balance sheet and income statement must be set out in the form and order laid down in sections 266 and 275 of the HGB. US GAAP requires a different presentation, in which balance sheet items are presented with more liquid items first. Under US GAAP, the short-term portions of long-term receivables and liabilities are shown in a separate balance sheet item. The portion that is due in less than one year is treated as short term. Software purchased for internal use is not shown as an intangible asset, as it is in financial statements prepared in accordance with the HGB, but as property and equipment (furniture, fixtures, and office equipment). According to US GAAP, the development cost of internally generated software can be capitalized and amortized over its estimated useful life. The HGB does not allow internally generated software forming part of fixed assets to be capitalized. From 1998 until the present time, the Company has charged all software development costs to research and development as incurred in accordance with US GAAP.

Deferred Taxes on Loss Carryforwards

According to the HGB, deferred tax refund claims arising from tax loss carryforwards may not be shown on the balance sheet, as expected future tax savings are deemed to be not yet realized. US GAAP requires these types of future tax reduction claims to be capitalized. Their recognition depends upon the probability of the loss carryforwards being utilized within the required period. The Company has written off its capitalized tax loss carryforwards as of December 31, 2004 due to uncertainties regarding their realization.

Employee Stock Options

According to US GAAP, stock-based compensation issued to employees may be accounted for in two ways. Under the first method, the fair value of stock-based compensation is 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 market price 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 to apply the second method and presents the pro forma impact in the notes to the consolidated financial statements.

As noted above, the difference between the exercise price of the option and the market price of the underlying security at the date of grant are to be treated, according to US GAAP, as personnel expens-

es recorded ratably over the vesting period of the option and deferred in shareholders' equity. In line with currently accepted accounting rules, no expense would be recognized in the income statement pursuant to HGB.

Shareholders' Equity

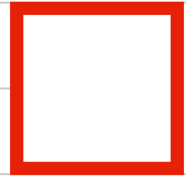
According to the HGB, the Company would have had to prepare consolidated financial statements for the first time following the acquisition of the majority of shares in Intershop Communications, Inc. on June 22, 1998, and to perform the capital consolidation as of this date. The difference between the 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 disclosed 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 single-entity 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 disclosed under shareholders' equity as "minority interests in capital" and in the income statement as "minority interests in profit/loss." Under US 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 reported as capital stock. In line with this, no differences resulted from these transactions under US 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, under US 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.

Revenue Recognition

In accordance with US GAAP, sales revenue is recognized in compliance with the American Institute of Public Accountants´ Statement of Position (SOP) 97-2, "Software Revenue Recognition," and related interpretations described in Note "Summary of Significant Accounting Policies". The major differences are that under HGB the provisions for multi-component contracts and the percentage-of-completion method do not apply.

Costs Associated with Certain Equity Transactions

According to US 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. Under the HGB, these costs represent expenses for the period.



Foreign Currency Transactions

Under US GAAP, foreign currency transactions (for example, foreign currency denominated trade receivables or payables) are measured at the rate prevailing on the date on which they are initially recognized. These balance sheet items must be measured at the year-end rates at each subsequent balance sheet date. Foreign currency adjustments resulting from exchange rate fluctuations are recognized in income, with any unrealized gains being recorded in the income statement. Under HGB, revaluation losses are recognized in the income statement at each balance sheet date only, while gains are only recognized when realized (for example, upon payment of a foreign currency liability).

Acquisitions

Under US GAAP, all acquisitions after June 30, 2001 are accounted for using the purchase method in accordance with Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations." This method requires the assets and liabilities of the acquired company to be re-measured at the time of combination. Any difference between the re-measured assets and liabilities (net assets) acquired and the consideration given is disclosed as goodwill. Gains or losses by the acquired company are recognized only from the acquisition date forward. Effective January 1, 2002, Intershop no longer amortized the goodwill that arose from acquisitions before June 30, 2001, on a straight-line basis over its estimated useful life but reviews goodwill for impairment on an annual basis in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Under HGB, the purchase method is used to measure combinations, and, in certain circumstances, the profits and losses of the acquired company may be recognized retroactively.

Balance Sheets Intershop Communications AG

As of December 31, (in €)	2003	2004
ASSETS		
Fixed Assets		
Intangible assets		
Software licenses	51,639	52,962
Property and equipment		
Other facilities, furniture, and equipment	752,707	588,684
Financial Assets		
Investments in affiliated companies	15,728,899	10,670,003
	16,533,245	**11,311,649**
Current Assets		
Inventories		
Work in process	-	184,252
Finished goods and merchandise	37,485	-
Payments on account	233,131	8,659
	270,616	192,911
Receivables and other assets		
Accounts receivable	1,666,258	1,474,488
Receivables from affiliated companies	1,521,582	371,830
Other assets	860,425	602,341
	4,048,265	2,448,659
Cash-in-hand, bank balances	7,404,082	7,244,017
	11,722,963	**9,885,587**
Prepaid expenses	**71,379**	**106,809**
Total Assets	**28,327,587**	**21,304,045**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' Equity		
Common stock		
Conditional capital: € 30,304,719 (previous year: € 41,220,320)	22,035,299	25,551,412
Capital surplus	3,973,876	5,889,989
Accumulated Deficit	(7,799,016)	(22,072,591)
	18,210,159	**9,368,810**
Contributions paid to implement the resolved capital increase	**-**	**15,840**
Accrued Liabilities		
Other accrued liabilities	**4,522,526**	**5,993,714**
Liabilities		
Advance payments received	-	457,740
Accounts payable	1,106,416	2,258,550
Liabilities due to affiliated companies	1,021,582	-
Other liabilities		
thereof from taxes: € 202,175 (previous year € 190,107) thereof from social security benefits: € 262,250 (previous year € 300,326)	576,975	581,957
	2,704,973	**3,298,247**
Deferred Charges	**2,889,929**	**2,627,434**
Total Shareholders' Equity and Liabilities	**28,327,587**	**21,304,045**

Statements of Operations Intershop Communications AG

(in €)

For the year ended December 31	**2003**	**2004**
Revenues	17,525,740	13,753,746
Decrease in inventories of finished goods and work in progress	(288,112)	146,767
Other operating income	8,923,981	3,422,813
Cost of Materials		
Cost of raw materials, consumables and supplies, and purchased merchandise	(39,251)	(3,096)
Cost of purchased services	(1,566,873)	(1,137,377)
Personnel Costs		
Salaries	(15,283,536)	(10,555,851)
Social security contribution and other pension costs	(2,612,672)	(1,792,934)
Depreciation and amortization		
of intangible fixed assets and property and equipment, and capitalized start-up and business expansion costs	(2,766,729)	(441,225)
of current assets to the extent it exceeds depreciation and amortization that is normal for the Company	(8,696,400)	(7,322,334)
Other operating expenses	(15,225,892)	(12,257,180)
Other interest and similar income		
thereof from affiliated companies € 7,127,398 (previous year: € 7,487,827)	8,076,072	7,263,676
Amortization of financial assets and short-term security investments	(3,232,909)	(5,058,896)
Interest and similar expenses		
thereof from affiliated companies € 0 (previous year: € 43,410)	(339,845)	(271,041)
Loss from ordinary operations	**(15,526,426)**	**(14,252,932)**
Extraordinary income	7,717,750	-
Extraordinary result	7,717,750	-
Taxes on income	9,660	(20,643)
Net Income/Loss	**(7,799,016)**	**(14,273,575)**
Accumulated deficit carried forward	-	(7,799,016)
Accumulated Deficit	**(7,799,016)**	**(22,072,591)**

Accounting Policies

Property and equipment is stated at cost, less depreciation.

Financial assets are stated at cost, less necessary valuation allowances.

Inventories are measured at manufacturing costs.

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

Prepaid expenses and deferred charges are measured using the portion of expenses or income that relates to a period after the balance sheet date.

Other accrued liabilities cover all recognizable risks and are measured in the amount dictated by prudent business practice.

Liabilities are stated at their redemption amount.

Foreign currency receivables and liabilities are measured using the principle of lower of cost or market and the imparity principle, respectively.

Explanations on the Annual Financial Statements

Fixed assets changed as follows (in €):

	Jan. 1, 2004	Additions	Disposals	**Dec. 31, 2004**
Intangible Assets				
Software licenses	2,777,708	71,926	-	2,849,634
Tangible Assets				
Other equipment, operating and office equipment	2,720,871	222,147	167,630	2,775,388
Financial Assets				
Shares in affiliated companies	49,424,281	-	-	49,424,281
	54,922,860	**294,073**	**167,630**	**55,049,303**

Effective January 1, 2003, Intershop Software Entwicklungs GmbH was merged with Intershop Communications AG. The merger entailed the transfer of goodwill with a carrying amount of € 0 to Intershop Communications AG. Since there was no longer a positive carrying amount, goodwill has not been shown in the balance sheet or in the statement of changes in fixed assets.

	Cumulative depreciation and amortization Jan. 1, 2004	Additions	Disposals	Cumulative depreciation and amortization Dec. 31, 2004	Net book value Dec. 31, 2004	Net book value Dec. 31, 2003
Intangible Assets						
Software licenses	2,726,069	70,603	-	2,796,672	52,962	51,639
Tangible Assets						
Other equipment, operating and office equipment	1,968,164	370,622	152,082	2,186,704	588,684	752,707
Financial Assets						
Shares in affiliated companies	33,695,382	5,058,896	-	38,754,278	10,670,003	15,728,899
	38,389,615	**5,500,121**	**152,082**	**43,737,654**	**11,311,649**	**16,533,245**

Receivables from affiliated companies and other assets have a maturity of up to one year.

Other assets contain treasury shares with an amount of € 800. During the year, the Company borrowed own shares to meet the exercise of a stock option (see explanation of the item “Contributions paid to implement the resolved capital increase”). At the balance sheet date, the Company still held 400 treasury shares. Because the shares were borrowed and not acquired, no reserve for treasury shares was established.

Cash and cash equivalents totaling € 6,754,169 (previous year: € 6,190,424) reported under cash-in-hand and bank balances have been assigned as security (restricted cash).

The share capital in the amount of € 25,551,412 consists of 25,551,412 no-par value bearer shares.

The authorized capital totaling € 44,746,387 entitles the Management Board to issue an additional 44,746,387 no-par value bearer shares.

The resolution of the Annual Stockholders’ Meeting on June 6, 2002 authorized the Management Board, with the approval of the Supervisory Board, to increase the Company’s share capital by a total of up to € 38,610,000 on one or several occasions up to November 11, 2007, by issuing a maximum of 38,610,000 new no-par value bearer shares (Authorized Capital I). The Management Board is also authorized to exclude the shareholders’ subscription rights with the approval of the Supervisory Board. Two capital increases were made in the fiscal year from Authorized Capital I. A total of 3,516,113 new no-par value bearer shares were issued. Authorized Capital I was reduced to € 35,093,887 as a consequence.

Furthermore, the resolution of the Annual Stockholders’ Meeting on June 6, 2002 authorized the Management Board, with the approval of the Supervisory Board, to increase the Company’s share capital by a total of up to € 9,652,500 for the purposes approved by the Annual Stockholders’ Meeting on June 6, 2002. This increase may be carried out by issuing a maximum of 9,652,500 new no-par value bearer shares on one or several occasions up to November 11, 2007 (Authorized Capital II); shareholders’ subscription rights have been excluded.

An amount totaling € 30,304,719 is available as conditional capital for the issuance of 30,304,719 no-par value bearer shares. Due to the reverse stock split and the lapsing of options, however, a maximum of 23,220,706 shares can be issued from conditional capital.

Of the conditional capital created for granting employee stock options, € 8,165,000 (Conditional Capital I) are reserved for options in compliance with section 192 (2) clause 3 of the German Stock Corporation Act (Aktiengesetz). Conditional Capital I is reserved for exercising the options based on the 1999 option model. These options must be exercised no earlier than two years and no later than five years from the time they were granted. The conversion price for the new shares is based upon the average price of the shares during the last ten trading days prior to the day the options were granted, plus 20 %. Due to the one-for-five reverse stock split resolved on October 30, 2002, which became legally effective on December 12, 2002, subscription rights from Conditional Capital I decreased in the same ratio, i.e., to 1,633,000 shares, in accordance with section 218 of the AktG.

Moreover, € 690,016 from Conditional Capital II created in compliance with section 192 (2) clause 3 of the German Stock Corporation Act are reserved to implement 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. Due to the one-for-five reverse stock split resolved on October 30, 2002, which became legally effective on December 12, 2002, subscription rights from Conditional Capital I decreased in the same ratio, i.e., to 138,003 shares, in accordance with section 218 of the AktG.

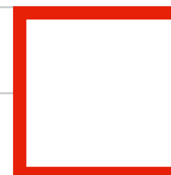
Conditional Capital III was cancelled by a resolution of the Annual Stockholders' Meeting of July 7, 2004. The conditional capital increase was used to meet the Company's obligation to issue shares of the Company to Stephan Schambach and Burgess Jamieson in exchange for shares of Intershop Inc. They exercised their conversion right in 2003.

The resolution of the Annual Stockholders' Meeting on June 13, 2001 authorized the Management Board to grant, on one or several occasions up to May 31, 2006, bearer convertible bonds as well as bonds with warrants for a total of up to 21,449,703 no-par value bearer shares of the Company, in which case shareholders' subscription rights can be excluded. In order to cover these convertible bonds, the Company's share capital was conditionally increased by up to € 21,449,703 (Conditional Capital IV).

The capital surplus amounts to € 5,889,989 at the balance sheet date (previous year: € 3,973,876). The difference in comparison to the previous year amounting to € 1,916,113 results from a paid-in surplus in accordance with section 272 (2) no. 1 of the HGB from a capital increase which was entered into the commercial register on March 30, 2004.

During the year, the Company borrowed own shares to meet the exercise of an option over 9,600 shares. This option was a result of the stock option plan covered by Authorized Capital II. At the balance sheet date, no corresponding capital increase had been implemented. The proceeds resulting from the exercise of the option, including additional paid-in capital, have been recognized under the item "Contributions paid to implement the resolved capital increase".

Other accrued liabilities consist primarily of pending losses from ongoing obligations and litigation risks, year-end closing costs and the costs of the Annual Stockholders' Meeting, outstanding invoices, warranties, holiday entitlements, license fees, and commission.



Liabilities can be broken down as follows (in thousands €):

	Due within 1 year	Due in 1 – 5 years	Due aftermore than 5 years	Total	Mortgage-backed
Deposits received	458	-	-	458	-
Trade payables	2,258	-	-	2,258	-
Other liabilities	582	-	-	582	-
	3,298	**-**	**-**	**3,298**	**-**

Contingent Liabilities

The lessor of the Company's business premises in Jena gave notice of termination of the long-term lease on November 30, 2004, and notice to vacate the premises. The Company is of the opinion, however, that the notice to terminate is invalid. Nonetheless, the notice of termination and notice to vacate give rise to the possibility that occupation of our business premises will cease at the end of 2005. For fiscal 2005, the Company's financial obligations under the lease amount to € 1.8 million.
In the event that the Company's opinion that the notice to terminate is legally invalid is upheld, the financial obligations resulting from the lease as at December 31, 2004 amounted to € 27.2 million, which are due ratably until the end of the lease period on November 14, 2013.

Statement of Operations

The following table shows a breakdown of revenues by region:

Germany	9,628,365
Rest of Europe	2,952,930
Rest of the world excluding Europe	1,172,451
	13,753,746

€ 1,870,545 of revenues relates to license income and € 11,883,200 to income from consulting services.
Other operating income in the fiscal year 2004 includes prior-period income of € 1,633,992.

Other operating expenses for fiscal 2004 contain prior-period expenses amounting to € 758,866.

The write-downs charged in accordance with section 253 (2) of the HGB amount to € 5,058,896 (previous year: € 3,232,909); those charged in accordance with section 253 (3) of the HGB amount to € 7,322,334 (previous year: € 8,696,400).

€ 7,127,398 of other interest and similar income relates to affiliated companies (previous year: € 7,487,827), and these also account for € 0 of interest and similar expenses (previous year: € 43,410).

Interest income and interest expense include net expenses of € 133,082 relating to prior periods.

Taxes on income of € 20,643 consist of a payment of trade tax arrears relating to 1999.

Other Disclosures

The Company had an average of 260 employees during the fiscal year 2004 (prior year: 371).

The Supervisory Board comprised the following members in 2004:

Eckhard Pfeiffer
- → Chairman of the Supervisory Board
- → Investor
- → Former President and Chief Executive Officer, Compaq Computer Corporation

Other board memberships:
- Accoona Corporation (Chairman of the Supervisory Board)
- General Motors Corporation
- LM Ericsson AB
- IFCO Systems NV
- Syntek Capital AG

Theodore J. Smith (until September 14, 2004)
- → Deputy Chairman of the Supervisory Board
- → Investor
- → Founder and former President, FileNET Corporation

Other board memberships:
- FileNET Corporation

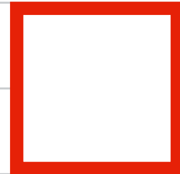
Peter Mark Droste
- → Graduate engineer
- → Former Manager Central and Northern Europe, Siebel Systems
- → Former Manager of Compaq Germany
- → Partner at DV-Ratio Management Consulting GmbH
- → Senior Advisor 3i (Venture Capital)

Other board memberships:
- Ferrari Elektronik AG (Chairman of the Supervisory Board)
- Member of the Advisory Council of Aventeon Mobil Business Solution GmbH

Hans W. Gutsch
- → Graduate in business administration
- → Former Senior VP Human Resources and Organization, Compaq Computer Corporation

Other board memberships:
- Sensomotion Inc., USA (Chairman of the Supervisory Board)
- El-Nets, Ltd., Singapore
- RYNEX Corporation New York, USA

Burgess Jamieson (until September 14, 2004)
- → Engineer
- → Investor and shareholder
- → Project Manager and Technology Manager at aerospace companies
- → Division Vice President, Electronic Memories, Inc.
- → Chief Operating Officer, Sycor, Inc.
- → Co-founder, Institutional Venture Associates



On July 7, 2004, the Annual Stockholders' Meeting resolved to amend the Articles of Association in respect of the Supervisory Board, among other things. As a result, the number of members of the Supervisory Board was reduced to three. Theodore J. Smith and Burgess Jamieson resigned from the Supervisory Board at the same time as the changes to the Articles of Association were entered in the commercial register on September 14, 2004.

The Management Board included the following persons in 2004:

Dr. Jürgen Schöttler
Chairman of the Management Board, Chief Executive Officer and Chief Financial

Stephan Schambach
Management Board member responsible for Strategy and Product Development (until February 4, 2004)

Ralf Männlein
Management Board member responsible for Sales and Marketing (since July 5, 2004)

The Management Board received remuneration from the Company totaling € 806,235. The members of the Management Board were granted a total of 70,000 stock options from the 1999 Equity Incentive Plan in 2004. The remuneration for the members of the Supervisory Board for the fiscal year amounted to € 62,188.

Information on the shareholdings of the members of the executive bodies (Supervisory and Management Boards) as of December 31, 2004 can be found in the Note "Local Disclosure Requirements" of the notes to the consolidated financial statements.

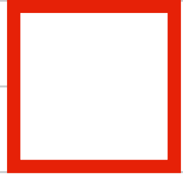
As a listed company, Intershop Communications AG prepares consolidated financial statements in accordance with US GAAP which, according to the provisions of section 292a of the German Commercial Code (HGB), exempt it from the need to file HGB consolidated financial statements. The consolidated financial statements are filed with the commercial register of the Local Court in Gera, Germany. These consolidated financial statements include the financial statements of the parent company and the following companies:

- Intershop Communications, Inc., San Francisco, USA
- Intershop (UK) Ltd., London, United Kingdom
- Intershop Communications Ventures GmbH, Jena, Germany
- IS Nordic AB, Stockholm, Sweden
- Intershop Communications Dubai LLC, Dubai, United Arab Emirates
- Intershop Communications K.K, Tokyo, Japan
- Intershop Communications Australia Pty Ltd., North Sydney, Australia

The following list shows the subsidiaries of Intershop Communications AG and the Company's respective interest as of December 31, 2004:

	Interest in %	Currency	Nominal capital	Equity*	Net loss*
Intershop Communications, Inc., San Francisco, USA	100	€	7,332,682	(109,257,235)	(5,467,871)
Intershop Communications Ventures GmbH, Jena	100	€	1,000,000	(1,973,557)	(94,153)
Intershop (UK) Ltd., London, United Kingdom	100	€	1,586	(22,964,501)	(1,748,521)
Intershop Communications S.a.r.l., Paris, France	100	€	300,000	-	1,131,641
IS Nordic AB, Stockholm, Sweden	100	€	11,437	86,376	(15,130)
Intershop Communications Hongkong Co. Ltd., Hong Kong, China	99.99	€	1,378	742,881	13,599,427
Intershop Communications Korea Co. Ltd., Seoul, Korea	99.98	€	50,940	(347,100)	2,418,879
Intershop Communications Taiwan, Taipei, Taiwan	100	€	32,393	(110,042)	553,738
Intershop Communications Singapore Pte Ltd., Singapore	100	€	65,168	(231,267)	731,959
Intershop Communications K.K., Tokyo, Japan	100	€	-	(4,956,222)	(196,013)
Intershop Communications Australia Pty Ltd., Sydney, Australia	100	€	238,278	(1,828,963)	217,767

** The above figures for equity and the net loss for the year are provisional.*



Declaration of Conformity in Accordance with Section 161 of the German Stock Corporation Act

The corporate governance declaration of conformity required under section 161 of the German Stock Corporation Act (Aktiengesetz) was submitted and has been permanently available to stockholders on the Company's web site at http://www.intershop.com/investors since February 17, 2005.

Appropriation of Net Income/Loss

The Management Board of Intershop Communications AG proposes to carry forward the accumulated deficit of € 22,072,591 to new account.

Jena, March 1, 2005

The Management Board

Dr. Jürgen Schöttler

Ralf Männlein

We have issued the following opinion on the financial statements and report on the situation of the Company:

Independent Auditor's Report
We have audited the annual financial statements, together with the bookkeeping system, and the management report of the Intershop Communications Aktiengesellschaft, Jena for the business year from January 1, 2004 to December 31, 2004. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Leipzig, March 1, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Georg Flascha	Maik Pülmanns
Wirtschaftsprüfer	*Wirtschaftsprüfer*

The Executive Board and Supervisory Board of Intershop Communications AG declare, in accordance with section 161 of the Aktiengesetz (AktG German Public Companies Act):

Intershop Communications AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code since the last declaration of conformity dated February 13, 2004, which was based on the version of the Code dated May 21, 2003, with the following exceptions:

- The convention documents for the stockholders' meeting are not sent via electronic channels (section 2.3.2).
- Until the appointment of Ralf Männlein as a member of the Executive Board dated July 5, 2004, the Executive Board consisted of only one person. (section 4.2.1).
- An individual breakdown of the compensation components of Executive Board salaries is not given in the notes to the consolidated financial statements (section 4.2.4).
- The Chairman of the Supervisory Board does not chair the committee that handles Executive Board contracts; This committee is chaired by Hans Gutsch, a member of the Supervisory Board. (section 5.2).
- The Supervisory Board does not receive performance-related compensation. Compensation is published as an aggregate amount. (section 5.4.5).
- The consolidated financial statements are published no later than 30 days after the deadline stated in the Code, in accordance with the deadline laid down in section 62 (3) of the Exchange Rules of the Frankfurt Stock Exchange (section 7.1.2).

Intershop Communications AG will comply with the recommendations of the Government Commission on the German Corporate Governance Code, as amended in the version dated May 21, 2003, with the following exceptions:

- The convention documents for the stockholders' meeting will not be sent via electronic channels (section 2.3.2).
- An individual breakdown of the compensation components of Executive Board salaries is not given in the notes to the consolidated financial statements (section 4.2.4).
- The Chairman of the Supervisory Board does not chair the committee that handles Executive Board contracts; This committee is chaired by Hans Gutsch, a member of the Supervisory Board. (section 5.2).
- The Supervisory Board will not receive performance-related compensation. Compensation will be published as an aggregate amount. (section 5.4.5).

Jena, February 7, 2005
Intershop Communications AG

On behalf of the Executive Board

Dr. Jürgen Schöttler

Ralf Männlein

On behalf of the Supervisory Board

Eckhard Pfeiffer

This declaration has been permanently available to stockholders on the Company's web site at http://intershop.com/investors since February 17, 2005.

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 and assured itself that corporate governance standards were implemented and observed throughout the Company. The Supervisory Board convened for meetings on February 12, 2004, April 28, 2004, July 6, 2004 and November 2, 2004.

During 2004, the Supervisory Board continued to support the activities of the Management Board. The Supervisory Board was consulted by the Management Board on a series of strategic decisions in several telephone 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. The Supervisory Board's Audit Committee held meetings with the Management Board member responsible for finance and the head of accounting on a regularly basis to discuss, analyze, and monitor financial issues relating to day-to-day business operations.

In 2004, no member of the Supervisory Board attended fewer than half of the Supervisory Board's meetings. No conflicts of interest arose for any of the Supervisory Board members during the year.

In 2004, the Supervisory Board decided to adjust the number of its members to the changed company size and to reduce the number of its members from six to three members. This proposal was accepted by the Annual Stockholders' Meeting. According to the resolution of the Annual Stockholders' Meeting on July 7, 2004, Ted Smith and Burgess Jamieson resigned from the Supervisory. The Annual Stockholders' Meeting on July 7, 2004 resolved at the same time to reduce the number of members of the Supervisory Board to three, and there was therefore no appointment of new members to replace Mr. Smith and Mr. Jamieson. The Supervisory Board would to thank Ted Smith and Burgess Jamieson for their work over many years.
After the departure of Mr. Smith and Mr. Jamieson, the Audit Committee consists of the remaining three members under the chairmanship of Peter Mark Droste; the Human Resources/Compensation Committee also consists of the three members of the Supervisory Board and is chaired by Hans Gutsch.

There were also the following changes to the Management Board in fiscal 2004: on February 4, 2004, Mr. Schambach resigned as the member of the Management Board responsible for Strategy and Product Development and at the same time left the Company. Effective July 1, 2004, Ralf Männlein joined the Company as the member of the Management Board responsible for Sales and Marketing.

KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft (auditors and tax consultants), which was elected by the Annual Stockholders' Meeting on July 7, 2004 as auditor for fiscal year 2004, audited the accounts, the annual and consolidated financial statements, and the combined management report and group management report of Intershop Communications AG and issued unqualified audit opinions. After detailed reviews by the Audit Committee, the Supervisory Board also reviewed the annual financial statements and the consolidated financial statements for the year ended December 31, 2004, and the combined management report and group management report. On March 1, 2005, the Supervisory Board concurred with the audit results and approved the annual and consolidated financial statements prepared by the Management Board. The annual financial statements of Intershop Communications AG have thus been adopted.

On behalf of the Supervisory Board, I would like to thank the Management Board and all our employees for their hard work and commitment in the past fiscal year.

Jena, March 1, 2005

Eckhard Pfeiffer
Chairman of the Supervisory Board Intershop Communications AG

Financial Calendar 2005

Date	Event
February 10, 2005	Release of Q4/04 and FY 2004 financials
April 22, 2005	Release of Q1/05 financials
April 26, 2005	Annual stockholders' meeting 2005
July 28, 2005	Release of Q2/05 and 6-month financials
October 27, 2005	Release of Q3/05 and 9-month financials

Investor Relations Contact:

Investor Relations
Intershop Communications AG
Intershop Tower
D-07740 Jena, Germany
Phone +49-3641-50-0
Fax +49-3641-50-1309
E-Mail: ir@intershop.de
www.intershop.com/investors

Design:

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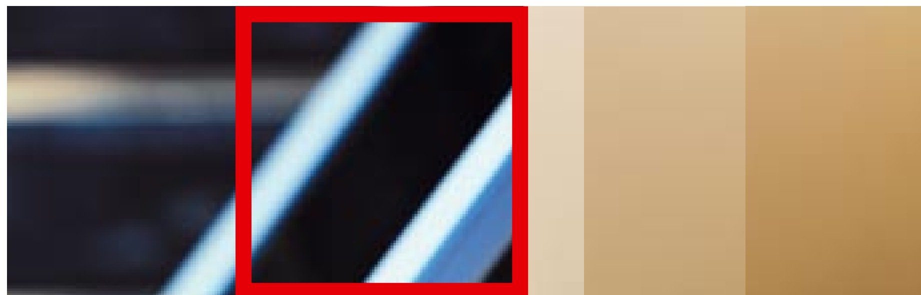
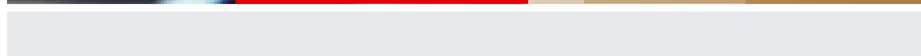
www.timespin.de





Intershop Communications AG
Intershop Tower
D-07740 Jena, Germany

Phone +49-3641-50-1100
Fax +49-3641-50-1111
E-Mail info@intershop.com
www.intershop.de