INTERSHOP™

Annual Report 2006

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This annual report contains forward-looking statements regarding future events or the future financial and operational performance of Intershop. Actual events or results may differ materially from the results presented in these forward-looking statements or from the results expected according to these statements. Risks and uncertainties that could lead to such differences include Intershop's limited operating history, the limited predictability of revenues and expenses, and potential fluctuations in revenues and operating results, significant dependence on large individual customer orders, customer trends, the level of competition, seasonal fluctuations, risks relating to electronic security, possible state regulation, and the general economic situation.

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Letter to the Stockholders

Dear stockholders, customers, partners, and employees,

In 2007, Intershop is celebrating its 15th birthday. Nonetheless, last year represented a break with the past. Known as a provider of powerful e-commerce standard software with the most prominent and most successful companies in the mail order industry, such as Otto, Tchibo, and Quelle, among its customers, the Company has now adopted a completely new strategic focus in its business field.

Despite the numerous market surveys that show continuing growth in the e-commerce segment, Intershop was not able in recent years to produce the economic results that were expected. Actual revenues in the past were not at all satisfactory. The weak demand for e-commerce standard software in the same class as Intershop's Enfinity Suite 6 is the result of increasing competition and price wars in the pure license business for standard software. In the meantime, sales cycles have generally become even longer. Intershop is not progressing quickly enough with sales of its e-commerce software licenses.

By repositioning itself in the market for full-service e-commerce and by acquiring and integrating the online marketing service provider SoQuero into the Company, Intershop prepared the way in 2006 for basing its future business success on three different pillars. This expansion of Intershop's portfolio of services is an indispensable precondition for achieving profits in the years ahead.

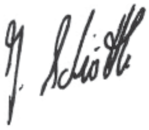
It enables us to build on our hard-won expertise acquired over 15 years in a wide variety of projects. Industry experts have repeatedly confirmed that our e-commerce software comprises top-quality products that enable companies to optimize relations with their business partners and that can turn the Internet into a genuine competitive advantage.

Our task now is to concentrate on utilizing our strengths more efficiently, continuing to hold back costs and enhancing our profile on the global e-commerce market, in order to meet the challenges of today and those of the future.

We are confident that the Company's new strategic direction will lead the way to profitability.

On behalf of all Intershop employees, we would like to thank you, our stockholders, customers, and partners for your support. We will continue to keep you informed of new events and progress made during 2007.

Sincerely,



Dr. Jürgen Schöttler
Chief Executive Officer

Group Management Report and Management Report of Intershop Communications AG

Management Report

Business activities and structure

In fiscal year 2006, we were not able to meet the expectations for the business development of the Intershop Communications AG Group („Intershop,“ „the Com¬pany,“ or „the Intershop Group“) and Intershop Communications AG (the „AG“), which acts as the holding company for the Intershop Group. The Company forecasted a positive net result for 2006 on the basis of the significant improvement in revenues at the close of fiscal year 2005 and against a background of moderate increases in companies' expenditure on IT. However, Intershop recorded a negative net result amounting to EUR 6.4 million. The principal factors contributing to the difference in the result were revenues, expenses from the stock option plans, start-up losses for the new full-service e-commerce business area, lower margins in the consulting area and the expansion of sales activities. Against this background, the economic development of the business in fiscal year 2006 was not satisfactory.

We did in fact achieve an increase in revenues compared with 2005, but the rise in costs was even greater. Moreover, the improvement in revenues was largely accounted for by the revenues of SoQuero GmbH, acquired during the fiscal year. Intershop has a large number of orders in the sales pipeline, including major orders with a contract volume exceeding EUR 1 million. Work on converting these orders into contracts continued throughout the year on a targeted and determined basis. One of these, a major order from the U.S. company Sun Microsystems, was completed in the first half of 2006. In addition, new customers were won in 2006 including Stadium AB, the Swedish supplier of sporting products, and Otelo, the French industrial goods supplier, as well as two well-known companies from the Netherlands, the consumer electronics supplier Nedis and the online media provider Free Record Shop. Business with existing customers was also an important constant factor for Intershop in fiscal year 2006. The most important target group in this area is the German mail order sector. According to Nielsen//NetRatings, an average of 6 of the 10 leading German online retailers continue to prefer Intershop software. They include well-known companies such as Otto, Tchibo, Quelle and T-Com. Despite the major order from Sun, and additional orders from new and existing customers, the Company had to announce on October 5, 2006 that the forecasted positive net result for fiscal year 2006 could not be achieved. The Management Board based its revision of the forecast for 2006 primarily on the risk of further postponements of individual major orders beyond the end of 2006. In addition, we were unable to put into practice promising methods of utilizing the Company's own tax loss carryforwards, which would have generated extraordinary income. None of these major orders was completed in the fourth quarter of 2006. It became apparent in the course of negotiations that major orders were changing their structure and turning into initial orders, or developing from pure licensing arrangements to service contracts. The result of this is a further increase in the length of sales cycles and a consequent delay in generating revenues. In order to achieve sustainable increases in revenues, Intershop must be able to offer a broader range of products and services. For that reason, Intershop's core business, the sale of e-commerce standard software, was expanded in 2006 by the addition of the two new business areas, full-service e-commerce and online marketing.

In addition to providing software, Intershop handles all other aspects of e-commerce with its new full-service e-commerce offering, from IT services through online marketing to receivables management, payment, logistics, and returns handling. In May 2006, the Company announced its first major full-service order from the well-known Austrian clothing manufacturer Wolford; the project was successfully started in November 2006. As part of the project, Intershop is handling all Wolford's e-commerce business processes on an international basis. Intershop also supplies the necessary core technology in the form of its Enfinity Suite 6 standard software. In addition, the Company has responsibility for all other aspects of the customer’s e-commerce activities. However, the commencement of full-service business activities also entails start-up and advance costs. Intershop incurred costs in 2006 which are not matched by any significant revenues. From the date when the full-service e-commerce customer’s online shop goes live, revenues are also generated for Intershop as a result of the payment structure for full-service e-commerce, which provides for Intershop to share in the customer’s online revenues.

The acquisition of SoQuero GmbH, completed at the end of June 2006, and the start of online marketing business activities, represent the establishment of a third pillar in Intershop’s product portfolio. E-commerce and online marketing go hand in hand. Customer success depends on peak performance in both areas. An offering from a single source for both aspects leads to a bundling of Intershop‘s competencies. A broader range of products can be offered and synergies in sales to the respective customer bases can be exploited. An increase in the revenues of the new online marketing business area has already been achieved, from EUR 0.7 million in the third quarter of 2006 to EUR 1.0 million in the fourth quarter.

An increase in license revenues was achieved from EUR 3.9 million in the previous year to EUR 4.5 million; margins on the associated services, consulting, maintenance and training, fell as a result of lower average daily rates.

Intershop has significantly increased its sales force. Today, Intershop has 35 employees worldwide in sales and sales consulting. The Company‘s direct sales activities are focused on the German and U.S. markets. Other key markets, such as Benelux, France, Italy, Austria, Switzerland, Scandinavia, and the United Kingdom, are served by sales partners operating under the Intershop name.

As of January 1, 2006, the Company granted new options to employees and to the Management Board under its stock option plans. A total of 5.3 million options were granted during fiscal year 2006. The result of this was that the Company had to recognize expenses from the stock option plans amounting to EUR 1,548 thousand in fiscal year 2006. In comparison, the expense from stock option plans in fiscal year 2005 amounted to EUR 73 thousand. However, this expense had no effect on the Company‘s cash position.

Overall Economy and Industry

According to current estimates, economic growth in Europe and Germany in 2006 amounted to 2.7%. In the U.S.A., gross domestic product increased by 3.4%.

The Internet is continuing to grow in importance as a medium. In Germany, the Internet is currently used by over 67 percent of the 14- to 64-year-old age group targeted by advertisers, amounting in total to 33.75 million inhabitants. A further 5.09 million intend to become Internet users in the foreseeable future (ACTA 2006). The increasing level of Internet usage also entails an increase in the importance of e-commerce as a method of conducting business. Companies in particular are already conducting a large proportion of their transactions with business partners using the World Wide Web. But the range of online products for end-customer applications is also constantly expanding. According to ACTA 2006, more than half of the Internet users in Germany have already made a purchase on the Web. Information provided by the Bundesverband Digitale Wirtschaft (BVDW – German Digital Industry Association) shows continual growth in online sales and numbers of buyers. According to the BVDW, there are already 27 million online shoppers. Industry experts at the

BVDW are forecasting total sales of over EUR 15 billion in 2006. They also point out that the proportion of total sales accounted for by purchases of goods is rising. Whereas in the early stages of e-commerce items available on the net were mainly typical mail order products such as books or CDs, more and more sectors are now going over to offering their goods and services on the Internet as well.

The increasing commercial use of the Internet has also led to an increase in demand for e-commerce solutions that enable business transactions to be processed electronically. According to the North American and European Enterprise Software and Services Survey, 30 percent of IT decision-makers in European companies indicated that they were investing in e-commerce software in 2006. The proportion in North America for 2006 was 26 percent. The industry association BITKOM is predicting that investment in software in Germany will grow by 5.5% in 2006.

Revenue Development

Intershop's total revenues in fiscal year 2006 rose by 11% compared with fiscal year 2005, from EUR 17.8 million to EUR 19.8 million. Excluding the online marketing income from the recently acquired SoQuero GmbH, the increase in revenues amounted to 2%. License revenues rose by 15% to EUR 4.5 million and their share of total revenues climbed to 23% (previous year: 22%). Service, maintenance, and other revenues were 10% higher at EUR 15.3 million (previous year: EUR 13.9 million). In fiscal year 2006, service, maintenance, and other revenues included online marketing and full-service revenues for the first time.

Revenue development by area:

in EUR thousand	**2006**	**2005**
Licenses	**4,465**	**3,882**
Maintenance	6,667	6,963
Consulting	6,566	6,622
Training	302	258
Online Marketing	1,688	0
Other revenues	92	67
Services, maintenance and other	**15,315**	**13,910**
	19,780	**17,792**

Intershop received a major order from the American technology company Sun Microsystems end of March 2006, which will generate total revenues of EUR 4.4 million. The Company recognized EUR 2.8 million of this, or around 64% of the total volume, in the fiscal year 2006. The remaining 36% of the order volume will be recognized in the coming periods.

Europe and North America remained Intershop's key revenue regions in fiscal year 2006. Intershop's most important market in fiscal year 2006 was once again Europe with revenues of EUR 15.0 million (previous year: EUR 14.7 million), representing 76% of total revenues. Intershop generated revenues of EUR 4.8 million (previous year: EUR 3.1 million) in North America in 2006, or 24% of the global total. Intershop's U.S. branch in San Francisco ensured that the Company continued to be represented in the strategically important U.S. software market in 2006.

The AG, which is responsible for the Group's business in Germany, generated revenues of EUR 14.1 million in the year under review, as against EUR 15.1 million in the previous year.

In Germany, Intershop Communications AG has branch offices in Stuttgart and Hamburg. The subsidiary Intershop Communications Online Marketing GmbH is located in Frankfurt am Main.

Earnings Development

The cost of revenues for the fiscal year amounted to EUR 11.8 million in 2006, as compared with EUR 9.0 million in 2005.

The gross profit margin on total revenues fell from 50% in 2005 to 40% in 2006, representing absolute amounts of EUR 8.9 million in 2005 and EUR 8.0 million in 2006. The gross profit margin on license revenues rose slightly to 96% in 2006, compared with 95% in 2005. The gross profit margin on service revenues (including services, maintenance and other revenues) declined from 37% in 2005 to 24% in 2006. The fall mostly reflected the start-up costs for the new full-service business area incurred in 2006, and the reduction in the margin earned on consulting activities as a result of lower average daily rates.

Operating expenses, net of operating income, rose from EUR 11.0 million to EUR 13.9 million. Research and development expenses increased by 15% and general and administrative costs by 2%. These increases were mainly the result of expenses incurred in connection with the employee stock option plans. Sales and marketing costs rose from EUR 5.8 million to EUR 8.2 million. The increase was attributable to the higher expenses for the employee stock option plans, to higher personnel costs due to the recruitment of new sales staff, and to higher expenses for sales partners.

Restructuring costs in 2006 amounted to EUR 0.5 million. (For details of the restructuring costs, see the section entitled „Restructuring costs“ in the notes to the consolidated financial statements). In contrast, existing provisions for restructuring amounting to EUR 0.8 million were reversed in fiscal year 2005.

Other operating income rose from EUR 0.9 million in 2005 to EUR 2.2 million in 2006. Other operating income includes amongst others income from litigation amounting to EUR 0.9 million, government grants of EUR 0.4 million, and income from deconsolidation amounting to EUR 0.3 million.

The cost of revenues and operating expenses include total expenses from the employee stock option plans amounting to EUR 1.5 million, of which EUR 0.6 million were allocated to the cost of revenues and EUR 0.9 million to operating expenses. In 2005, expenses from the employee stock option plans amounted to EUR 0.07 million.

Depreciation and amortization in both fiscal year 2006 and fiscal year 2005 amounted to EUR 0.6 million. Investments made in both fiscal years were primarily for replacements. In 2006, depreciation and amortization included an amount of EUR 0.3 million relating to intangible assets identified and measured on the acquisition of SoQuero GmbH. In 2005, impairment losses were recognized on the deconsolidation of the subsidiary in the United Kingdom.

The loss from operating activities amounted to EUR 5.9 million in 2006 compared with EUR 2.2 million in 2005. The financial result improved from a loss of EUR 1.2 million to a loss of EUR 0.6 million, mostly due to the reduction in the interest expense on the convertible bond. The interest expense fell from EUR 1.4 million in 2005 to EUR 0.9 million in 2006. Interest income improved from EUR 0.2 million to EUR 0.3 million.

Income taxes amounted to EUR 0.1 million in fiscal year 2006, and mainly comprised the partial reversal of deferred tax liabilities recognized in connection with the acquisition of SoQuero GmbH in the course of purchase price allocation.

Management Report

The consolidated net loss for 2006 was EUR 6.4 million or EUR 0.34 per share compared with EUR 3.4 million or EUR 0.18 per share in 2005.

Research and Development

Research and development expenses comprise all expenses attributable to R&D activities; personnel expenses account for the majority of this item. Research and development expenses in 2006 amounted to EUR 3.2 million compared with EUR 2.8 million in 2005. The increase was mainly the result of higher expenses from the stock option plans.

Intershop has its own development department. It developed the new Enfinity MultiSite product line in 2002, followed by a range of MultiSite-enabled solutions that added content management and procurement to the portfolio. Intershop consolidated its product line in fiscal year 2004 and presented Enfinity Suite 6 – an end-to-end application for multichannel e-commerce. In fiscal year 2005, Enfinity Suite 6 was enhanced and the new Enfinity Suite 6.1 version with extended marketing and sales functionality was launched. Development work was carried out on the new Enfinity Suite 6.2 version in fiscal year 2006; the market launch is planned for spring 2007.

Organization

There were no changes to the Management Board in fiscal year 2006.

With effect as of October 31, 2006, Supervisory Board member Mr. Peter Mark Droste resigned his position at his own request for personal reasons. On application by the Company, Mr. Michael Sauer was appointed to the Supervisory Board by order of the Jena Local Court as of November 1, 2006.

The compensation of the Management Board comprises fixed and variable components. The compensation of the Supervisory Board consists solely of a fixed component, stipulated by the Articles of Association. For details of the compensation of the executive bodies, see the notes to the consolidated financial statements.

Employees

As of December 31, 2006, Intershop employed 247 full-time equivalents worldwide. The number of employees was thus 11% higher than at December 31, 2005. The increase in the number of employees was due to the acquisition of SoQuero GmbH, as well as to new recruitment. Excluding the SoQuero employees, the number of people employed by the Group would have increased by 5%.

The following overview shows the breakdown of employees by department:

Employees by department (full-time equivalents)	2006	2005
Technical Departments (research and development and service functions)	166	150
Sales and Marketing departments	50	43
General and administrative departments	31	29
Total	**247**	**222**

91% of Intershop‘s global workforce was employed in Germany as of December 31, 2006 (225 full-time equivalents). The remaining 9% belong to the U.S. branch (22 full-time equivalents). As of December 31, 2005, 207 full-time equivalents were employed in Germany and 15 in the United States.

Intershop Communications AG (single entity) had 212 staff as of December 31, 2006 (2005: 207 full-time equivalents).

Financial Position

In contrast to recent years, there were no financing measures in fiscal year 2006 that resulted in an increase in the Company‘s liquidity. The conversion of 3.8 million bonds from the zero-coupon convertible bond into shares of the Company during the second conversion window (August 4 to September 8, 2006) resulted in a corresponding rise in the share capital. The conversion enabled Intershop to increase its equity base.

Employee stock options granted under the stock option plans were exercised and exchanged for shares of the Company. The resulting capital increases from Authorized Capital II amounted to EUR 26 thousand. These capital increases were reflected in a corresponding rise in the Company‘s share capital.

In fiscal year 2006, the Company utilized cash of EUR 3.7 million, or an average of EUR 0.9 million per quarter. Net cash used in operating activities amounted to EUR 1.3 million compared with EUR 8.4 million in fiscal year 2005. In fiscal year 2005, cash flows from operating activities included a cash outflow of EUR 2.3 million paid in respect of the settlement of the class-action lawsuit in the United States.

Net cash used in investing activities amounted to EUR 2.2 million. The change in restricted cash mostly reflected the payment from the landlord as a result of the provisional judgment in the proceedings brought by the Company for the payment of a contractual penalty. (See the section entitled „Litigation“). The payment for the acquisition of consolidated companies less funds acquired relates to the purchase of SoQuero GmbH. Intershop paid EUR 0.75 million for the acquisition of SoQuero GmbH in fiscal year 2006.

Cash flows from financing activities in fiscal year 2006 included cash proceeds from the issue of ordinary shares of EUR 0.02 million and cash paid for the costs of issuance of ordinary shares in the same amount. The net cash provided by financing activities in 2005 of EUR 13.9 million reflected the issue of the convertible bond and a cash capital increase.

Net Assets

Total assets amounted to EUR 23,2 million as of December 31, 2006 compared with EUR 23.0 million as of December 31, 2005.

Noncurrent assets rose by 10% from EUR 9.0 million to EUR 9.9 million. The change was mainly the result of the increase in intangible assets from EUR 4.5 million to EUR 6.2 million. The intangible assets include intangible assets, together with the associated goodwill, identified and measured in allocating the purchase price on the acquisition of SoQuero GmbH. For details of the acquisition of SoQuero GmbH, see the section entitled „Basis of consolidation“ in the notes to the consolidated financial statements.

Current assets fell from EUR 14.0 million to EUR 13,3 million. Trade receivables declined from EUR 3.5 million to EUR 3.1 million, while other receivables and other assets rose from EUR 0.9 million to EUR 2.1 million, largely as result amongst others of the higher amount of fixed-price projects capitalized.

Cash and cash equivalents included in noncurrent and current assets fell from EUR 13.5 million to EUR 11.2 million. Unrestricted cash included in cash and cash equivalents amounted to EUR 3.6 million as of December 31, 2006 compared with EUR 7.3 million as of December 31, 2005.

Subscribed capital increased by 22% from EUR 17.7 million to EUR 21.5 million. The capital reserve increased by EUR 1.5 million as a result of the high charge for expenses from the employee stock option plans amounting to EUR 1.5 million. The deficit on other reserves, which include cumulative losses, cumulative currency translation differences and the IFRS conversion reserve, rose from EUR -9.4 million to EUR -16.1 million as a result of the increase in the consolidated net loss for the year. Shareholders' equity fell from EUR 8.3 million as of December 31, 2005 to EUR 6.9 million as of December 31, 2006.

Noncurrent liabilities fell from EUR 5.8 million to EUR 4.2 million. The liability in respect of the convertible bond declined from EUR 5.6 million to EUR 2.7 million as a result of the conversion of 3.8 million bonds into shares of the Company. Other noncurrent liabilities in the amount of EUR 0.7 million relate to the discounted conditional second purchase price installment for the acquisition of SoQuero GmbH. Deferred tax liabilities totaling EUR 0.4 million were recognized for the acquisition of SoQuero GmbH as a result of the measurement of intangible assets identified in allocating the purchase price.

Current liabilities rose to EUR 12.1 million as of December 31, 2006, compared with EUR 9.0 million as of December 31, 2005. Provisions for restructuring rose from EUR 0.8 million to EUR 1.1 million. Other current provisions amounted to EUR 1.0 million at December 31, 2006 and were therefore EUR 0.2 million higher. Trade accounts payable increased from EUR 3.8 million to EUR 6.2 million, while other current liabilities were up slightly from EUR 1.5 million to EUR 1.6 million. Deferred revenue rose from EUR 2.0 million to EUR 2.3 million.

Group Risks and Risks Facing Intershop Communications AG

Intershop is exposed to a variety of risks that could endanger the Company's net assets, financial position, and results of operations as well as its continued existence as a going concern, including (but not limited to) the following:

As of December 31, 2006, the Group's total liquidity amounted to EUR 11.2 million, of which unrestricted cash accounted for EUR 3.6 million. As a result of the EUR 3.7 million reduction in cash in fiscal year 2006 and the renewed net loss for the year, the Company's customers and partners continue to have certain reservations in respect of the Company's ability to survive in the long term. Such reservations could lead to reluctance on the part of Intershop's customers to place orders with the Company in the future as well, and could therefore impact Intershop's operations.

The market for e-commerce applications is continuing to mature and is subject to ongoing changes. Future developments are therefore hard to predict – even for the short term – and forecasts are thus subject to a high degree of uncertainty. For planning purposes, Intershop uses analyses available from market research companies as well as its own findings, which are gathered on an ongoing basis from its many contacts with other market players. Nevertheless, there is a risk in principle that the Company may not identify market trends in good time and that management may not be able to correctly assess the demand for e-commerce solutions with regard to customer requirements.

In the past, Intershop's quarterly revenues included a certain number of large individual orders that accounted for a relatively high proportion of total quarterly revenues. Furthermore, the Company generated 13.6 % and 11.1 % of its total revenues in fiscal year 2006 from two individual customers. The Company's significant dependence on large individual orders or individual customers could continue to impact revenue forecasts in the future and could adversely affect Intershop's results of operations if the Company does not receive certain large individual orders during a quarter.

Operating results for future periods cannot be forecasted with complete certainty, even in times of economic stability. Intershop expects continued fluctuations in its quarterly results and in any forecasts about its financial results in future periods. These fluctuations, which could be significant in the future, could lead to substantial volatility in Intershop's share price and could impact the Company's ability to acquire funding.

Intershop is in direct competition with other providers of e-commerce technologies. Given the dynamic development of the e-commerce market, existing and new providers are expected to substantially improve their product range and their sales activities. If Intershop is unable to maintain or improve its competitiveness with regard to the profile and quality of its products and services or its sales methods, this could endanger its market position.

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

The Company is a defendant in various legal proceedings arising from the normal course of business. A negative ruling in any such legal dispute, or in several or all such disputes, could have a material adverse effect on the Company‘s results of operations. The Company recognizes all legal costs associated with loss contingency as an expense as they are incurred.

Intershop has taken extensive measures to protect the brand names it uses as far as possible internationally. However, it is possible that conflicts with third parties will arise regarding the use of individual brands. In accordance with European practice, the programs and technologies developed by Intershop only have limited patent protection. Although Intershop takes great care in protecting its intellectual property, no assurance can be given that property rights will not be violated by third parties. It is also possible that third parties may sue Intershop for a violation of patents or other rights. Patent disputes are widespread in the software industry, particularly in the United States, and often entail significant costs for litigation or out-of-court settlements. Although Intershop is convinced that it has not violated any patents, it cannot be ruled out that Intershop’s operating result will be adversely affected by such actions brought by third parties.

A customer‘s decision to acquire enterprise software is based partly on a provider‘s reputation and visibility, as well as on the performance of its products. Should Intershop fail to achieve the necessary visibility and the desired image with its target groups, this could have an adverse effect on the demand for its products.

Intershop‘s products are also sold and implemented via IT service providers. If Intershop is unable to train a sufficient number of these companies in the use of its own products and to gain them as partners, this could impact sales of its products.

The success of Intershop’s business depends heavily on the performance of its executives and employees in key positions, particularly in the areas of product development and sales. If Intershop fails to retain existing employees and executives and to attract sufficient numbers of new personnel, this could have an adverse effect on the Company’s operating result.

Licenses account for a substantial proportion of the Company‘s total revenues. Under IFRSs, the recognition of software license revenues requires among other things that a sales agreement has been signed, a license has been delivered, the license fee is fixed and determinable, and payment is probable. If an order entails services that are essential to the functionality of the software, revenue is recognized according to the percentage of completion of the project. Due to the uncertainty with regard to the length of sales and implementation cycles, which depends heavily on Intershop‘s customers, revenues may be subject to sharp fluctuations on a quarterly basis in particular. This applies all the more given that a small number of large orders often account for a substantial proportion of revenues. Since operating costs are largely dependent on the number of employees, and therefore can only be affected to a limited extent in the short term, fluctuations in revenues could lead to corresponding fluctuations in operating results.

In the software industry, a large proportion of license revenues is not recognized equally over a quarter, but frequently only towards the end of a quarter. This is because contracts are often not awarded until the last third of a quarter. As a result, uncertainty as to whether the forecast revenue target will be achieved usually persists until well into the quarter.

A certain proportion of Intershop's operating and financial results are reported in currencies that are not pegged to the euro at fixed exchange rates, and are therefore translated into euros for inclusion in the Company's consolidated financial statements. Since no measures have currently been taken to hedge currency risks, currency fluctuations could affect the results of Intershop's business activities and operations overall.

The financial statements of Intershop Communications Aktiengesellschaft show that as of December 31, 2006, the Company had investments in affiliated companies of EUR 8.9 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.

The measurement of the carrying value is based on a detailed forecast for 2007 through 2009, followed by a transition to a perpetual annuity. Based on the sales forecast of Intershop Communications Inc., revenue is expected to grow by 48% in 2007, from the achieved the previous year. Continuous revenue growth of only 5% per year is expected for 2008 and the subsequent years. Based on these assumptions the operating result of Intershop Communications Inc. will be EUR 1.8 million in 2007, 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 expectations described are not met, or if Intershop Communications Inc. cannot achieve the expected results for other reasons, a write-down of the investments in affiliated companies would have to be charged in the financial statements of Intershop Communications Aktiengesellschaft.

Risk Management

Intershop's goal is to exploit business opportunities worldwide in order to increase enterprise value for its stockholders. In addition to these opportunities, however, Intershop is exposed to a number of risks that are inevitably associated with them. Risks to the Company's development cannot be ruled out completely due to the dynamic pace of market development and limited planning certainty with regard to the license business. Intershop aims to minimize the risks arising from its business activities by continuously enhancing its extensive risk management system.

At Intershop, various systems and procedures are used for the early identification, analysis, and documentation of risks for the Company. Intershop's risk management activities comprise a forward-looking product strategy that is geared to expected market developments and future needs, while focusing on product development and on the technological performance of the Company's products. In addition, Intershop continually endeavors to increase the Company's visibility among the relevant target groups, to gain new partners and form new alliances, to train third parties that market, sell, and implement Intershop's products, to recruit and retain executives and employees in key positions, and to provide the necessary organizational infrastructure.

The Company monitored market developments and its competitive environment on an ongoing basis in fiscal year 2006, using analyses and forecasts published by leading market research companies, among other things. Intershop has extensive project management and quality assurance systems in the area of product development, which is particularly dependent on risk identification.

Intershop uses financial accounting, controlling, and forecasting software by SAP and Hyperion as well as customer relationship management (CRM) software by Siebel Systems to globally capture and manage key corporate data. Quarterly financial statements ensured the timely recording of business developments. In addition to the annual budget planning, the Company used ongoing forecasts for short-term cost and revenue development. Ongoing accounting and controlling activities regularly provided information on deviations between actual and target figures in individual areas.

In addition, management regularly performed separate analyses of the Company's net assets, financial position, and results of operations. Frequent meetings at all levels of the Company have ensured an efficient exchange of information and rapid decision-making processes throughout the Company worldwide. The Management Board informed the Supervisory Board at least once a quarter, but usually more often, about important developments at the Company. The Supervisory Board's Audit Committee held regular meetings with the CFO and the head of accounting to discuss, analyze, and monitor financial issues relating to day-to-day business. On the basis of its internal risk management guidelines and internal controls on insider trading and the disclosure of information, the Company assumes that it fulfills both statutory and stock exchange requirements and that the principles of proper corporate governance as well as the guidelines contained in the German Corporate Governance Code have been materially implemented.

Disclosures in accordance with section 289(4) HGB and section 315(4) HGB

At the balance sheet date, the Company's subscribed capital amounted to EUR 21,503,851, composed of 21,503,851 no-par value bearer shares. Each share has a notional value of EUR 1. There are no restrictions affecting the voting rights or transferability of the shares. There are no direct or indirect interests in the Company's share capital exceeding 10% of the voting rights.

The appointment and dismissal of members of the Management Board is governed by sections 84 and 85 of the AktG and Article 6 of the Articles of Association of the Company. According to the Articles of Association, the Management Board consists of one or more persons. The number of members of the Management Board is determined by the Supervisory Board. Amendments to the Articles of Association are made in accordance with section 179 of the AktG and Article 28 of the Articles of Association. Under the terms of the latter, the Supervisory Board has the power to resolve changes to the Articles of Association that affect only their wording and also, in particular, changes to the provisions governing the share capital corresponding to the respective amounts of capital increases from conditional capital and authorized capital, and of capital reductions resulting from the retirement of shares.

For information on the powers of the Management Board relating to the issuance of shares, please refer to the section entitled „Equity" in the notes to the consolidated financial statements, and to thenotes to the financial statements of Intershop Communications AG. In addition, the Annual Stockholders' Meeting held on August 1, 2006 authorized the Management Board until January 31, 2008 to repurchase the Company's own shares. The Company is not party to any material agreements that take effect in the event of a change of control following a takeover bid. In addition, the Company has not entered into any agreements with the members of the Management Board or with employees for compensation in the event of a takeover bid.

Events Subsequent to the Balance Sheet Date

After the balance sheet date, the Company reported the following notifiable securities transactions by members of the executive bodies:

Name	Function	Date	Type of security	Type of transaction	Amount	Total value *(EUR)*
Dr. Jürgen Schöttler	Chairman of the Management Board	January 10, 2007	Share	Lending	50,000	0
Kölner Parkhaus und Parkplatz GmbH	Related to a member of the Supervisory Board*	January 12, 2007	Share	Purchase	37,901	72,928
Kölner Parkhaus und Parkplatz GmbH	Related to a member of the Supervisory Board*	January 17, 2007	Share	Purchase	19,000	44,080
music-store Artur Sauer GmbH	Related to a member of the Supervisory Board*	January 18, 2007	Share	Purchase	17,473	36,936
music-store Artur Sauer GmbH	Related to a member of the Supervisory Board*	January 12, 2007	Share	Purchase	12,527	26,683
music-store Artur Sauer GmbH	Related to a member of the Supervisory Board*	March 6, 2007	Share	Lending	70,000	0
Kölner Parkhaus und Parkplatz GmbH	Related to a member of the Supervisory Board*	March 6, 2007	Share	Purchase	20,000	34,400

* *Related to Supervisory Board member Mr. Michael Sauer*

After the balance sheet date, Supervisory Board member Mr. Michael Sauer waived his Supervisory Board compensation for fiscal year 2006 amounting to EUR 3 thousand.

On February 28, 2007, Intershop announced that the Chairman of the Supervisory Board, Mr. Hans W. Gutsch, and Supervisory Board member Mr. Wolfgang Meyer resigned their positions effective March 31, 2007. On March 2, 2007, the Management Board of the Company applied to the Jena Local Court for Mr. Sven Heyrowsky and Mr. Peter Paul Krug to be appointed members of the Company's Supervisory Board effective April 1, 2007 until the conclusion of the next Annual Stockholders' Meeting.

On March 9, 2007, Intershop announced, that CEO Dr. Jürgen Schöttler agreed with the Supervisory Board to leave the Company with the expiration of his management contract on March 31, 2007. Dr. Schöttler has served for the Company since April 2002, at first as Chief Financial Officer (CFO) and since July 2003 as Chief Executive Officer (CEO). The Supervisory Board of the Company – two members of which are to be newly appointed with effect of April 1, 2007 – anticipates to discuss the appointment of a successor for Mr. Schöttler on April 2, 2007.

In the Company's legal dispute with the landlord concerning the payment of a contractual penalty, the Jena Higher Regional Court allowed the landlord's appeal in a judgment of January 25, 2007. As a result, the Company repaid the contractual penalty received amounting to EUR 929 thousand together with interest to the landlord in February 2007. For details of this dispute, see the section entitled „Litigation" in the notes to the consolidated financial statements. The repayment will have no effect on the results for fiscal year 2007, because a provision for the relevant amount had been recognized as of December 31, 2006.

On March 7, 2007, the Company received notice of a partial claim by the landlord for payment of the disputed rent for the years 2004 to 2007. For detailed information on the legal dispute, see the section entitled „Litigation“ in the notes to the consolidated financial statements. The Company expects that this will have no effect on the results for fiscal year 2007.

On March 15, 2007, the Management Board of Intershop Communications AG authorized the submission of these IFRS consolidated financial statements to the Supervisory Board.

Outlook

The European Commission is forecasting growth of 2.7% for the countries of the EU in 2007. According to the Hauptverband des Deutschen Einzelhandels (HDE - the Central Association of German Retailers), e commerce sales in 2007 will amount to EUR 18.3 billion, which would represent an increase of around twelve percent in online trading over the previous year. The industry association BITKOM estimates that investments in software will grow by 5.7% in 2007.

However, in the opinion of industry experts at the Bundesverband Digitale Wirtschaft (BVDW – German Digital Industry Association), the current level of e-commerce sales to end customers represents just 15% of the potential total. According to the BVDW, an expanded range of offerings and functionalities and greater price transparency on the part of providers are required to address the situation.

In 2007, Intershop's objective is to achieve greater penetration of existing markets and market segments and to access new regional markets and specialized market segments. The market for online marketing services is a major growth market. The worldwide need for online marketing services will grow rapidly in the coming years. This view is supported by the current market expectations of the Online Vermarkterkreis (OVK – Online Marketing Group) of the Bundesverband Digitale Wirtschaft (BVDW – German Digital Industry Association), which is forecasting total sales of EUR 903.1 million using traditional online advertising in 2006. According to the association, these figures are far in excess of earlier expectations. The affiliate marketing and search engine marketing segments are seen as the areas with the highest growth. Intershop's product portfolio in online marketing includes these two growth areas. The cooperation agreement with Münchener eCircle AG, a leading provider of software and services for digital dialog marketing, rounds off Intershop's offering of online marketing solutions. With the integration of e-mail marketing solutions into its portfolio, Intershop is able to provide a complete performance marketing service, including customer retention.

After online marketing activities in the second half of 2006 were focused on the integration of SoQuero GmbH, the objective for 2007 is to benefit from synergy effects in order to enable Intershop's online marketing business area to develop profitably. New products and services are therefore being developed that are specifically targeted at Intershop's existing customers and that will offer them significant added value. In addition, it is planned to expand sales of online marketing solutions to Intershop's European sales regions. Overall, the Company anticipates that the online marketing business area will generate substantial revenue growth and that the planned e-business initiatives will create an additional method of attracting potential new customers.

The Company also intends to introduce the new product version 6.2 of its Enfinity Suite 6 standard software with enhanced marketing and sales functionalities to the market in spring 2007, and thereby to respond to current developments in e-commerce. Enfinity Suite 6.2 represents a continuation of the Enfinity Suite 6 technology and demonstrates the ongoing development of the product. The functionalities of Enfinity Suite 6 enable companies to bring all their online business channels together in a single platform and manage them centrally. Intershop's e-commerce Enfinity software supports more than 300 e-commerce projects in 46 countries worldwide. They include major projects with Otto, Quelle, Tchibo, Deutsche Telekom, HP, and Sun Microsystems, but also successful medium-sized companies such as Häfele, Lechler, and Lenscare.

In the new full-service business area in 2007 and 2008, the Company expects to develop its existing partnerships by cooperating on joint orders and to access additional regions and markets with the help of partnerships that provide optimal support for the product portfolio. In 2006, Intershop laid the foundations for its full-service e-commerce portfolio. Thanks to the partnerships established in the past fiscal year with yellowworld, a subsidiary of Swiss Post, and with Dohmen, Baur, and Fiege, Intershop now covers the entire e-commerce business process.

Given the positive market forecasts for the development of e-commerce, Intershop anticipates a significant increase in revenues year on year. Intershop expects to generate a positive net result and positive operating cash flow in fiscal year 2007.

In the event that the Company fails to meet its revenue and earnings targets, it is possible, on the basis of the information currently available, that the continued existence of the Company will be jeopardized. The Management Board is firmly of the opinion that in such circumstances, the Company will be able to undertake appropriate capitalization measures to safeguard liquidity.

Jena, March 15, 2007

The Management Board

Dr. Jürgen Schöttler   Ralf Männlein

Report of Independent Auditors Group

Auditor’s Report

We have audited the consolidated financial statements prepared by the INTERSHOP Communications AG, Jena, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB are the responsibility of the parent company’s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § [Article] 317 HGB [Handelsgesetzbuch „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group 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, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we refer to the discussion in the management report. In paragraph "Forecast" therein it is disclosed, that if the planned revenue targets for the following year are not achieved, a risk of insolvency of the Company can not be excluded. In this case further measures will be required to strengthen the liquidity and equity, to ensure the Company's continued existence.

Leipzig, March 19, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft,
Wirtschaftsprüfungsgesellschaft

sign. Dr. Georg Flascha	sign. Maik Pülmanns
Wirtschaftsprüfer	Wirtschaftsprüfer

Consolidated Financial Statements

Consolidated Balance Sheet

in EUR thousand	Note	December 31, 2006	December 31, 2005
ASSETS			
Noncurrent assets			
Intangible assets	(1)	6,175	4,495
Property, plant and equipment	(2)	531	483
Financial investments	(3)	0	59
Other noncurrent assets	(5)	97	105
Restricted cash	(6)	3,090	3,855
		9,893	**8,997**
Current assets			
Trade receivables	(4)	3,118	3,518
Other receivables and other assets	(5)	2,074	881
Restricted cash	(6)	4,439	2,355
Cash and cash equivalents	(6)	3,629	7,279
		13,260	**14,033**
TOTAL ASSETS		**23,153**	**23,030**
SHAREHOLDERS´ EQUITY AND LIABILITIES			
Shareholders´ equity			
Subscribed capital	(7)	21,504	17,662
Capital reserve	(7,1)	1,531	54
Other reserves	(7,2)	(16,129)	(9,444)
		6,906	**8,272**
Noncurrent liabilities			
Provisions for restructuring	(13)	0	17
Convertible bonds	(8)	2,716	5,600
Other noncurrent liabilities	(10)	719	0
Deferred tax liabilities	(11)	382	0
Deferred revenue	(12)	344	188
		4,161	**5,805**
Current liabilities			
Provisions for restructuring	(13)	1,055	790
Other current provisions	(14)	1,005	840
Trade accounts payable	(9)	6,205	3,817
Income tax liabilities	(25)	2	4
Other current liabilities	(10)	1,566	1,538
Deferred revenue	(12)	2,253	1,964
		12,086	**8,953**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**23,153**	**23,030**

Consolidated Income Statement

in EUR thousand	Note	2006	2005
Revenues	**(15)**		
Licenses		4,465	3,882
Services, maintenance and other		15,315	13,910
		19,780	**17,792**
Cost of revenues	**(16)**		
Licenses		(160)	(199)
Services, maintenance and other		(11,640)	(8,772)
		(11,800)	**(8,971)**
Gross profit		**7,980**	**8,821**
Operating expenses, operating income			
Research and development	**(17)**	(3,177)	(2,774)
Sales and marketing	**(18)**	(8,187)	(5,842)
General and administrative	**(19)**	(4,150)	(4,049)
Restructuring costs	**(20)**	(459)	780
Other operating income	**(21)**	2,175	938
Other operating expenses	**(22)**	(107)	(53)
		(13,905)	**(11,000)**
Result from operating activities		**(5,925)**	**(2,179)**
Interest income	**(23)**	335	177
Interest expense	**(24)**	(936)	(1,365)
Financial result		**(601)**	**(1,188)**
Earnings before tax		**(6,526)**	**(3,367)**
Income taxes	**(25)**	**136**	**(3)**
Earnings after tax		**(6,390)**	**(3,370)**
Consolidated net loss		**(6,390)**	**(3,370)**
Earnings per share (EUR, basic)	**(26)**	(0.34)	(0.18)
Earnings per share (EUR, diluted)*	**(26)**	(0.34)	(0.18)
Weighted average shares outstanding (basic)		18,816	18,822
Weighted average shares outstanding (diluted)		24,023	22,596

** The diluted earnings per share were reduced to the lower undiluted earnings per share.*

Consolidated Statement of Cash Flows

in EUR thousand	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Earnings before tax	(6,526)	(3,367)
Adjustments to reconcile net loss to cash used in operating activities		
Financial result	601	1,188
Depreciation and amortization	608	618
Noncash effects from deconsolidation	(250)	(438)
Other noncash expenses and income	1,163	71
Allowances for doubtful accounts	(1,127)	(251)
(Gain) Loss on disposal of property and equipment	(92)	(36)
Changes in operating assets and liabilities		
Accounts receivable	1,792	(839)
Other assets	(685)	(60)
Liabilities and provisions	2,554	(2,975)
Deferred revenue	334	(2,450)
Net cash used in operating activities before income tax and interest	**(1,628)**	**(8,539)**
Interest received	325	164
Interest paid	(31)	(43)
Income taxes paid	(2)	(1)
Net cash used in operating activities	**(1,336)**	**(8,419)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	(1,319)	544
Payments for investments in intangible assets	(120)	(9)
Proceeds on disposal of equipment	94	37
Purchases of property and equipment, net of capital leases	(299)	(207)
Acquisition of consolidated companies (less funds acquired)	(599)	0
Net cash (used in) provided by investing activities	**(2,243)**	**365**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from placement of zero-coupon convertible bond	0	11,331
Expenses of placement of zero-coupon convertible bond	0	(1,353)
Cash received for unregistered stock	26	4,258
Expenses of cash received for unregistered stock	(24)	(385)
Net cash provided by financing activities	**2**	**13,851**
Effect of change in exchange rates on cash	(73)	(150)
Net change in cash and cash equivalents	**(3,650)**	**5,647**
Cash and cash equivalents, beginning of period	7,279	1,632
Cash and cash equivalents, end of period	**3,629**	**7,279**

Consolidated Statement of Shareholders´Equity

in EUR thousand	Common share	Subscribed capital	Capital reserve
Balance, January 1, 2006	**17,662,052**	**17,662**	**54**
Net loss			
Foreign currency translation adjustments			
Stock option expense			1,548
Issue of new shares	26,240	26	(31)
Convertible bond	3,815,559	3,816	(40)
Re-issuance of treasury stock			
Balance, December 31, 2006	**21,503,851**	**21,504**	**1,531**
Balance, January 1, 2005	**25,551,412**	**25,551**	**1,948**
Net loss			
Foreign currency translation adjustments			
Stock option expense			73
Issue of new shares	4,258,550	4,259	
Convertible bond	4,886,402	4,886	1,452
Re-issuance of treasury stock			
Simplified withdrawal of shares	(112)		
Simplified capital decrease	(17,034,200)	(17,034)	(3,419)
Balance, December 31, 2005	**17,662,052**	**17,662**	**54**

Other reserves				
IFRS conversion reserve	Cumulative profit / loss	Cumulative currency differences	Treasury stock	Total shareholders`equity
(93)	**(11,607)**	**2,256**	**0**	**8,272**
	(6,390)			(6.390)
		(265)		(265)
				1,548
				(5)
				3,776
	(30)			(30)
(93)	**(18,027)**	**1,991**	**0**	**(6,906)**
(93)	**(27,669)**	**2,919**	**(1)**	**2,655**
	(3,370)			3,370
		(663)		(663)
				73
	(385)			3,874
	(640)			5,698
	3		1	4
				0
	20,454			1
(93)	**(11,607)**	**2,256**	**0**	**8,272**

Notes to the Consolidated Financial Statements

General Disclosures

Basis of preparation

In fiscal year 2006, Intershop Communications AG prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and in accordance with the provisions required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code).

The Company

INTERSHOP Communications AG is an Aktiengesellschaft (German stock corporation) under German law. The Company's registered office is at INTERSHOP Tower, Leutragraben 1 in 07740 Jena, Germany. The Company is listed on the German stock exchange in Frankfurt and is included in the Prime Standard. INTERSHOP Communications AG is entered in the commercial register of the Jena Local Court under number HRB 209419.

Intershop develops and sells software solutions for the management of e-commerce transactions. The Company also provides a comprehensive range of online marketing services and covers all aspects of online trading including fulfillment with its full-service e-commerce business area.

Going concern

As of December 31, 2006, the Company had cash and cash equivalents (including restricted cash) of EUR 11.2 million, compared with EUR 13.5 million as of December 31, 2005. The Company has generated operating losses since it was established, and had an accumulated deficit of EUR 294.7 million as of December 31, 2006. In 2006, the Company's operating activities utilized cash of EUR 3.7 million. 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 2007 without additional external financing.

Accounting principles (compliance statement)

The consolidated financial statements of Intershop Communications AG for 2006 were prepared in accordance with the International Financial Reporting Standards (IFRSs) valid at the balance sheet date and with the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU. The International Accounting Standards Board (IASB) has also issued the following Standards, Interpretations, and amendments to existing Standards whose application is not yet mandatory. The Company has decided not to adopt these Standards prior to their effective date:

IFRS 7
«Financial Instruments: Disclosures»

The IASB published IFRS 7 in August 2005. This Standard consolidates the disclosures on financial instruments that were previously contained in IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and IAS 32, Financial Instruments: Disclosure and Presentation. Individual disclosure requirements were amended or extended. IFRS 7 must be applied for fiscal years beginning on or after January 1, 2007. The Standard, which must be applied by all companies, will lead to extended disclosures on financial instruments by Intershop.

Amendment to IAS 1 «Presentation of Financial Statements» – Capital Disclosures

In connection with the publication of IFRS 7, Financial Instruments: Disclosures, the IASB announced an amendment to IAS 1 in August 2005. Under this amendment, information must be published in the financial statements to enable users to evaluate a company's objectives, policies, and processes for managing capital.

The amendment to IAS 1 must be applied for fiscal years beginning on or after January 1, 2007. The initial application of this amendment to IAS 1 by Intershop in fiscal year 2007 will lead to extended disclosures.

Financial reporting for fiscal year 2006 has been prepared in accordance with the Standards and Interpretations required to be applied and gives a true and fair view of the net assets, financial position, and results of operations of the Intershop Group.

Assets and liabilities are generally measured at historical cost. The stock option plans are measured at fair value. Convertible bonds are treated as compound financial instruments, consisting of a debt and an equity component. The debt component is carried at amortized cost using the effective interest rate method.

The consolidated financial statements have been prepared in euros. Unless stated otherwise, all amounts are given as thousands of euros (EUR thousand). Figures are rounded to the nearest thousand and totals may not sum due to rounding.

The fiscal year of Intershop Communications AG and its consolidated subsidiaries is the calendar year. The income statement has been prepared using the cost of sales method.

Estimates and assumptions

Preparation of the consolidatedl financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Estimates are based on past experience and other knowledge of transactions to be accounted for. Actual results may differ from these estimates. As a result, estimates and the assumptions on which they are based are regularly reviewed and assessed for their potential effects on the Company's financial reporting.

In particular, estimates are required to recognize and measure provisions for restructuring, legal costs and litigation risks, and guarantee provisions, as well as to assess the need for and measurement of impairment losses and valuation allowances.

Provisions for restructuring are recognized and measured on the basis of financial estimates and data available at the balance sheet date. Other provisions are recognized and measured on the basis of an estimate of the probability of a future outflow of economic benefits, as well as on the basis of historical data and the circumstances known at the balance sheet date. The actual obligation may differ from the amounts of the provisions.

Goodwill is tested for impairment using the test described in the section entitled „Impairment of assets."

General Disclosures

Basis of consolidation

In addition to the parent company, the basis of consolidation includes the following companies as of December 31, 2006:

- Intershop Communications, Inc., San Francisco, U.S.A.
- Intershop Communications Ventures GmbH, Jena, Germany
- Intershop Communications s.r.o., Prague, Czech Republic
- Intershop Communications AB, Stockholm, Sweden
- Intershop Communications Online Marketing GmbH, Frankfurt/Main, Germany

The following company was deconsolidated in the course of **2006** and included in the consolidated financial statements until the date of deconsolidation:

- Intershop Communications Australia Pty Ltd., Sydney, Australia

The following company was included in the consolidated financial statements for the first time in **2006**:

- Intershop Communications Online Marketing GmbH, Frankfurt/Main, Germany (former SoQuero GmbH)

The following companies were deconsolidated in the course of **2005** and included in the consolidated financial statements until the date of deconsolidation:

- Intershop Communications Dubai LLC, Dubai, United Arab Emirates
- Intershop Communications K.K., Tokyo, Japan
- Intershop (UK) Ltd., London, United Kingdom

The following company was included in the consolidated financial statements for the first time in **2005**:

- Intershop Communications s.r.o., Prague, Czech Republic

Intershop Communications Online Marketing GmbH, Frankfurt, Germany

Intershop acquired a 100% interest in SoQuero GmbH on June 28, 2006. SoQuero GmbH, which currently employs 12 staff in Frankfurt am Main, are experts in online marketing – a key market segment with substantial growth potential. Intershop expects this move to enable it to round off its full-service e-commerce offering.

SoQuero GmbH was renamed Intershop Communications Online Marketing GmbH in September 2006.

The transaction was accounted for using the purchase method in accordance with IFRS 3. For reasons of simplification, the purchase date was recorded as June 30, 2006 due to the short period of time involved.

in EUR thousand	Carrying amount	Adjustments to fair value	Fair Value
Assets acquired			
Software	0	225	225
Customer orders	0	685	685
Beneficial employment contracts with the management	0	383	383
Property, plant and equipment	15	0	15
Trade receivables	397	0	397
Other receivables and other assets	32	0	32
Cash and cash equivalents	175	0	175
	619	**1,293**	**1,912**
Liabilities acquired			
Other current provision	4	0	4
Trade accounts payable	175	0	175
Income tax liabilities	56	0	56
Other current liabilities	58	0	58
Deferred tax liabilities	0	505	505
Deferred revenue	241	0	241
	534	**505**	**1,039**
Net assets acquired	**85**	**788**	**873**
Total consideration (purchase price)			**1,478**
Goodwill			**605**

The resulting goodwill relates primarily to long-term customer relationships that do not fulfill the recognition criteria for intangible assets at the date of acquisition.
The Company acquired EUR 175 thousand in cash and cash equivalents. The first installment of the purchase price amounting to EUR 750 thousand had been paid by the balance sheet date.

The following intangible assets were identified and measured as part of the purchase price allocation:
- Software
- Customer orders
- Beneficial employment contracts with the management

The employment contracts with SoQuero's management will be continued for the next four years. In addition, stock options were issued under Intershop's stock option plan to facilitate their identification with the Company. These employment contracts are beneficial from Intershop's perspective.

General Disclosures

The identified intangible assets were measured at their fair value. The amortization period is 3 years for software, 1.5 years for customer orders, and 4 years for the advantageous employment contracts. The deferred tax liabilities recognized in order to account for software, customer orders, and advantageous employment contracts will be reversed in the same way as the amortization charges in subsequent years.

On the basis of the provisional purchase price allocation, the acquisition of SoQuero GmbH resulted in goodwill of EUR 605 thousand. The cost is EUR 1,478 thousand.

The cost comprises the following items (in EUR thousand):

1st purchase price installment – due as of July 1, 2006 – in cash	750
Contingent 2nd purchase price installment – due as of January 31, 2008 – in cash	705
Directly attributable transaction costs	23
Cost	**1,478**

The contingent second purchase price installment of EUR 750 thousand is due in cash on January 31, 2008 if SoQuero GmbH achieves a specific EBIT figure in fiscal year 2007. The Management Board expects the company to achieve this EBIT target and therefore included the second purchase price installment in the cost. The second purchase price installment was measured at the reporting date using a discount rate of 4%. In subsequent periods, this component will be measured at amortized cost, using the effective interest method.

If SoQuero GmbH had been acquired on the first day of 2006, the Group's revenues would have increased from EUR 19,780 thousand to EUR 20,988 thousand, and the consolidated net loss would have decreased from EUR 6,825 thousand to EUR 6,816 thousand.

Intershop Communications Australia Pty Ltd., Sydney, Australia

The Australian subsidiary, Intershop Communications Australia Pty Ltd., was deregistered on November 26, 2006 and deconsolidated.

Intershop Communications AB, Stockholm, Sweden

The Company's subsidiary in Sweden, Intershop Communications AB has not had operating activities since fiscal year 2003.

Intershop Communications s.r.o., Prague, Czech Republic

The Company's subsidiary in Prague, Intershop Communications s.r.o., was formed in 2005 and entered in the local commercial register on September 7, 2005. The subsidiary was consolidated when the shares were acquired on August 16, 2005. The cost of EUR 6,746 relates to the purchase price paid for the acquisition of the shelf company. The costs of EUR 2,030 directly attributable to the acquisition relate primarily to attorney fees. Cash of EUR 0 was used in connection with the acquisition, as the purchase price was paid from an existing bank deposit of EUR 6,746.
The company did not yet have any operating activities up to December 31, 2006.

Intershop Communications Dubai LLC, Dubai, United Arab Emirates

The Company's subsidiary in Dubai, Intershop Communications Dubai LLC, was liquidated and deconsolidated on March 13, 2005.

Intershop Communications K.K., Tokyo, Japan

The Company's subsidiary in Japan, Intershop Communications K.K., was liquidated and deconsolidated on May 13, 2005.

Intershop (UK) Ltd., London, United Kingdom

In December 2004, the Company took the decision to stop giving financial support to its subsidiary in the United Kingdom, Intershop (UK) Ltd. Its liquidation was resolved on January 14, 2005. The subsidiary was deconsolidated after the liquidation opening balance sheet was prepared as of September 30, 2005.

Intershop Communications Hong Kong Co. Limited, Intershop Communications Singapore Pte. Limited, Intershop Communications Taiwan Co. Limited, Intershop Communications Korea Co. Limited

With effect from June 29, 2004, the Company disposed of its subsidiaries INTERSHOP Communications Hong Kong Co. Limited, INTERSHOP Communications Singapore Pte. Limited, INTERSHOP Communications Taiwan Co. Limited and INTERSHOP Communications Korea Co. Limited to the head of its operations in Asia, Mr. Felix Ko, by way of a management buy-out. At this date, control over the operating activities passed to Mr. Felix Ko, with the result that these subsidiaries was deconsolidated as of this date. The shares in the company had not yet been transferred at the balance sheet date.

The following list shows the subsidiaries of Intershop Communications AG and the Company's respective interest as of December 31, 2006:

	Interest in %	Currency	Nominal capital	Equity*	Net loss*
Intershop Communications, Inc., San Francisco, U.S.A	100	EUR	7,332,682	(119,038,284)	(4,852,478)
Intershop Communications Ventures GmbH, Jena	100	EUR	1,000,000	(2,183,917)	(107,628)
Intershop (UK) Ltd., London, United Kingdom	100	EUR	1,586	0	0
Intershop Communications S.a.r.l., Paris, France	100	EUR	300,000	0	0
Intershop Communications AB, Stockholm, Sweden	100	EUR	11,437	32,066	(8,463)
Intershop Communications Hongkong Co. Ltd., Hongkong, China	99,99	EUR	1,378	0	0
Intershop Communications Korea Co. Ltd., Seoul, Korea	99,98	EUR	50,940	0	0
Intershop Communications Taiwan Co. Ltd., Taipeih, Taiwan	100	EUR	32,393	0	0
Intershop Communications Singapore Pte Ltd., Singapur	100	EUR	65,168	0	0
Intershop Communications Online Marketing GmbH, Frankfurt / Main, Germany	100	EUR	75,000	53,770	(30,835)
Intershop Communications s.r.o., Prague, Czech Republic	100	EUR	6,746	(56,578)	(30,060)

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

General Disclosures

Consolidation methods

The consolidated financial statements of Intershop Communications AG include the consolidated results of the Company and all its German and foreign subsidiaries over whose financial and operating policies Intershop Communications AG exercises direct or indirect control.

Subsidiaries

Acquisition accounting for companies acquired from third parties is performed at the date of acquisition using the purchase method in accordance with IFRS 3, Business Combinations. Under this method, the cost of the acquisition is compared with the Group's interest in the carrying amount of the equity of the company concerned. The difference between the cost of the acquisition and the Group's interest in the acquiree's equity is allocated to the acquirer's share of the fair value of the acquired assets, liabilities, and contingent liabilities of the acquiree at the time of acquisition. Any excess from acquisition accounting is recognized as purchased goodwill. Any negative difference is immediately recognized as an expense.

In subsequent periods, hidden reserves and liabilities realized at the time of initial consolidation are carried, written down, or reversed according to the treatment of the corresponding assets and liabilities. In subsequent periods, purchased goodwill is tested for impairment at least once a year, and if impaired, written down to the lower recoverable amount.

Foreign currency translation

Monetary items denominated in foreign currency in the local-currency single-entity financial statements of the consolidated companies are measured at the closing rate. Translation differences are recognized in income. Nonmonetary items denominated in foreign currency are measured at historical exchange rates.

The functional currency for it's the subsidiaries is the local currency of the country in which the subsidiary is based. The Company's functional currency is the euro. In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, the financial statements of subsidiaries outside the euro zone are translated into euros using the modified closing rate method. Since from a financial, economic, and organizational perspective, the subsidiaries conduct their business independently, the functional currency is always the same as the company's local currency. Assets and liabilities are translated using the closing rate at the balance sheet date; income and expenses are translated at the average exchange rate for the year. The difference resulting from currency translation is taken directly to equity and reported separately in equity under other reserves (cumulative currency translation differences).

Transactions in foreign currencies are translated at the exchange rate prevailing at the date of each transaction. Differences in exchange rates between the date of a transaction denominated in a foreign currency and the date at which it is either settled or translated are recognized in the income statement and are shown in "other operating income" or "other operating expenses." Currency gains and losses were EUR -44,361 in 2006 and EUR-48,244 in 2005.

The following table shows the significant exchange rates used for foreign currency translation:

	Currency	Closing rate		Average rate for the year	
	1 Eur =	*2005*	*2006*	*2005*	*2006*
United States	USD	1.18	1.32	1.25	1.26
United Kingdom	GBP	0.69	0.67	0.68	0.68
Czech Republic	CZK	29.00	27.53	29.96	28.37
Australia	AUD	1.62	1.67	1.64	1.67

Accounting Policies

The accounting policies are applied uniformly throughout the Intershop Group and to all periods reported in the consolidated financial statements.

Goodwill

In accordance with IFRS 3, goodwill resulting from consolidation is the excess of the cost of a business combination over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate, or joint venture at the date of acquisition.

Goodwill is recognized as an asset and tested for impairment at least once a year in accordance with IAS 36. Goodwill is tested for impairment on the basis of cash-generating units. An impairment loss is recognized if the recoverable amount of the cash-generating unit, which is the higher of net realizable value and value in use, is lower than its carrying amount.

Impairment losses are immediately recognized in the income statement and not reversed in subsequent periods.

At the balance sheet dates for 2005 and 2006, there were no impairment losses that had to be recognized.

Intangible assets

Purchased intangible assets are capitalized at cost. Intangible assets with finite useful lives are measured at cost less accumulated amortization and impairment losses. Intangible assets with indefinite useful lives, such as goodwill, are measured at cost less accumulated amortization and impairment losses.

Software development costs

Development costs for newly developed products are capitalized at production cost in accordance with IAS 38 if a clear allocation of expenses is possible, and if both the technical feasibility and the marketability of the newly developed products is ensured. Capitalization of software development costs generally begins when the technological feasibility of the product is established; the Company defines this as the development of a prototype as well as the development of a beta version of the software. As the Company has consolidated its various product lines within the Enfinity Suite 6 for the first time and it was not possible to clearly allocate expenses to individual product lines in the past, software development costs will only be capitalized in the future if the production cost of the successor product can be clearly allocated. A different approach applies to the creation of online shops for full-service customers. Because the online shops are developed by Intershop and ownership remains with the Company, the development costs arising are capitalized.

Research costs may not be capitalized in accordance with IAS 38 and are therefore recognized directly as an expense in the income statement.

Property, plant, and equipment

Property, plant, and equipment is measured at cost less accumulated depreciation and impairment losses. 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 depreciated on a straight-line basis over the shorter of the lease terms or their estimated useful lives. When items of property, plant, and equipment are decommissioned, sold, or abandoned, the gain or loss from the difference between the sale proceeds and the carrying amount is reported in “other operating income“ or “other operating expenses.”

Impairment of assets

For property, plant, and equipment and intangible assets with finite useful lives, an estimate is made at each balance sheet date to establish whether there are any indications that the assets in question may be impaired in accordance with IAS 36, Impairment of Assets.

If such indications exist, the recoverable amount of the asset is determined so that the impairment loss can be calculated. The recoverable amount is the higher of fair value less costs to sell and value in use. The fair value less costs to sell is defined as the amount that could be generated by the sale of an asset in an arm‘s length transaction between willing parties. The value in use is determined on the basis of discounted future cash flows using a market rate of interest before taxes that reflects the risks of the asset that are not yet included in the estimated future cash flows. If the recoverable amount of an asset is lower than its carrying amount, the asset must be written down to its recoverable amount. Impairment losses are recognized immediately in profit or loss. No impairment losses were reported in 2006. In 2005, the subsidiary in the United Kingdom recognized impairment losses in the amount of EUR 242 thousand, which were due to the adjustment of the subsidiary‘s balance sheet to its liquidation opening balance sheet.

In the case of reversals of impairment losses in a subsequent period, the carrying amount of the asset is adjusted to reflect the identified recoverable amount; however, the value of the asset may only be increased to the carrying amount that would have arisen if no impairment loss had previously been charged. Reversals of impairment losses must be recognized immediately in profit or loss. No such reversals were performed in 2005 and 2006.

The goodwill impairment test is to be performed on a cash generating unit. Goodwill comprises both the intellectual property incorporated in the software and goodwill resulting from the acquisition of SoQuero GmbH. For the goodwill resulting from the acquisition of SoQuero GmbH, the relevant cash-generating unit is the Company‘s subsidiary Intershop Communications Online Marketing GmbH. For the goodwill representing the intellectual property incorporated in the software, the relevant cash-generating unit is the Intershop Group excluding the online marketing and full-service business areas. As a first step, the carrying amounts of the cash generating units are compared with their value in use. The total of the carrying amounts is also compared with the fair value of the Company. For this purpose, the fair value is derived from the Company‘s market capitalization. The impairment write-down required is determined in a second step, but only if the value in use or fair value is less than the carrying amount. At the balance sheet dates for 2005 and 2006, there were no impairment losses requiring to be recognized. Impairment losses on goodwill are not reversed.

Leases

IAS 17 requires leases to be classified into financing leases and operating leases. Leases are classified as financing leases if the terms and conditions of the lease transfer substantially all risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Financial instruments

Financial assets and financial liabilities, which include trade receivables and liabilities, cash and cash equivalents, restricted cash, and the convertible bond, are recognized in the balance sheet at the date when the Group becomes a party to the contractual provisions of the financial instrument.

Financial instruments are recognized at fair value on acquisition. Subsequent measurement depends on the classification of the financial instruments. Currently, Intershop's only financial instruments are trade receivables, which are recognized at amortized cost in accordance with IAS 39.

Trade receivables, other receivables and other assets

Trade receivables are recognized at the fair value of the recognized revenue or the consideration paid and are measured at amortized cost, net of any valuation allowances. Receivables from the sale of software licenses are recognized only when a contract has been signed with the customer, any right of return granted to the customer has expired, the software has been made available according to the contract, and it is more probable than not that the receivable will be collected.

Trade receivables are recognized at their principal amount, which equals fair value at the time of collection. Receivables with longer maturities (> 1 year) are discounted using market interest rates.

Other receivables and other assets are recognized at amortized cost. All identifiable risks of default are taken into account by deducting appropriate allowances.

The Company makes judgments as to its ability to collect outstanding receivables and recognizes allowances for the portion of receivables where collection becomes doubtful. Allowances are recognized based on a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, allowances are recognized at differing rates, based on 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 allowances recognized for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional allowances for doubtful accounts may be needed and the future results of operations could be materially affected.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, checks, and unrestricted deposits with banks that have an original maturity of up to 90 days and are recognized at nominal value.

Restricted cash

Restricted cash is reported separately (see section entitled "Liquid Funds").

Stock option plans

Stock option plans allow employees to acquire shares in the Company. In accordance with IFRS 2, they are accounted for at the fair value of the options issued; they are recognized in employee-related expenses, with a corresponding increase in equity. See section entitled "Equity" for further details.

Intershop has launched the following stock option plans:

1997 Stock Option Plan

The Company had originally reserved 2,000,000 ordinary shares for issuance to employees, directors, and consultants under its 1997 Stock Option 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 grant date. Options vest ratably over periods determined by the Board, generally three years. The Management Board also has the authority to set exercise dates (no longer than ten years from the grant date), payment terms, and other provisions. The Company had the right of first refusal for all ordinary shares issued under the 1997 Plan should the holder intend to sell or otherwise transfer any of the shares.

The Company's right of first refusal terminated at the effective date July 16, 1998, of the Company's initial public offering. The 1997 stock option plan was terminated as of December 31, 2006. All 13 option holders have formally agreed to surrender their stock options. In consideration, the option holders have received a gross payment of EUR 1 for each option surrendered. The total payment amounted to EUR 4,391.

1999 Stock Option Plan

With effect from June 21, 1999, the Company adopted a new stock option plan (the 1999 Plan) for the issuance of shares to Management Board members, executives, and various employees. The options under the 1999 Plan vest ratably over a four-year period, beginning six months from the grant date; however, in accordance with the Aktiengesetz (German Stock Corporation Act), no options will be exercisable, even though a portion is vested, prior to the second anniversary of the grant date. The exercise price of the options is equal to 120% of the market price of the shares at the grant date, 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 grant date.

2001 Stock Option Plan

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 grant date; however, in accordance with the Aktiengesetz, no options will be exercisable, even though a portion is vested, prior to the six months after the grant date. The exercise price of the options is the fair value at the grant date, defined as equivalent to the XETRA closing price on the Frankfurt Stock Exchange for voting shares of stock of the Company.

Convertible bond

Convertible bonds are treated as compound financial instruments, consisting of a debt component and an equity component. The debt component is measured at the date of issue by discounting future payments using an appropriate standard market interest rate. The difference between the proceeds from the issue of the convertible bond and the fair value of the debt component represents the value of the embedded option to convert the liability into equity of the Group. The value of this option is included in the equity component. The issue costs are split between the equity and debt component of the convertible bond in relation to their relative carrying amounts at the date of issue. The portion allocated to equity is taken directly to equity. The interest expense for the debt component has been calculated using the standard market interest rate for comparable, nonconvertible debt instruments. The difference between the amount calculated in this way and the interest actually paid has been added to the carrying amount of the convertible bond. In subsequent periods, the debt component will be measured at amortized cost, using the effective interest rate method.

Other provisions and contingent liabilities

According to IAS 37, provisions are recognized for obligations to third parties if they have arisen from a past event, an outflow of resources is probable, and the amount can be reliably estimated. Provisions that do not lead to an outflow of resources in the subsequent year are recognized at the settlement value, discounted to the balance sheet date using market interest rates. The settlement value includes expected cost increases. Rights of recourse are not deducted from provisions.

Contingent liabilities are firstly possible obligations whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity. Secondly, they are existing obligations where it is not probable that they will lead to an outflow of resources, or the outflow cannot be reliably quantified. According to IAS 37, contingent liabilities are not recognized in the balance sheet.

Trade accounts payable

Trade accounts payable do not bear interest and are recognized at their redemption amounts. Trade accounts payable are classified into current and noncurrent trade accounts payable. Trade accounts payable within one year are current liabilities, and trade accounts payable after one year are noncurrent liabilities.

Income and expense recognition

Intershop derives revenues from two primary sources: (1) software license revenues and (2) services revenues, which include maintenance, consulting, and education.

For software license arrangements that do not require significant modification or customization of the underlying software, the Company recognizes the services performed as revenue when: (1) it enters into a legally binding arrangement 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 additionally include implementation services sold separately under consulting engagement contracts. Revenues from these arrangements are generally accounted for separately from the license revenue. The more significant factors considered in determining whether the revenue should be accounted for separately from the license revenue. 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 collectibility 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 recognizes a provision 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.

Cost of revenues

The cost of revenues comprises the costs incurred in generating revenues. They include in particular all costs incurred in the consulting, maintenance, training, full-service, and online marketing areas.

Cost of debt

Interest expenses are recognized in the period in which they arise.

Government grants

In accordance with IAS 20, government grants are only recognized when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. IAS 20 provides in principle for grants to be recognized as income over the periods in which the related costs are recognized. If all the conditions have been complied with, the Company reports non-repayable income subsidies as other operating income.

In 2006, Intershop received a notice of grant amounting to EUR 1,038 thousand from Thüringer Aufbaubank. For a period of three years, the subsidy must be used specifically for research and development projects focusing on precompetitive development and industrial research. After the end of the approval period of January 1, 2006 to December 31, 2007, evidence of the purpose for which the subsidy is being used must be presented. The grant is therefore subject to a conditional repayment obligation. The Company also received a notice of grant from the Federal Ministry of Education and Research in 2005. The grant is for 40% of the eligible total production costs actually incurred. The subsidy must be used specifically for a joint project in the area of research and development. The approval period runs from October 1, 2005 to September 30, 2008.

The subsidies are made available as follows (in EUR thousands):

	Thüringer Aufbaubank	Federal Ministry of Education and Research	Total
2006	443	36	479
2007	476	36	512
2008	119	44	163
2009	0	6	6
Total	**1,038**	**122**	**1,160**

Income taxes

In accordance with IAS 12, deferred tax assets and liabilities are recognized for all temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet, for tax credits, and for loss carryforwards. The Company uses the tax rate enacted as of the balance sheet date or future tax rates to calculate deferred tax assets and liabilities. The effect of changes in the tax rate on deferred taxes is recognized as of the effective date of the legal changes. Deferred tax assets are recognized only if it is probable that taxable profit will be available against which they can be utilized in the future.

Earnings per share

The basic net loss per share is determined in accordance with IAS 33, Earnings per Share for all periods presented. Basic net loss per share is computed using the weighted average number of outstanding shares of common shares.

The diluted net loss per share is computed using the weighted average number of ordinary shares outstanding and, in the case of dilution, the ordinary shares outstanding and the potential number of ordinary shares from options and warrants to purchase such shares 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 ordinary shares have been excluded from the computation of the diluted net loss per share for 2005 and 2006 because the effect would be antidilutive.

Notes to the Individual Balance Sheet Items

(1) Intangible assets

in EUR thousand	Software	Internally developed software	Other intangible assets	Goodwill	Total
Costs of purchase Balance at January 1, 2005	6,170	0	0	23,970	30,140
Additions	9	0	0	0	9
Disposals	0	0	0	0	0
Additions to the basis of consolidation	0	0	0	0	0
Disposals to the basis of consolidation	0	0	0	0	0
Currency translation differences	180	0	0	0	180
Costs of purchase Balance at December 31, 2005	6,359	0	0	23,970	30,329
Additions	3	341	1,068	605	2,017
Disposals	0	0	0	0	0
Additions to the basis of consolidation	0	0	0	0	0
Disposals to the basis of consolidation	0	0	0	0	0
Currency translation differences	(140)	0	0	0	(140)
Costs of purchase Balance at December 31, 2006	6,222	341	1,068	24,575	32,206
Amortization, write-downs, and impairment losses Balance at January 1, 2005	6,116	0	0	19,497	25,613
Additions	41	0	0	0	41
Disposals	0	0	0	0	0
Additions to the basis of consolidation	0	0	0	0	0
Disposals to the basis of consolidation	0	0	0	0	0
Currency translation differences	180	0	0	0	180
Balance at December 31, 2005	6,337	0	0	19,497	25,834
Additions	20	41	276	0	337
Disposals	0	0	0	0	0
Additions to the basis of consolidation	0	0	0	0	0
Disposals to the basis of consolidation	0	0	0	0	0
Currency translation differences	(140)	0	0	0	(140)
Balance at December 31, 2006	6,217	41	276	19,497	26,031
Net carrying amount at Dec. 31, 2005	22	0	0	4,473	4,495
Net carrying amount at Dec. 31, 2006	**5**	**300**	**792**	**5,078**	**6,175**

The additions to internally developed software reported in fiscal year 2006 relate to software identified and measured in the course of allocating the purchase price for the acquisition of SoQuero (carrying amount: EUR 225 thousand; remaining useful life: 2.5 years) as well as capitalized development costs for the creation of online shops for full-service customers. The other intangible assets include customer orders and beneficial employment contracts with the management that were identified and measured in allocating the purchase price and have a combined carrying amount of EUR 1,068 thousand. The remaining amortization period for the customer orders is one year and for the beneficial employment contracts 3.5 years. (See the paragraph entitled „Intershop Communications Online Marketing GmbH“ under the „Basis of consolidation“ section).

(2) Property, plant, and equipment

in EUR thousand	Computer equipment	Office and operating equipment	Leasehold improvements	Total
Costs of purchase Balance at January 1, 2005	10,004	2,747	753	13,504
Additions	201	12	0	213
Disposals	(388)	(118)	0	(506)
Disposals to the basis of consolidation	(807)	(682)	(496)	(1,985)
Currency translation differences	63	14	6	83
Costs of purchase Balance at December 31, 2005	9,073	1,973	263	11,309
Additions	283	15	7	305
Disposals	(1,048)	(562)	0	(1,610)
Additions to the basis of consolidation	20	5	0	25
Currency translation differences	(39)	(4)	0	(43)
Costs of purchase Balance at December 31, 2006	8,289	1,427	270	9,986
Depreciation, write-downs, and impairment losses Balance at January 1, 2005	9,771	2,544	319	12,634
Additions	179	141	263	583
Disposals	(388)	(117)	0	(505)
Disposals to the basis of consolidation	(807)	(654)	(496)	(1,957)
Currency translation differences	62	12	(3)	71
Balance at December 31, 2005	8,817	1,926	83	10,826
Additions	207	39	24	270
Disposals	(1,049)	(560)	0	(1.609)
Additions to the basis of consolidation	8	2	0	10
Currency translation differences	(38)	(4)	0	(42)
Balance at December 31, 2006	7,945	1,403	107	9,455
Net carrying amount at Dec. 31, 2005	256	47	180	483
Net carrying amount at Dec. 31, 2006	**344**	**24**	**163**	**531**

Property, plant, and equipment with a carrying amount of EUR 15 thousand was acquired as part of the purchase of SoQuero GmbH. In the table above, however, the full amounts of the cost (EUR 25 thousand) and the cumulative depreciation, write-downs, and impairment losses (EUR 10 thousand) of SoQuero GmbH's property, plant, and equipment have been reported as additions in 2006. Insignificant amounts from periods prior to the acquisition have therefore been included. Property, plant, and equipment includes disposals amounting to EUR 844 thousand. These disposals are the result of a physical inventory and relate to items already fully depreciated.

The „Disposals to the basis of consolidation" in fiscal year 2005 items show amounts incurred in connection with the deconsolidation of subsidiaries in the United Kingdom and Dubai.

Notes to the Individual Balance Sheet Items

(3) Financial investments

in EUR thousand	Financial investments
Costs of purchase Balance at January 1, 2005	0
Additions	0
Disposals	0
Additions to the basis of consolidation	59
Disposals to the basis of consolidation	0
Currency translation differences	0
Costs of purchase Balance at December 31, 2005	59
Additions	0
Disposals	0
Additions to the basis of consolidation	0
Currency translation differences	0
Costs of purchase Balance at December 31, 2006	59
Impairment losses Balance at January 1, 2005	0
Additions	0
Disposals	0
Additions to the basis of consolidation	0
Disposals to the basis of consolidation	0
Currency translation differences	0
Impairment losses Balance at December 31, 2005	0
Additions	59
Disposals	0
Additions to the basis of consolidation	0
Currency translation differences	0
Impairment losses Balance at December 31, 2006	59
Net carrying amount at Dec. 31, 2005	59
Net carrying amount at Dec. 31, 2006	**0**

The financial investments relate to the deconsolidation of the subsidiary in the United Kingdom. This subsidiary is currently being liquidated. The amount of EUR 59 thousand is derived from the 2005 opening liquidation balance sheet made available to Intershop. Because it was not possible to complete the liquidation in fiscal year 2006 and there are doubts about the recoverability of the amounts due to Intershop, the Company has written off the financial investments for reasons of prudence.

(4) Trade receivables

Trade receivables as of the balance sheet date include receivables from the sale of software licenses and the performance of services amounting to EUR 3,117 thousand (2005: EUR 3,518 thousand) and due within one year (current assets).

On average, settlement of receivables from the sale of licenses and the performance of services is due within 30 days of invoicing. From the date the receivables become due, the statutory rate of interest (8% above prime) is charged on outstanding amounts.

Allowances amounting to EUR 201 thousand have been recognized. The total allowance consists of specific and general bad-debt allowances. A specific allowance is recognized on all receivables that have been due for more than 90 days. For all other receivables, a general bad-debt allowance of 1% is recognized.

(5) Other receivables and other assets

Other receivables and other assets are composed of the following items:

in EUR thousand	Dec. 31, 2006	Dec. 31, 2005
Noncurrent assets Other noncurrent assets	97	105
Current assets Other receivables and other assets	2,074	881

Other noncurrent assets mainly comprise receivables from prepayments.

Other current receivables and current assets include the following items:

in EUR thousand	Dec. 31, 2006	Dec. 31, 2005
VAT and other tax receivables	324	71
Prepayments	213	210
Fixed-price projects	554	36
Receivables from employees and former employees	223	190
Receivables for government grants	140	0
Other	620	374
	2,074	**881**

The fixed-price projects item comprises three orders with a total order volume of EUR 741 thousand. Of this amount, EUR 554 thousand had been recognized as revenue by the balance sheet date. In the same period, the costs of the projects amounted to EUR 582 thousand. The fixed-price projects therefore generated a negative contribution to earnings of EUR 28 thousand in total for fiscal year 2006. Provisions for expected losses amounting to EUR 16 thousand have been recognized in respect of the further negative contributions to earnings anticipated before the projects are completed. The „Other“ item includes receivables due to the Company from a member of the Supervisory Board, which relate to the repayment of an advisory fee from the year 2003. The receivables for government grants comprise the claim for a grant from Thüringer Aufbaubank that has been applied for but not yet received. In the fiscal years ended December 31, 2006 and 2005, the Company charged write-downs on receivables from employees and former employees in the amount of EUR 476 thousand and EUR 527 thousand respectively.

(6) Cash and cash equivalents

Cash and cash equivalents include current and noncurrent restricted cash as well as current cash and cash equivalents.

in EUR thousand	Dec. 31, 2006	Dec. 31, 2005
Restricted cash – noncurrent	3,090	3,855
Restricted cash – current	4,439	2,355
	7,529	6,210
Cash and cash equivalents	3,629	7,279

A bank issued a guarantee to cover the lease payments on leased property in Jena, should the Company fail to fulfill its existing obligations under the lease. In this context, time deposits held by the Company were pledged (restricted cash). This rental guarantee provides for an annual reduction by way of a proportionate release of cash; however, this did not occur due to pending litigation. Current restricted cash includes the amounts for 2004 to 2007 that relate to the contractually agreed reduction. Noncurrent restricted cash includes the amounts from 2008 to the end of the lease period. Noncurrent restricted cash also includes the payment made by the landlord following the provisional judgment resulting from the legal proceedings brought by the Company for payment of a contractual penalty. (See the section entitled „Litigation").

Restricted cash rose by EUR 1.3 million in fiscal year 2006. The increase mainly reflected the payment received from the landlord described in the previous section.

Cash and cash equivalents include balances at various banks that are available at any time, as well as cash and checks.

(7) Equity

The development of Intershop Communications AG's equity is shown in the statement of equity.

Subscribed capital

The subscribed capital amounts to EUR 21,503,851 and is divided into 21,503,851 no-par value bearer shares. The change in subscribed capital amounting to EUR 3,841,799 reflects capital increases from authorized capital as a result of the exercise of employee stock options and a capital increase from conditional capital following the exercise of conversion rights.

On February 3, 2006, Intershop announced in the Frankfurter Allgemeine Zeitung that Heycom GmbH, Garbsen, informed the Company on January 27, 2006 that its share of Intershop's voting rights exceeded the 5% threshold on January 18, 2006 and amounts to 8.62%. Heycom GmbH also informed the Company on January 31, 2006 that its share of Intershop's voting rights fell below the 5% threshold on January 25, 2006 and now amounts to 1.11%.

On February 9, 2006, Intershop announced in the Frankfurter Allgemeine Zeitung that Mr. Sven Heyrowsky informed the Company on February 6, 2006 that his share of the Company's voting rights exceeded the 5% threshold on January 18, 2006 and amounts to 8.62%. Of this, 8.62% is attributable to Mr. Sven Heyrowsky in accordance with section

22(1) no. 1 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act). Mr. Sven Heyrowsky also informed Intershop on February 6, 2006 that his share of the Company's voting rights fell below the 5% threshold on January 25, 2006 and now amounts to 3.94%. Of this, 2.83% is attributable to Mr. Sven Heyrowsky in accordance with section 22(1) no. 1 of the WpHG.

As of the balance sheet date, the Company was not informed of any equity interests of 5% or more than 5%.

Authorized capital

As of December 31, 2006, the Company had authorized capital of EUR 40,461,597. Under the Articles of Association of Intershop Communications AG, the Management Board is entitled, with the approval of the Supervisory Board, to increase the Company's share capital by issuing new ordinary shares as follows:

By up to a total of EUR 30,835,337 against cash or noncash contributions up to September 11, 2007 (Authorized Capital I). When increasing the share capital, the Management Board is authorized to disapply the stockholders' subscription rights under certain conditions with the approval of the Supervisory Board. There were no changes to Authorized Capital I in fiscal year 2006.

By up to a total of EUR 9,626,260 against cash contributions while disapplying the stockholders' subscription rights on the basis of the resolution adopted by the Annual Stockholders' Meeting on June 6, 2002 (Authorized Capital II). The authorization of the Management Board applies until September 11, 2007. 9,600 shares were issued under the employee stock option plan in 2004; these now amount to 3,200 shares following the 3:1 reverse stock split in fiscal year 2005. By way of a resolution adopted by the Management Board on December 19, 2005, the capital increase from Authorized Capital II became legally effective on February 22, 2006. 23,040 employee stock options were exercised and converted into Intershop ordinary bearer shares as part of the employee stock option plan in the fiscal year 2006. As a result, Authorized Capital II was reduced from EUR 9,652,500 as of December 31, 2005 to EUR 9.626.260 as of December 31, 2006.

Conditional capital

The Company's share capital was increased conditionally by up to EUR 21,602,758 in order to issue 21,602,758 shares. Due to capital reductions and options that have expired or were not issued, however, a maximum of 3,219,373 shares may be issued in future from the conditional capital. The conditional capital is composed of the following:

In order to grant employee stock options, EUR 8,165,000 (Conditional Capital I) is reserved for options in compliance with section 192(2) no. 3 of the Aktiengesetz (AktG – German Stock Corporation Act). Conditional Capital I is reserved for exercising the subscription rights under the 1999 stock option plan. Due to the 5:1 capital reduction resolved on October 30, 2002 that became legally effective on December 12, 2002, and the 3:1 capital reduction resolved on April 26, 2005 that became legally effective on June 28, 2005, the subscription rights arising from Conditional Capital I decreased at the same ratio, i.e., to 544,333 shares, in accordance with section 218 of the AktG.

EUR 690,016 (Conditional Capital II) is reserved to implement the rights granted to all known holders of options to exchange shares in Intershop Communications, Inc., which was acquired by the Company in 1998. Due to the 5:1 capital reduction resolved on October 30, 2002 that became legally effective on December 12, 2002, and the 3:1 capital reduction resolved on April 26, 2005 that become legally effective on June 28, 2005, the subscription rights arising from Conditional Capital I decreased at the same ratio, i.e., to 46,001 shares, in accordance with section 218 of the AktG.

Conditional Capital III was canceled by a resolution of the Annual Stockholders' Meeting dated July 7, 2004. The conditional capital increase was used to grant a right to convert Intershop Inc. shares into shares of the Company to Stephan Schambach and Burgess Jamieson; they exercised their conversion right in 2003.

An amount totaling EUR 12,747,742 is available as Conditional Capital IV to issue 12,747,742 shares. A resolution of the Annual Stockholders' Meeting dated 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, under which the stockholders' subscription rights may be disapplied. In January 2005, the convertible bond consisting of 11,331,000 bonds was placed in return for consideration amounting to EUR 11,331,000. In fiscal year 2005, 4,886,402 bonds from the convertible bond were converted, and in fiscal year 2006, 3,815,559 bonds. Conditional Capital IV fell from EUR 16,563,301 at December 31, 2005 to EUR 12,747,742 at December 31, 2006. Because of options not issued, however, a maximum of 2,629,039 shares may be issued from Conditional Capital IV. (See also the section entitled „Convertible bond").

Reverse stock split

A reverse stock split at a ratio of 5:1 was implemented in fiscal year 2002. On September 11, 2002, the Management Board of Intershop Communications AG announced that the Company's share capital had been depleted by 50% and convened a Special Stockholders' Meeting. This meeting on October 30, 2002 resolved a simplified capital reduction at a ratio of 5:1 to offset losses and other impairments. The capital reduction 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 subscribed capital amounted to EUR 19,306,400 on December 31, 2002. The 5:1 reverse stock split of the Company's ordinary bearer shares admitted to trading was technically implemented on January 17, 2003 at the close of trading; the first trading date for the converted ordinary bearer shares was January 20, 2003.

A reverse stock split at a ratio of 3:1 was implemented in fiscal year 2005. The simplified capital reduction was resolved at the Annual Stockholders' Meeting on April 26, 2005 as a result of the depletion of half of the share capital that was established during the preparation of the 2004 single-entity financial statements of Intershop Communications AG. The reverse stock split was technically implemented on July 7, 2005 at the close of trading on the Frankfurt Stock Exchange. This meant that three existing ordinary bearer shares were exchanged for one new ordinary bearer share, as a result of which 112 shares were retired without compensation. The new shares began trading on a consolidated basis on July 8, 2005. Following the reverse stock split, the International Securities Identification Number (ISIN) of Intershop Communications AG's bearer shares changed from ISIN DE 0007472920 (equivalent to German Securities Identification Number – WKN 747292) to ISIN DE 000A0EPUH1 (equivalent to German Securities Identification Number – WKN A0EPUH). The ticker symbol of Intershop's shares in the Prime Standard was changed from ISH1 to ISH2.

As a result of the capital reduction, the capital reserve and other reserve items were adjusted and the share capital reduced accordingly.

Capital increases in fiscal year 2005

On September 28, 2005, Intershop announced that the Management Board and the Supervisory Board had resolved to implement a cash capital increase from Authorized Capital I, while protecting the stockholders' subscription rights. Existing stockholders were able to subscribe for 1 new share per 2 existing Intershop ordinary bearer shares at a price of EUR 1.00. To this end, Intershop issued 4,258,550 new shares from its authorized capital. The new shares took effect following the entry of the capital increase in the commercial register at the Gera Local Court on October 19, 2005, and were admitted to trading in the Prime Standard of the Frankfurt Stock Exchange on November 28, 2005. As a result of the transaction, Intershop received cash amounting to EUR 4,258 thousand; the costs totaled EUR 385 thousand. As a result of the transaction, the Company generated proceeds from the issue of EUR 3,873 thousand. The share capital increased from EUR 8,517,100 to EUR 12,775,650.

The first exercise period in which bonds arising from the zero-coupon convertible bond could be converted into shares of the Company was from November 1 to November 30, 2005. 4,886,402 bonds were converted. As a result of the exercise of the conversion option, the Company's share capital increased by EUR 4,886,402 from EUR 12,775,650 to EUR 17,662,052 due to the issue of 4,886,402 new shares from the Company's Contingent Capital IV (see the section on the convertible bond).

Capital increases in fiscal year 2006

In fiscal year 2006, there were capital increases from Authorized Capital II as a result of the exercise of employee stock options and a capital increase from Conditional Capital IV as a result of the conversion of convertible bonds into shares of the Company.

Employee stock options were exercised and exchanged for shares of the Company under the terms of the employee stock option plan. As a consequence, there were capital increases from Authorized Capital II.

These capital increases are presented in the following table:

Date	Amount (EUR)
February 22, 2006	3,200
July 12, 2006	6,840
August 16, 2006	7,500
September 25, 2006	5,720
December 12, 2006	2,980
Total	**26,240**

The Company received cash proceeds amounting to EUR 26 thousand from these capital increases; the costs amounted to EUR 24 thousand.

The second exercise period during which bonds from the zero-coupon convertible could be converted into shares of the Company ran from August 4 to September 8, 2006. 3,815,559 bonds were converted. As a result of the exercise of the conversion option, 3,815,559 new shares were issued from Conditional Capital IV with a corresponding increase in the Company's share capital.

Stock option plans

Options issued under Intershop's stock option plans entitle employees to acquire shares of the Company The lock-up period is six months for the 2001 stock option plan, and two years for the 1999 stock option plan. Options expire if they are not exercised within 5 years (1999 and 2001 stock option plans) from the grant date. If an employee leaves the Company, the options expire that are not exercisable up to the date on which the employee leaves; exercisable options may be exercised up to six months after the employee leaves the Company, but expire after this period. In addition, all options are withdrawn from employees if they leave the Company within the first six months of the grant date.

As of January 1, 2006, the Company granted new options to employees under its stock option plans. Further grants of options were made during fiscal year 2006 on the appointment of new employees and for employees from the acquisition of SoQuero GmbH.

Option activity under the plans was as follows:

Year ended December 31,	**2006** Number of shares outstanding (in thousand)	**2006** Weighted average exercise price (Euro)	**2005** Number of shares outstanding (in thousand)	**2005** Weighted average exercise price (Euro)
Outstanding at beginning of period	453	18,38	523	120.60
Granted	5,301	1.19	46	2.25
Exercised	(23)	1.00	0	0
Forfeited	(429)	13.08	(116)	422.14
Outstanding at end of period	**5,302**	**1.43**	**453**	**18.38**
Exercisable options at end of period	1,350	3.31	297	24.48
Weighted average fair market value of options granted during the year	5,301	0.67	46	16.23

The following table summarizes information with respect to the stock options outstanding on December 31, 2006:

Range of exercise price	Number of options outstanding (in thousand)	Weighted average remaining contractual life (in years)	Weighted average exercise price (EUR)	Number exercisable on Dec. 31, 2006 (EUR thousand)	Weighted average exercise price (EUR)
0.01 – 17.99	5,256	4.3	1.41	1,250	1.83
18.00 – 20.99	4	1.7	18.19	37	18.11
21.00 – 50.99	36	0.2	23.80	63	23.91
51.00 – 149.99	5	0	95.94	0	0.00
150.00 – 2,274.12	1	0	169.04	0	0.00
	5,302	**4.3**	**1.43**	**1,350**	**3.31**

The values of the options were calculated at the grant date using the Black-Scholes option pricing model on the basis of the following assumptions:

		Bandwidth from	to
Expected term (in years)	in years	1.00	5.00
Risk-free interest rate (in %)	in %	2.71	3.88
Expected Volatility (in %)	in %	79.00	109.78
Dividend yield	in %	0.00	0.00
Exercise price	in euros	1.00	7.65
Market price	in euros	1.00	7.65
Option value	in euros	0.56	4.62

The volatility of Intershop shares fluctuated between around 70% and around 190% over the past five years, although a trend towards lower volatility can be identified. For options granted before January 1, 2006, the expected volatility was determined by calculating the average historical volatilities of the Company‘s stock price for the last three years. For options granted from January 1, 2006 onwards, an expected volatility of 80% was assumed, as the historical daily volatility in 2005 fluctuated in a corridor between around 80% and around 100%. Intershop considers an expected volatility of 80% for the next few years to be appropriate.

In accordance with IFRS 2.53, only options that were granted after November 7, 2002 and were not exercisable before January 1, 2005, as well as all options granted in 2004, 2005 and 2006, were taken into account in the calculation of the expense incurred from option plans.

In fiscal year 2006, the Company recognized expenses of EUR 1.548 thousand relating to the stock option plans. These expenses amounted to EUR 73 thousand in fiscal year 2005.

(7.1) Capital reserve
The capital reserve only contains the expense from the stock options.

(7.2) Other reserves
Other reserves include the IFRS conversion reserve, reserves from cumulative gains/losses, and cumulative currency translation differences. The IFRS conversion reserve includes the expense from stock options that related to the first-time adoption of IFRSs. The reserve from cumulative currency translation differences shows the differences that result from the translation of the financial statements of subsidiaries into euros.

Treasury stock
On July 25, 2006, the Company borrowed 20,000 Intershop ordinary bearer shares free of charge from Chairman of the Supervisory Board, Hans W. Gutsch, to cover requirements under the employee stock option plan. The shares borrowed were returned to Mr. Gutsch in December 2006. As a result, the Company did not hold any treasury shares as of December 31, 2006.

Financial liabilities
Financial liabilities relate exclusively to the liability from the convertible bond.

(8) Convertible bond liabilities
On November 24, 2004, Intershop announced its intention to issue a zero-coupon convertible bond with a total volume of up to EUR 20 million, as authorized by the resolution of the Annual Stockholders' Meeting on June 13, 2001, which created conditional capital of up to EUR 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 EUR 1 each. The principal features of the zero-coupon convertible bond are the repayment amount of EUR 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 exercise periods. The conversion price on each occasion will be EUR 1.00, irrespective of any capital reductions. Automatic conversion will take place if the share price exceeds EUR 5.00 on ten consecutive trading days at any time after January 1, 2006. As collateral, Intershop will furnish a first-ranking lien on its worldwide copyright to the Enfinity Software.

Stockholders were granted an indirect right to subscribe at a ratio of 1.3 : 1 in the period from November 29 to December 14, 2004; they also received the right to subscribe for additional bonds. However, the minimum amount of EUR 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. On January 26, 2005, Intershop announced that the convertible bond had been successfully placed. Bonds arising from the convertible bond with a value of EUR 11,331,000 were subscribed.

The income from the issue of the convertible bond was divided into a debt and an equity component. In the first conversion window (November 1 to November 30, 2005), 4,886,402 convertible bonds were converted into shares of the Company; this corresponds to a proportion of 43.12%. During the second conversion window (August 4 to September 8, 2006) 3,815,559 convertible bonds were converted into 3,815,559 shares in the Company. Since there were 6,444,598 convertible bonds in issue prior to the second conversion, the 3,815,559 bonds converted represent a proportion equal to 59.21%.

A standard market interest rate of 15% was used for the calculation. The interest rate used corresponds to a standard market rate for debt financing for four-year maturities and a credit rating that is comparable with that of Intershop.The effective interest rate is 18.026% per year.

The liability from the convertible bond amounted to EUR 2,716 thousand as of December 31, 2006, and is calculated as follows:

1. Subscribed bonds	11,331
Costs of placing the convertible bond	(1,353)
Actual payment amount	**9,978**
2. Actual payment amount	9,978
Debt component before first conversion	(8,526)
Equity component	**1,452**
3. Discounted payment amount	9,682
Costs of placing the convertible bond	(1,353)
Proportionate costs of placement for equity component	197
Debt component before first conversion	**8,526**
plus interest on the convertible bond in 2005	1,322
Amortized cost before first conversion	**9,848**
4. Amortized cost before first conversion	9,848
Converted portion relating to amortized cost (43.12%)	(4,246)
Rounding difference for balancing	(2)
Debt component after first conversion as of December 31, 2005	**5,600**
5. Converted bonds by first conversion	4,886
Converted portion relating to amortized cost (43.12%)	(4,246)
Change in equity component after first conversion	**640**
6. Amortized cost as of December 31, 2005	5,600
Accrued interest from January 1, 2006 until the 2nd conversion window	776
Amortized cost before second conversion	6,376
Converted portion relating to amortized cost (59.21%)	(3,775)
Accrued interest from the 2nd conversion window until Dec. 31, 2006	115
Debt component after second conversion as of December 31, 2006	**2,716**
7. Converted bonds by second conversion	3,816
Converted portion relating to amortized cost (59.21%)	(3,775)
Rounding difference for balancing	(1)
Change in equity component after conversion	(40)

The discounted payment amount is the present value of the actual payments to be made at the end of the term of the convertible bond, excluding conversion.

In accordance with IAS 32, interest on the convertible bond may not be reversed retrospectively. The recognized interest expense may not be offset retrospectively.
2.629.039 bonds arising from the convertible bond were outstanding as of December 31, 2006.

This amount is composed of the following:

Subscribed bonds	11,331,000
Bonds converted during the first conversion window (November 2005	4,886,402
Bonds converted during the second conversion window (August / September 2006)	3,815,559
Convertible bonds outstanding as of December 31, 2006	**2,629,039**

Notes to the Individual Balance Sheet Item

(9) Trade accounts payable

Trade accounts payable comprise unsettled liabilities relating to the delivery of goods and services. This item amounted to EUR 6,205 thousand in fiscal year 2006, compared with EUR 3,817 thousand in 2005.

(10) Other liabilities

Other liabilities comprise the following items:

in EUR thousand	Dec. 31, 2006	Dec. 31, 2005
Noncurrent liabilities Other noncurrent liabilities	719	0
Current liabilities Other current liabilities	1,566	1,538

Other noncurrent liabilities reflect the conditional second installment of the purchase price for the acquisition of SoQuero GmbH plus accrued interest:

in EUR thousand	
Balance at June 30, 2006 (acquisition)	705
Interest accrued in 2006	14
Balance at December 31, 2006	**719**

Other current liabilities comprise the following items:

in EUR thousand	Dec. 31, 2006	Dec. 31, 2005
Liabilities from advance payments received for fixed-price projects	469	0
Other liabilities relating to social security benefits	16	246
Liabilities to employees	605	627
Other VAT and wage tax liabilities	240	478
Liabilities to the Occupational Health and Safety Agency	57	71
Miscellaneous other liabilities	179	116
	1,566	**1,538**

Liabilities to employees mainly include liabilities from commissions and performance-related compensation.

(11) Deferred taxes

Deferred tax liabilities were recognized in connection with the acquisition of SoQuero GmbH as a result of the measurement of the intangible assets.

They are reversed over the period for which the intangible assets are amortized:

in EUR thousand	
Balance at June 30, 2006 (acquisition)	505
Reversal of deferred taxes in 2006	(123)
Balance at December 31, 2006	**382**

For furher details selection entitled „income taxes“.

(12) Deferred revenue

Deferred revenue relates to prepayments by customers, primarily in the form of revenue from maintenance agreements. Deferred revenue is reversed and revenue is recognized in the period in which the service was provided by Intershop.

In the case of current deferred revenue, reversal and recognition take place within a year.

(13) Provisions for restructuring

Provisions for restructuring developed as follows:

in EUR thousand	Noncurrent provisions	Current provisions	Total
Balance at January 1, 2006	**17**	**790**	**807**
Additions	0	463	463
Utilization	0	(201)	(201)
Reversal	0	(4)	(4)
Reclassification	(17)	17	0
Currency adjustments	0	(10)	(10)
Balance at Dec. 31, 2006	**0**	**1,055**	**1,055**

For details on the recognition of the provisions for restructuring, see section entitled „Restructuring expenses."

(14) Other provisions

Other provisions are current provisions. The anticipated cash outflows are expected within a year.

The following table shows the development of other provisions:

in EUR thousand	Legal costs and litigation risks	Staff	Other	Total
Balance at January 1, 2006	**277**	**216**	**347**	**840**
Additions	319	231	304	854
Utilization	(50)	(195)	(345)	(590)
Reversal	(84)	0	(2)	(86)
Currency adjustments	(1)	(12)	0	(13)
Balance at December 31, 2006	**461**	**240**	**304**	**1,005**

Employee-related provisions mainly include provisions for vacation entitlements.
Miscellaneous other provisions relate primarily to provisions for the Annual Stockholders' Meeting and guarantee provisions.

Notes to the Individual Income Statement Items

(15) Revenues

Revenues from services, maintenance, and other are composed of the following items:

in EUR thousand	2006	2005
Maintenance	6,667	6,963
Consulting	6,566	6,622
Training	302	258
Online Marketing	1,688	0
Other revenues	92	67
	15,315	**13,910**

Other revenues include full-service income and income (in excess of the Company's own rental costs) from the subletting of office space.

(16) Cost of revenues

The cost of revenues relating to licenses includes software license fees paid to third parties.

The cost of revenues relating to services, maintenance, and other are composed of the following items

in EUR thousand	2006	2005
Maintenance	2,993	2,776
Consulting	6,357	5,678
Training	342	318
Full-Service E-Commerce	238	0
Online Marketing	1,710	0
	11,640	**8,772**

The cost of revenues for online marketing includes amortization of intangible assets capitalized in connection with the acquisition of SoQuero GmbH amounting to EUR 246 thousand.

(17) Research and development expenses

Research and development expenses comprise all expenses attributable to R&D activities; personnel expenses account for the majority of this item. The 15% increase in research and development expenses over 2005 from EUR 2,774 thousand to EUR 3,177 thousand is mainly due to the increased expenses from the stock option plans.

(18) Sales and marketing expenses

Sales and marketing expenses principally comprise personnel expenses for sales and marketing staff, sales commissions, distributors' expenses, advertising, and exhibition costs for various trade fairs, including CeBIT in Hanover. Sales and marketing expenses rose from EUR 5,842 thousand in 2005 to EUR 8,187 thousand. The increase was mainly due to the rise in expenses from the stock option plans, higher personnel expenses as a result of the recruitment of new sales staff particularly in the United States, and greater expenditure for distributors.

(19) General and administrative expenses

General and administrative expenses mainly include personnel and non-personnel expenses as well as depreciation and amortization that relates to administration. General and administrative expenses increased slightly compared with 2005 from EUR 4,049 thousand to EUR 4,150 thousand. The rise was mainly attributable to higher expenses for the employee stock option plans.

(20) Restructuring costs

In 2002, the Company adopted measures to reduce its workforce and to consolidate existing facilities, among other things. These measures were aimed at adapting the Company's cost structure to reflect changing market conditions and accelerating its path to profitability. The Company‘s restructuring measures were almost fully completed in 2006.
The following table gives an overview of the restructuring expenses for fiscal year 2006 and provisions for restructuring as of December 31, 2006:

in EUR thousand	Employee-related charges	Facility-related charges	Total
Accrued restructuring costs as of January 1, 2005	**190**	**1,582**	**1,777**
Restructuring charges for the year	(150)	(637)	(787)
Cash payments	(58)	(189)	(247)
Currency adjustments	13	51	64
Accrued restructuring costs as of December 31, 2005	**0**	**807**	**807**
Restructuring charges for the year	0	459	459
Cash payments	0	(203)	(203)
Currency adjustments	0	(8)	(8)
Accrued restructuring costs as of December 31, 2006	**0**	**1,055**	**1,055**

Employee-related charges

The restructuring measures relating to the reduction of the workforce were concluded in the year 2005. The provisions mainly comprise expected future payments relating to the termination of employment contracts, including severance payments, social security contributions, and legal costs.

Facility-related charges

The Intershop Group recognized a provision for facility-related charges amounting to EUR 1,055 thousand as of December 31, 2006. The provision relates to costs connected with the legal dispute with the landlord in connection with office space at the Company‘s headquarters in Jena. In fiscal year 2006, the provision was increased by EUR 459 thousand. The increase reflects the uncertainty over the repayment of a contractual penalty received in 2006. For detailed information on the legal dispute, see the section entitled „Litigation“.

Notes to the Individual Income Statement Items

(21) Other operating income

Other operating income is composed of the following items:

in EUR thousand	2006	2005
Income from deconsolidation	250	438
Income from currency translation gains	4	5
Gain on disposal of noncurrent assets	92	38
Income from government grants	424	0
Income from litigation	929	0
Miscellaneous	476	457
	2,175	**938**

The income from litigation relates to the Company's legal dispute with the landlord for payment of a contractual penalty, in which the Company has received a payment of EUR 929 thousand from the landlord.

Of the income from government grants amounting to EUR 424 thousand, EUR 255 thousand was received from Thüringer Aufbaubank and EUR 29 thousand from the Federal Ministry of Education and Research in 2006. The amount of EUR 140 thousand applied for but not yet received from Thüringer Aufbaubank has been included in other assets.

The miscellaneous item includes income from the repayment of an advisory fee due from a member of the Supervisory Board.

In fiscal year 2006, income from deconsolidation includes income arising in connection with the deconsolidation of the Australian subsidiary.

(22) Other operating expenses

Other operating expenses relate to the following items:

in EUR thousand	2006	2005
Currency translation losses	49	53
Miscellaneous	58	0
	107	**53**

(23) Interest income

Interest income primarily includes interest on bank balances. Interest income includes EUR 51 thousand paid by the landlord following the provisional judgment in a legal dispute with the Company (see section entitled „Litigation").

(24) Interest expense

Interest expense is composed of the following items:

in EUR thousand	2006	2005
Interest on the convertible bond	891	1,322
Other interest expense	45	43
	936	**1,365**

The interest on the convertible bond was determined using the effective interest rate method. The effective interest rate is 18.026%. (see the further details on the convertible bond in section „Financial liabilities").

(25) Income taxes

The Company recognizes and measures income taxes using the balance sheet liability method in accordance with IAS 12. A corporate income tax rate of 25% (previous year: 25%) plus the solidarity surcharge of 5.5% (previous year: 5.5%), as well as an effective trade tax rate of 12.65% (previous year: 12,65%), were used to calculate the deferred taxes of the German companies as of December 31, 2006. The change in the effective trade tax rate is due to changes in the relevant trade tax multipliers.

The Group's income taxes are broken down as follows:

in EUR thousand	2006	2005
Current taxes		
Abroad	0	3
Germany	(13)	0
Deferred taxes		
Abroad	0	0
Germany	(123)	0
Total	**(136)**	**3**

The Group tax rate of 39.03% applicable in fiscal year 2005 (previous year: 39,03%) was multiplied by IFRS earnings before taxes to calculate the expected tax income.

The tax rate reconciliation contains the following details:

in EUR thousand	Dec. 31, 2006	Dec. 31, 2005
IFRS pretax income	(6,526)	(3,367)
Corporate tax rate	39.03%	39.03%
Expected income tax expense	(2,547)	(1,314)
Effects of prior years and currency translation differences	12	(5,842)
Effects from the change in non-recognition of deferred tax assets on loss carryforwards	3,249	8,976
Effects of non-deductible expenses	149	80
Effects from differences in foreign tax rates	83	63
Effects of changes in basis of consolidation and others	(1,082)	(1,960)
Income taxes	(136)	3

The components of the deferred tax asset were as follows:

in EUR thousand	Dec. 31, 2006	Dec. 31, 2005
Net operating loss carryforwards	202,201	192,309
Other	356	573
Deferred tax assets	**202,557**	**192,882**
Intangible assets	382	0
Allowance for receivables from affiliated companies*	47,426	45,965
Other	252	425
Deferred tax liabilities*	**48,060**	**46,390**
Valuation allowance*	(154,115)	(146,492)
Net deferred tax liabilities	**382**	**0**

** The amounts relate to adjustments required as of December 31, 2005.*

As of December 31, 2006, there are no other deferred tax assets arising from temporary differences in provisions and the convertible bond. Deferred tax liabilities result from the measurement of receivables and advance payments received.

As a result of the uncertain recoverability of deferred taxes due to the short history of the Company's business activities and the lack of profitability as of December 31, 2006, no deferred tax assets have been recognized for all periods to December 31, 2006 in accordance with IAS 12.24, because it is not sufficiently probable that taxable profits will be available.

For the year ended December 31, 2006, the Company had net loss carryforwards for tax reporting purposes in various tax jurisdictions as follows (in thousands of Euro):

US Federal	98,225
US State	173,607
German corporate income tax	397,703
German municipal trade tax	389,147
Other	6,077

US federal and state net operating loss carryforwards expire in various periods through 2021. The German net operating loss carryforwards relate to corporate income tax and municipal trade tax and carry forward indefinitely.

(26) Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

in EUR thousand	2006	2005
Basis for calculating basic earnings per share (consolidated net loss for the year)	(6,390)	(3,370)
Dilutive effect of potential ordinary shares: interest on the convertible bond	891	1,322
Basis for calculating diluted earnings per share	**(5,499)**	**(2,048)**

The number of shares is calculated as follows:

in number thousand	2006	2005
Weighted average number of ordinary shares used to calculate basic earnings per share	18,816	18,822
Dilutive effect of potential ordinary shares: convertible bond	5,207	3,774
Weighted average number of ordinary shares used to calculate diluted earnings per share	**24,023**	**22,596**

Calculation of earnings per share:

	2006	2005
Calculation of earnings per share (basic)		
Consolidated net loss for the year (in EUR thousand)	(6,390)	(3,370)
Weighted average number of shares (basic)	18,816	18,822
Earnings per share (basic) (in EUR)	**(0.34)**	**(0.18)**
Calculation of earnings per share (diluted)		
Basis for calculating diluted earnings per share	(5,499)	(2,048)
Weighted average number of shares (diluted)	24,023	22,596
Earnings per share (diluted) (in EUR)	(0.23)	(0.09)
Adjustment of earnings per share (diluted) (EUR)	**(0.34)**	**(0.18)**

As the diluted earnings reduce the loss per share, an adjustment is made to the amount of basic earnings per share (antidilutive effect) in accordance with IAS 33 paragraph 43.
In accordance with IAS 33.64 the calculation of the number of shares was adjusted retrospectively for the prior year.

Notes to the Cash Flow Statement

Cash comprises exclusively the cash and cash equivalents reported in the balance sheet. Restricted cash was not included.

In the cash flow statement, cash flows are classified into net cash provided by/used in operating, investing, and financing activities.

Cash flows from operating activities are calculated on the basis of earnings before tax, adjusted for noncash income and expenses, and of the changes in operating assets and liabilities compared with last year's balance sheet.

Net cash used in operating activities amounted to EUR 1,336 thousand in fiscal year 2006 compared with EUR 8,419 thousand in fiscal year 2005. Other non cash expenses (2006: EUR 1,163 thousand; 2005: EUR 71 thousand) principally comprise the expenses for the stock option plans. In fiscal year 2005, cash flows from operating activities included a cash outflow of EUR 2.3 million paid in respect of the settlement of the class-action lawsuit in the United States.

Net cash used in investing activities amounted to EUR 2,243 thousand. The change in restricted cash mostly reflected the payment from the landlord as a result of the provisional judgment in the proceedings brought by the Company for the payment of a contractual penalty. (See the section entitled „Litigation"). The payment for the acquisition of consolidated companies less funds acquired relates to the purchase of SoQuero GmbH and amounts to EUR 599 thousand. Cash and cash equivalents amounting to EUR 175 thousand were acquired. The Company paid a purchase price of EUR 750 thousand. The incidental costs of the acquisition amounted to EUR 24 thousand.

Cash flows from financing activities amounted to EUR 2 thousand, since the only activity in fiscal year 2006 was the issue of new ordinary shares in connection with the employee stock option plans. The cash inflow amounting to EUR 13,851 thousand in 2005 was the result of the issue of the convertible bond and of the cash capital increase.

The changes in the balance sheet items used to determine the cash flow statement are not immediately evident from the balance sheet because effects from currency translation and from changes in the basis of consolidation do not impact cash and are eliminated.

Other Disclosures

Segment reporting

Segment reporting as of December 31, 2006 in EUR thousand	Germany	U.S.A	Rest of the world	Consolidation	Group
Revenues from external customers					
Licenses	2,524	1,941	0	0	4,465
Consulting and training	5,279	1,589	0	0	6,868
Maintenance	5,370	1,297	0	0	6,667
Online Marketing	1,688	0	0	0	1,688
Other	92	0	0	0	92
Total revenues from external customers	**14,953**	**4,827**	**0**	**0**	**19,780**
Intersegment revenues	1,228	0	0	(1,228)	0
Total revenues	16,181	4,827	0	(1,228)	19,780
Net profit / loss for the period	(3,183)	(4,852)	2,120	(475)	(6,390)
Net profit / loss for the period (adjusted)	(7,274)	904	447	(467)	(6,390)
Assets	21,624	1,454	39	36	23,153
Liabilities	14,824	1,416	7	0	16,247
Depreciation and amortization	595	13	0	0	608
Acquisitions of noncurrent assets	2,294	28	0	0	2,322
Noncash income	0	87	250	0	337
Noncash expenses	3,196	0	0	0	3,196

Segment reporting as of December 31, 2005 in EUR thousand	Germany	U.S.A	Rest of the world	Consolidation	Group
Revenues from external customers					
Licenses	2,636	1,246	0	0	3,882
Consulting and training	6,346	534	0	0	6,880
Maintenance	5,583	1,337	43	0	6,963
Other	67	0	0	0	67
Total revenues from external customers	**14,632**	**3,117**	**43**	**0**	**17,792**
Intersegment revenues	57	0	0	(57)	0
Total revenues	14,689	3,117	43	(57)	17,792
Net profit / loss for the period	(27,739)	(4,941)	29,382	(72)	(3,370)
Net profit / loss for the period (adjusted)	(4,970)	1,398	222	(20)	(3,370)
Assets	22,301	662	67	0	23,030
Liabilities	13,736	1,021	11	(10)	14,758
Depreciation and amortization	362	14	242	0	618
Acquisitions of noncurrent assets	219	3	0	0	222
Noncash income	1,075	154	438	0	1,667
Noncash expenses	1,514	0	0	0	1,514

The segment reporting is prepared in accordance with IAS 14 (Segment Reporting). Segmentation reflects the Intershop Group‘s internal management and reporting. The Company has two direct sales units: Germany and the United States.

The regions are broken down as follows:

Regions in 2006:
The „Germany“ segment comprises the Germany sales unit together with direct sales for Central Europe (Germany, Austria, Switzerland) and for northern Europe, the Benelux countries, France, the United Kingdom, and Italy. Direct sales in northern Europe, the Benelux countries, France, the United Kingdom, and Italy are generated via distributors. The „Rest of the world“ segment includes the subsidiaries in Prague, Czech Republic, and in Sweden, and the subsidiary in Australia deconsolidated in 2006; all three companies had no operating activities in 2006. The “Consolidation“ segment includes all transactions within the individual segments.

Regions in 2005:
The „Germany“ segment comprises the Germany sales unit including direct sales for Central Europe (Germany, Austria, Switzerland) as well as direct revenues from distributors in Denmark, Sweden, Norway, the Benelux countries, France, the United Kingdom, and Italy. The proportion of direct revenues from partners was less than 10% in 2005. The „U.S.A.“ segment comprises the U.S.A. sales unit including direct sales for North America. The „Rest of the world“ segment includes the sales unit in Prague, the Czech Republic, which was established as a subsidiary in August 2005, as well as the subsidiaries in the United Kingdom, Japan, and Dubai that were deconsolidated in 2005. The „Consolidation“ segment includes all transactions within the individual segments.

Notes to the content of the individual line items:

Revenues from external customers represent revenues from the regions with third parties outside the Group.
Intersegment revenues include revenues from intersegment relationships.
The net profit/loss for the period (adjusted) is arrived at as follows: The net profit/loss for the period was adjusted for interest income and expense between group companies and income and expense from deconsolidation.
The **„net profit/loss for the period“** segment variable is the consolidated net profit or loss as reported in the income statement.
Segment assets are composed of noncurrent and current assets, while segment liabilities comprise noncurrent and current liabilities.
Depreciation and amortization relates to segment assets allocated to the individual regions.
Acquisitions of noncurrent assets relate to investments in tangible and intangible assets in the respective reporting period The high figure for acquisitions of noncurrent assets in fiscal year 2006 reflects the intangible assets identified and measured in allocating the purchase price for the acquisition of SoQuero GmbH and the resulting goodwill (see the paragraph entitled „Intershop Communications Online Marketing GmbH“ under the „Basis of consolidation“ section).
Noncash income includes the reversal of provisions for restructuring and provisions for legal and litigation costs, as well as income from deconsolidation. Noncash expenses include interest on the convertible bond and provisions for legal and litigation costs, provision for restructuring and expenses relating to the stock options plans.

The secondary segment reporting for 2005 and 2006 is as follows:

Segment reporting as of December 31, 2006

in EUR thousand	Licenses	Consulting Training	Main-tenance	Online Marketing	Other	Total
Revenues						
Germany	2,271	6,314	5,370	1,688	92	16,181
U.S.A	1,941	1,589	1,297	0	0	4,827
Rest of the world	0	0	0	0	0	0
Consolidation	(193)	(1,035)	0	0	0	(1,228)
Total revenues	**4,465**	**6,868**	**6,667**	**1,688**	**92**	**19,780**
Assets	**9,684**	**7,432**	**4,504**	**632**	**901**	**23,153**
Acquisitions of noncurrent assets	**132**	**80**	**43**	**2.021**	**46**	**2,322**

Segment reporting as of December 31, 2005

in EUR thousand	Licenses	Consulting Training	Main-tenance	Other	Total
Revenues					
Germany	2,685	6,354	5,583	67	14,689
U.S.A	1,246	534	1,337	0	3,117
Rest of the world	0	0	43	0	43
Consolidation	(49)	(8)	0	0	(57)
Total revenues	**3,882**	**6,880**	**6,963**	**67**	**17,792**
Assets	**10,364**	**7,830**	**4,836**	**0**	**23,030**
Acquisitions of noncurrent assets	**112**	**77**	**33**	**0**	**222**

Operating leases

Certain facilities, office, and operating equipment are leased under operating leases. The minimum long-term lease payments reported in previous years‘ annual reports related mainly to the rental obligations for the headquarters building in Jena. In November 2004, the landlord terminated this long-term lease, due to run until 2013. The Company is of the opinion, however, that the termination is invalid. Nonetheless, the termination and the associated litigation with the landlord give rise to a certain probability that the Company‘s occupation of its business premises will cease at the end of 2007.

On the basis of this opinion, future minimum annual lease payments as of December 31, 2006 are as follows (in EUR thousand):

As of December 31	
2007	1,853
2008	344
2009	215
Total	**2,412**

In the event that the Company's opinion that the termination is legally invalid is not upheld, future minimum annual lease payments as of December 31, 2006 are as follows (in EUR thousand):

As of December 31	
2007	1,853
2008	1,655
2009	1,573
2010	1,472
2011	1,414
Subsequent years	2,649
Total	**10,616**

Rent expense in 2006 and 2005 amounted to EUR 1.6 million and EUR 1.9 million, respectively. Rental income of EUR 0.3 million and EUR 0.5 million was received in 2006 and 2005 respectively and was offset against of rent expense, with the exception of EUR 0.02 million in 2006 and EUR 0.03 million in 2005.

Litigation

The Company is a defendant in various legal proceedings arising from the normal course of business. A negative ruling in any such legal dispute, or in several or all such disputes, could have a material adverse effect on the Company's results of operations. The Company recognizes all legal costs associated with loss contingency as an expense as they are incurred.

In 2002, another software company brought a claim for damages of around EUR 5 million for the alleged violation of a license agreement. An out-of-court settlement was initially agreed, but the software company declined to finally accept the terms of the settlement. In 2004, the Munich Regional Court dismissed its claim for payment. However, the court ordered Intershop to provide information on the delivery of software owned by the other software company. The Company has since provided this information. Intershop believes that the other software company has no further claims.

In 2004, a claim against the Company for approximately USD 750,000 was filed with a court in New York by a bank that advised the Company during its IPO in the United States 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 is defending itself vigorously against the claims for payment 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 claimed is open to question.

The Company is involved in several legal disputes with the landlord of its headquarters in Jena with regard to claims under the lease. These comprise three claims brought by the landlord for payment of rent and ancillary costs, one claim against a bank of the Company for the release of portions of a rental guarantee, as well as a notice to vacate served by the landlord.

The background to all the actions is the reductions in rental payments and the offsetting of rental payments against contractual penalty claims by the Company since October 2003, which have been gradually increased; these actions are due to the improper construction and handover of rented space, defects in the rented property, and the improper invoicing of ancillary costs.

As a result of the reduced rent payments, the landlord has brought two claims in which it is seeking payment of a total of around EUR 1.44 million. After one of the claims was brought as a claim based solely on documentary evidence („Urkundsklage“), the competent Regional Court ordered the Company to pay EUR 971,214 in 2004; the Company paid this amount plus interest. The Company was given leave to exercise its rights in the subsequent proceedings.

The landlord also brought an action for the payment of around EUR 220,000 in operating costs for 2002 and 2003. The Company refuses to make the corresponding payment, citing the incorrect invoices and the billing of costs that were not contractually agreed.

In the action against the bank, the landlord asserted some of the claims that are already the subject of claims for payment brought against the Company itself. The action was brought as a claim based solely on documentary evidence („Urkundsklage“); the Company has joined the dispute on the side of the bank. In a hearing on October 24, 2005, the competent court expressed its opinion that the key issue of fact, i.e., the proper construction and handover of space to the Company, had not been proven by the landlord in the summary proceedings. As a result, the landlord desisted itself from the summary proceedings and applied for the proceedings to be suspended. The bank and the Company consented to the suspension of the proceedings.

Finally, at the end of 2004 the landlord brought an action against the Company to vacate and surrender the entire rented property. The Company regards this action as unfounded because it believes that it is entitled to reduce the rent payments. However, the Company returned parts of the premises that it did not occupy with a total area of around 11,000 m to the landlord in 2005, without recognizing any legal obligation. The landlord has informed the court that, until further notice, it no longer intends to pursue the action involving the notice to vacate; as a result, the court ordered the suspension of the proceedings by way of a decision dated October 18, 2005.

On April 25, 2006, the Gera Regional Court heard a claim by the Company for payment of a contractual penalty in the amount of around EUR 929 thousand, and a claim by the landlord for payment of rent and ancillary costs in the amount of around EUR 470 thousand.

In the proceedings brought by the Company for payment of a contractual penalty, which were conducted as a claim based solely on documentary evidence ("Urkundsklage"), the court issued a provisional judgment at the hearing that required the landlord to pay EUR 929 thousand plus interest. The landlord paid the amount sued for after the judgment was served. An appeal against the judgment was lodged with the Jena higher regional court. Following the hearing held on December 14, 2006, the Jena higher regional court allowed the landlord's appeal in a judgment dated January 25, 2007, and rejected the Company's claim for the payment of a contractual penalty as inadmissible in the summary proceedings. After the balance sheet date, the Company repaid the amount previously paid by the landlord. Intershop continues to hold the opinion that a valid claim for payment of the contractual penalty exists and is currently considering the best method of obtaining a judicial decision to that effect.

In the proceedings brought by the landlord for the payment of rent and ancillary costs, the regional court focused initially on clarifying the question of whether a contractual penalty was agreed for the event that rental space not yet occupied was not ready on time, and whether the rental space was defective and therefore not fit for occupation. The clarification of these questions was brought forward because if a claim for a contractual penalty exists as a result of the delay in making the rental space ready, the amount of such a claim may outweigh all claims for payment by the landlord and the landlord's action would therefore be rejected for that reason alone. To date, evidence has been taken by means of witness testimony. A further pronouncement on the taking of evidence on August 24, 2006 required an independent expert's opinion to be obtained on whether the rental space was fit for occupation. The independent expert carried out a survey of the rental space on two occasions in October 2006 and January 2007. The independent expert's report has not yet been received.

The Company believes that the claims for payment asserted are not valid and therefore the termination served is not effective. The Company is nonetheless prepared to negotiate an agreed solution to the dispute with the landlord on the basis of a settlement offer by the landlord that has now been received.

In the year under review, the Company was also sued by an investment bank that has advised it in recent years in connection with corporate actions for payment of a consulting fee of EUR 593,807.01 plus interest. In the proceedings brought by the investment bank, the competent court issued an opinion during a hearing that the consulting fee being sued for is a performance-related fee, and that the investment bank must therefore prove that it had acted successfully on behalf of the Company. The investment bank then argued during the proceedings that the agreement on a performance-related fee had subsequently been terminated by oral agreements. The court then ordered evidence to be taken with regard to this claim, and heard a certain amount of evidence on this matter. Following discovery, the court dismissed the investment bank's claim on September 27, 2006.

In fiscal year 2006, a claim was made against the Company by a contractual partner that had acquired standard software from the Company in 2004 and purchased services from the Company in 2005. The claim was for the reversal of the contracts, the repayment of the purchase price, and the payment of compensation amounting in total to EUR 732,499. The Company is also defending itself vigorously against these claims for repayment and compensation, and is of the opinion that the claims have no validity based on the merits of the case and that their amount is also without justification. Irrespective of this, the Company has insurance protection for part of the claim made.

As a result of proceedings before a labor court relating to the dismissal of a former employee in the sales and marketing area, the Company is required to pay compensation amounting to EUR 245,000.

In addition to the litigation described in detail, the Company is a defendant in various other actions arising from the normal course of business. Although the outcome of these actions cannot be forecast with certainty, the Company believes that the outcome of the actions will not have any material effects on its net assets and results of operations.

Other Disclosures

Financial risk

Liquidity risk

The Company prepares a liquidity forecast based on a fixed planning horizon. This liquidity forecast plans the deployment of the financial resources available within the Company and thus attempts to ensure short- and medium-term liquidity. A liquidity risk exists if the Company is unable to generate cash from its business operations in fiscal year 2007. In this case, the Company would be dependent on an additional cash injection from the capital markets.

Non-payment risks

The Company is exposed to a potential default risk mainly from its trade receivables. The Company performs ongoing creditworthiness checks on its customers. The default risk with regard to trade receivables is also mitigated by the fact that the Company has a broad customer base. In addition, the Company does not demand collateral for its receivables.

In 2006, customer A accounted for 13.6% of total revenues and 17.1% of trade receivables. Customer B accounted for 11.1% of total revenues in 2006 and 8.6% of trade receivables as of December 31, 2006. In 2005, customer A represented 20.3% of total revenues and 34.9% of trade receivables. Customer B accounted for 12.8% of total revenues in 2005 and 4.4% of trade receivables as of December 31, 2005.

Credit risk

A credit or interest rate risk could arise from a change in market interest rates for medium- or long-term liabilities. The Company‘s only noncurrent liability is the 2004/2008 convertible bond that pays a fixed amount of interest at maturity and is therefore not affected by market interest rate fluctuations. Intershop also has a liability from the conditional second installment of the purchase price payable to the sellers of the former SoQuero GmbH. This liability does not bear interest and the Company is therefore not exposed to changes in market interest rates.

Events Subsequent to the Balance Sheet Date

After the balance sheet date, the Company reported the following notifiable securities transactions by members of the executive bodies:

Name	Function	Date	Type of security	Type of transaction	Amount	Total value *(EUR)*
Dr. Jürgen Schöttler	Chairman of the Management Board	January 10, 2007	Share	Lending	50,000	0
Kölner Parkhaus und Parkplatz GmbH	Related to a member of the Supervisory Board*	January 12, 2007	Share	Purchase	37,901	72,928
Kölner Parkhaus und Parkplatz GmbH	Related to a member of the Supervisory Board*	January 17, 2007	Share	Purchase	19,000	44,080
music-store Artur Sauer GmbH	Related to a member of the Supervisory Board*	January 18, 2007	Share	Purchase	17,473	36,936
music-store Artur Sauer GmbH	Related to a member of the Supervisory Board*	January 12, 2007	Share	Purchase	12,527	26,683
music-store Artur Sauer GmbH	Related to a member of the Supervisory Board*	March 6, 2007	Share	Lending	70,000	0
Kölner Parkhaus und Parkplatz GmbH	Related to a member of the Supervisory Board*	March 6, 2007	Share	Purchase	20,000	34,400

* *Related to Supervisory Board member Mr. Michael Sauer*

After the balance sheet date, Supervisory Board member Mr. Michael Sauer waived his Supervisory Board compensation for fiscal year 2006 amounting to EUR 3 thousand.

On February 28, 2007, Intershop announced that the Chairman of the Supervisory Board, Mr. Hans W. Gutsch, and Supervisory Board member Mr. Wolfgang Meyer resigned their positions effective March 31, 2007. On March 2, 2007, the Management Board of the Company applied to the Jena Local Court for Mr. Sven Heyrowsky and Mr. Peter Paul Krug to be appointed members of the Company‘s Supervisory Board effective April 1, 2007 until the conclusion of the next Annual Stockholders‘ Meeting.

On March 9, 2007, Intershop announced, that CEO Dr. Jürgen Schöttler agreed with the Supervisory Board to leave the Company with the expiration of his management contract on March 31, 2007. Dr. Schöttler has served for the Company since April 2002, at first as Chief Financial Officer (CFO) and since July 2003 as Chief Executive Officer (CEO). The Supervisory Board of the Company – two members of which are to be newly appointed with effect of April 1, 2007 – anticipates to discuss the appointment of a successor for Mr. Schöttler on April 2, 2007.

In the Company‘s legal dispute with the landlord concerning the payment of a contractual penalty, the Jena Higher Regional Court allowed the landlord’s appeal in a judgment of January 25, 2007. As a result, the Company repaid the contractual penalty received amounting to EUR 929 thousand together with interest to the landlord in February 2007. For details of this dispute, see the section notes entitled „Litigation“. The repayment will have no effect on the results for fiscal year 2007, because a provision for the relevant amount had been recognized as of December 31, 2006.

On March 7, 2007, the Company received notice of a partial claim by the landlord for payment of the disputed rent for the years 2004 to 2007. The Company expects that this will have no effect on the results for fiscal year 2007.

On March 15, 2007, the Management Board of Intershop Communications AG authorized the submission of these IFRS consolidated financial statements to the Supervisory Board.

Related party disclosures

Related parties in accordance with IAS 24 are companies or persons that control or are controlled by the Intershop Group, provided that they are not already included in the consolidated financial statements. Control exists if a shareholder holds more than half of the voting rights of Intershop Communications AG or has the power to influence the operating policies of the Intershop Group's management by virtue of provisions of the Articles of Association or contractual agreements.

The Intershop Group did not have any relationships with unconsolidated subsidiaries, joint ventures, or associates as of the balance sheet date.

Members of Intershop Communications AG's Supervisory Board are also members of supervisory boards of other companies, with which the Intershop Group has no business relationships. Mr. Michael Sauer, member of the Supervisory Board, is the managing director of Music Store A.Sauer GmbH, with which Intershop has relations in the course of its ordinary business activities. All transactions with this company are conducted on arm's length terms.

The compensation of the members of the Supervisory Board and the Management Board totaled EUR 796 thousand and exclusively comprises short-term benefits.

Disclosure requirements under German law

Management Board

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

Ralf Männlein, Management Board member responsible for Sales and Marketing

Supervisory Board

Hans W. Gutsch, Chairman

Wolfgang Meyer

Michael Sauer (appointed by the Jena Local Court on November 1, 2006)

Mr. Peter Mark Droste retired from the Supervisory Board with effect from October 31, 2006.

Compensation of the members of the Management Board and the Supervisory Board

The compensation of the Management Board comprises fixed and variable components. The fixed components comprise the fixed salary and additional benefit such as the non-cash benefit of the use of a company car and subsidized life insurance.The variable remuneration is determined by the Supervisory Board on the basis of an assessment of a member's personal performance, the business situation, and successes achieved. The Management Board also participates in the Company's stock option plan.

The total compensation of the Management Board in fiscal year 2006 amounted to EUR 736 thousand, of which EUR 513 thousand related to fixed components (EUR 459 thousand fixed salary, EUR 54 thousand additional benefits) and EUR 223 thousand to variable components. In 2006, members of the Management Board were granted 300,000 stock options from the 1999 stock option plan with an option value of EUR 0.62 per option. The exercise price amounts to EUR 1.22 per option.

The compensation was made up as follows:

	Fixed salary in EUR thousand	**Variable remuneration** in EUR thousand	**Total** in EUR thousand	**Stock options** number of options	**Value of options** in EUR thousand
Dr. Jürgen Schöttler	294	142	436	200,000	124
Ralf Männlein	219	81	300	100,000	62
	513	**223**	**736**	**300.000**	**186**

No member of the Management Board has been promised benefits in the event of the termination of his employment with the Company. No loans or similar benefits were granted to members of the Management Board. No member of the Management Board received any benefits from third parties during the fiscal year that were promised or granted because of his position as a member of the Management Board.

The Supervisory Board receive the following compensation for 2006:

Name	Compensation in EUR thousand
Hans W. Gutsch (Chairman)	30
Wolfgang Meyer	15
Michael Sauer	3
Peter Mark Droste	12
Total Supervisory Board compensation	**60**

The compensation of the Supervisory Board consists solely of a fixed component, stipulated by the Articles of Association, payable at the end of the fiscal year. The Chairman receives twice, and the Deputy Chairman one and a half times, the amount determined for the other members of the Supervisory Board. Expenses incurred by the members of Supervisory Board in the performance of their duties are reimbursed by the Company.

In addition, the Company incurred expenses of EUR 52 thousand in fiscal year 2006 in respect of former members of the Supervisory Board prior to 2006. The expenses are the result of additional tax payments required by the tax authorities in respect of the remuneration of members of the Supervisory Board in 2000 and 2001.

Other Disclosures

Directors' holdings

As of December 31, 2006, the following members of the Company's executive bodies held direct and indirect Intershop Communications AG ordinary bearer shares or options to purchase such shares, as well as shares in the 2004/2008 zero-coupon convertible bond issued by the Company.

Name	Title Function	Shares held *	Stock options held*, **	Convertible bonds
Hans W. Gutsch	Chairman of the Supervisory Board	155,018	–	–
Michael Sauer	Member of the Supervisory Board	429,712	–	–
Wolfgang Meyer	Member of the Supervisory Board	–	–	–
Dr. Jürgen Schöttler	Chairman of the Management Board	111,519	253,333	–
Ralf Männlein	Member of the Management Board	50,000	123,333	50,000

* All information post 5:1 reverse stock split in 2002 and the 3:1 reverse stock split in 2005.

** The stock options were granted at the conditions of the 1999 stock option plan. Details on the 1999 stock option plan can be found in section entitled „Stock option plans." Dr. Jürgen Schöttler's stock options have an average reverse stock split adjusted exercise price of EUR 3.59 per share, and Ralf Männlein's stock options have an exercise price of EUR 2.06 per share.

Securities transactions subject to reporting requirements

In fiscal year 2006, the members of the Company's executive bodies made the following purchases and sales of Intershop ordinary bearer shares or shares in the 2004/2008 zero-coupon convertible bond issued by the Company.

Name	Datue	Type of security	Type of transaction	Amount	Total value (EUR)
Supervisory Board					
Hans W. Gutsch	July 25, 2006	Share	Lending*	20,000	0
Michael Sauer	Nov. 10, 2006	Share	Purchase	30,000	45,100
Management Board					
Ralf Männlein	February 21,2006	Bond	Purchase	50,000	57,450

* The Chairman of the Supervisory Board, Hans W. Gutsch, lent the Company 20,000 Intershop ordinary bearer shares free of charge to cover requirements under the employee stock option plan. The Company returned the shares to Mr. Gutsch as of December 31, 2006.

Employees

The Intershop Group had an average of 232 full-time employees in fiscal year 2006, of whom 230 were salaried employees and 2 were members of the executive bodies.

Employee-related expenses amounted to EUR 16,458 thousand in 2006 and EUR 13,341 thousand in 2005. The pension insurance contributions paid by the Company to statutory pension insurance funds totaled EUR 835 thousand in 2006 and EUR 775 thousand in 2005.

Auditors' fees

In fiscal year 2006, the Company incurred expenses of EUR 125 thousand (2005: EUR 132 thousand) for auditors' fees in respect of the audit of the annual and consolidated financial statements, as well as EUR 31 thousand (2005: EUR 97 thousand) for other assurance services and EUR 13 thousand (2005: EUR 62 thousand) for other services. There were no expenses for tax consulting services in 2006 and 2005. In 2005 EUR 79 thousand of the other assurance services was appropriated to the capital reserve because these costs were incurred in connection with the placement of shares and the convertible bond on the stock exchange.

Declaration of Conformity

The Company has issued a declaration of conformity as required by section 161 of the Aktiengesetz by the annual deadline on March 6, 2007, and made this declaration permanently available to its stockholders. Further information is available in the „Corporate Governance Report".

Jena, March 15, 2007

The Management Board

Dr. Jürgen Schöttler   Ralf Männlein

Differences between IFRSs and HGB

General

The consolidated financial statements of INTERSHOP Communications AG were prepared in accordance with the pronouncements issued by the IASB and exempt the Company from preparing consolidated financial statements in accordance with section 292a of the Handelsgesetzbuch (HGB – German Commercial Code). At the same time, the consolidated financial statements and the Group management report comply with the European Union's Group Accounting Directive (83/349/EEC); this Directive was applied in accordance with its interpretation in German Accounting Standard 1 (GAS 1) „Exempting Consolidated Financial Statements in accordance with Sec. 292a of the Commercial Code" issued by the German Accounting Standards Committee e.V. (GASC). To ensure equivalence with consolidated financial statements prepared in accordance with German commercial law, all disclosures and explanatory notes required by the HGB and beyond the scope of those required by IFRSs have been published. The accounting policies and consolidation methods applied in accordance with IFRSs mainly differ from the HGB with regard to the following points:

Deferred taxes on loss carryforwards

Under the HGB, deferred tax assets arising from tax loss carryforwards may not be recognized in the balance sheet, as expected future tax savings are deemed to be not yet realized. Under IFRSs, such future tax benefit claims must be recognized if it is probable that the tax benefit from the loss carryforward will be realized. The Company has written off its recognized tax loss carryforwards in full as of December 31, 2005 due to uncertainties regarding their realization.

Employee stock options

Under IFRSs, payments made to employees in the form of equity interests (stock option plans) are carried at the fair value of the options issued and recognized under employee-related expenses, with a corresponding increase in equity. The prevailing opinion is that no expense would be recognized in the income statement in accordance with the HGB.

Revenue recognition

Under IAS 11, revenue and earnings from long-term construction contracts are recognized according to the stage of completion of the contract, if this can be reliably determined („percentage of completion method"). Under the HGB, sales and earnings are not recognized until the contract is completed.

Convertible bond

The equity component of the convertible bond is reported as an increase in equity. The debt component is recognized as a liability at its discounted fair value. Under IFRSs, the transaction costs incurred by issuing the convertible bond reduce the equity component and the debt component. Under the HGB, the transaction costs represent expenses for the period.

Costs of the IPO

Under IFRSs, costs relating to the placement of shares on the stock exchange must be treated as a reduction of equity. Under the HGB, these costs represent expenses for the period.

Foreign currency transactions

Under IFRS, 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).

Goodwill

Acquisition accounting for companies acquired from third parties is performed at the date of acquisition using the purchase method in accordance with IFRS 3, Business Combinations. In subsequent periods, purchased goodwill is tested for impairment at least once a year, and if impaired, written down to the lower recoverable amount. 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. Goodwill is amortized.

Software development costs

Under IFRSs, development costs are capitalized if they fulfill the above-mentioned requirements and are amortized over their standard useful life. The HGB does not permit internally generated software to be capitalized as a fixed asset.

Financial Statements
Intershop Communications AG

Financial Statements Intershop Communications AG

Balance Sheets Intershop Communications AG

As of December 31, (in EUR)	2006	2005
ASSETS		
Fixed Assets		
Intangible assets		
Software licenses	41,936	21,896
Property and equipment		
Other facilities, office and operating equipment	488,283	470,686
Financial Assets		
Investments in affiliated companies	10,341,850	8,872,229
	10,872,069	**9,364,811**
Current Assets		
Inventories		
Work in process	504,672	10,828
Payments on account	8,659	8,659
	513,331	19,487
Receivables and other assets		
Accounts receivable	1,982,440	3,310,080
Receivables from affiliated companies	301,794	17,097
Other assets	1,327,174	685,050
	3.611,408	4,012,227
Cash-in-hand, bank balances	10,433,406	13,062,380
	14,558,145	**17,094,094**
Prepaid expenses	**173,777**	**184,406**
Total Assets	**25,603,991**	**26,643,311**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' Equity		
Common stock		
Conditional capital: EUR 21.602.758 (previous year: EUR 25.418.317)	21,503,851	17,662,052
Capital surplus	908,511	656,125
Accumulated Deficit	(10,899,656)	(6,104,852)
	11,512,706	**12,213,325**
Contributions paid to implement the resolved capital increase	**0**	**15,840**
Accrued Liabilities		
Other accrued liabilities	**3,767,144**	**2,688,920**
Liabilities		
Bonds		
thereof convertible bond: EUR 2.902.380 (previous year: EUR 6.186.645)	2,902,380	6,186,645
Advance payments received	461,930	0
Accounts payable	4,480,588	3,018,895
Other liabilities		
thereof from taxes: EUR 257.066 (previous year: EUR 464.952) thereof from social security benefits: EUR 16.238 (previous year EUR 245.793)	1,141,867	787,291
	8,986,765	**9,992,831**
Deferred Charges	**1,337,376**	**1,732,395**
Total Shareholders' Equity and Liabilities	**25,603,991**	**26,643,311**

Statements of Operations Intershop Communications AG

For the year ended December 31, (in EUR)	**2006**	**2005**
Revenues	14,107,588	15,066,333
Decrease in inventories of finished goods and work in progress	493,844	(173,424)
Other operating income	2,976,818	2,542,201
Cost of Materials		
Cost of raw materials, consumables and supplies, and purchased merchandise	(160,619)	0
Cost of purchased services	(1,535,500)	(1,182,056)
Personnel Costs		
Salaries	(10,663,200)	(10,050,663)
Social security contribution	(1,702,105)	(1,637,750)
Depreciation and amortization		
of intangible fixed assets and property and equipment	(272,160)	(367,831)
of current assets to the extent it exceeds depreciation and amortization that is normal for the Company	(5,185,288)	(5,472,273)
Other operating expenses	(8,256,957)	(9,318,336)
Other interest and similar income		
thereof from affiliated companies EUR 5.894.382 (previous year: EUR 5,708,977)	6,228,146	5,885,049
Write-downs of financial assets and short-term security investments	(8,777)	(1,806,551)
Interest and similar expenses		
thereof from affiliated companies EUR 0 (previous year: EUR 0)	(828,914)	(1,238,975)
Loss from ordinary operations	**(4,807,124)**	**(7,754,276)**
Net Income / Loss	**(4,807,124)**	**(7,754,276)**
Accumulated deficit carried forward	(6,104,852)	(22,072,591)
Withdrawals from the capital reserve	5,920	6,687,703
Extraordinary income of capital reduction	6,400	17,034,312
Accumulated Deficit	**(10,899,656)**	**(6,104,852)**

Notes to the Financial Statements

The financials statements Intershop Communications AG prepared in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) and the Aktiengesetz (AktG – German Public Companies Act.

Accounting Policies
Intangible fixed assets and property and equipment are 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.

Common stock are stated at par value.

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 EUR):

	Intangible Asset: *Software licenses*	Tangible Assets: *Other equipment, operating and office equipment*	Financial Assets: *Shares in affiliated companies*	Total
Costs of purchase				
Balance at January 1, 2006	2,858,839	2,926,753	49,328.303	55,113.895
Additions	41,635	270,151	1,478,398	1,790,184
Disposals	(15)	(158,375)	(260,833)	(419,223)
Balance at December 31, 2006	2,900,459	3,038,529	50,545,868	56,484,856
Depreciation, write-downs, and impairment losses				
Balance at January 1, 2006	2,836,943	2,456,067	40,456,074	45,749,084
Additions	21,595	250,565	8,777	280,937
Disposals	(15)	(156,386)	(260,833)	(417,234)
Balance at December 31, 2006	2,858,523	2,550,246	40,204,018	45,612,787
Net carrying amount at Dec. 31, 2005	21,896	470,686	8,872,229	9,364,811
Net carrying amount at Dec. 31, 2006	**41,936**	**488,283**	**10,341,850**	**10,872,069**

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 EUR 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.

Receivables from affiliated companies relate to Group financing and have a remaining maturity of up to one year. Receivables from affiliated companies result of the financing of the group.

An amount of EUR 49,844 included in other assets has a remaining maturity of more than one year.

Cash and cash equivalents totaling EUR 7,529,071 (previous year: EUR 6,209,991) reported under cash-in-hand and bank balances have been assigned as security (restricted cash).

The share capital in the amount of EUR 21,503,851 consists of 21,503,851 no-par value bearer shares.

The authorized capital totaling EUR 40,461,597 entitles the Management Board to issue an additional 40,461,597 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 EUR 30,835,337 on one or several occasions up to December 11, 2007, by issuing a maximum of 30,835,337 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. There were no changes to Authorized Capital I in fiscal year 2006.

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 EUR 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 December 11, 2007 (Authorized Capital II); shareholders' subscription rights have been excluded. 9,600 shares were issued under the employee stock option plan in 2004; these now amount to 3,200 shares following the 3:1 reverse stock split in fiscal year 2005. By way of a resolution adopted by the Management Board on December 19, 2005, the capital increase from Authorized Capital II became legally effective on February 22, 2006. 23,040 employee stock options were exercised and converted into Intershop ordinary bearer shares as part of the employee stock option plan in the fiscal year 2006. As a result, Authorized Capital II was reduced from EUR 9,652,500 as of December 31, 2005 to EUR 9.626.260 as of December 31, 2006.

An amount totaling EUR 21,602,758 is available as conditional capital for the issuance of 21,602,758 no par value bearer shares. Due to capital reductions and options that have expired or were not issued, however, a maximum of 3,219,373 shares may be issued in future from the conditional capital.

Of the conditional capital created for granting employee stock options, EUR 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 5:1 capital reduction resolved on October 30, 2002 that became legally effective on December 12, 2002, and the 3:1 capital reduction resolved on April 26, 2005 that became legally effective on June 28, 2005, the subscription rights arising from Conditional Capital I decreased at the same ratio, i.e., to 544,333 shares, in accordance with section 218 of the AktG.

Moreover, EUR 690,016 from Conditional Capital II created in compliance with section 192 (2) clause 3 of the German Stock Corporation Act is 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 5:1 capital reduction resolved on October 30, 2002 that became legally effective on December 12, 2002, and the 3:1 capital reduction resolved on April 26, 2005 that became legally effective on June 28, 2005, the subscription rights arising from Conditional Capital I decreased at the same ratio, i.e., to 46,001 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 EUR 21,449,703 (Conditional Capital IV). 4,886,402 bonds from the convertible bond were converted in fiscal year 2005 and in fiscal year 2006, 3,815,559 bonds. Conditional Capital IV fell from EUR 16,563,301 at December 31, 2005 to EUR 12,747,742 at December 31, 2006. Because of options not issued, however, a maximum of 2,629,039 shares may be issued from Conditional Capital IV. (See also the section entitled „Convertible bond").

The capital reserve developed as follows in fiscal year 2006:

Balance at December 31, 2005	**656,125**
Premium from the exercise of stock options	6,240
Release of capital reserve due to simplified capital reduction (section 229(2) of the AktG)	(5,920)
Addition of equity component of convertible bond following conversion of 59.21% of the convertible bonds	252,066
Balance at December 31, 2006	**908,511**

In 2004, the Company borrowed own shares to meet the exercise of an option as 9,600 shares. This option was a result of the stock option plan covered by Authorized Capital II. A capital increase had not been implemented by December 31, 2005.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". Due to the 3:1 capital reduction resolved on April 26, 2005, the capital increase was implemented in fiscal year 2006, but only in the amount of EUR 3,200 instead of EUR 9,600. The capital increase was entered in the commercial register on February 22, 2006.

The entry of the capital increase in the commercial register enabled the contribution paid to implement the resolved capital increase to be released. If the capital increase had taken place in 2004, the following changes to shareholders' equity would have resulted in 2005 in connection with the capital reduction:

Withdrawal from capital reserve (in EUR)	5,920
Income from capital reduction (in EUR)	6,400

Because the transaction relates to a period before the capital reduction implemented in 2005, the resulting changes to shareholders' equity in 2006 are required to be made as if the contribution had been released prior to the share capital consolidation.

Other accrued liabilities consist primarily of pending losses from ongoing obligations and litigation risks, litigation risks and fixed-price projects, 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 EUR thousands):

	Due within 1 year	Due in 1 – 5 years	Due after more than 5 years	Total	Mortgage-backed
Bonds		2,902		2,902	-
Advance payments received	462			462	-
Trade payables	4,481			4,481	-
Other liabilities	423	719		1,142	-
	5,366	**3,621**		**8,987**	**-**

On November 24, 2004, Intershop announced its intention to issue a zero-coupon convertible bond with a total volume of up to EUR 20 million, as authorized by the resolution of the Annual Stockholders' Meeting on June 13, 2001, which created conditional capital of up to EUR 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 EUR 1 each. The principal features of the zero-coupon convertible bond are the repayment amount of EUR 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 exercise periods (starting in November 2005). The conversion price on each occasion will be EUR 1.00, irrespective of any capital reductions. Automatic conversion will take place if the share price exceeds EUR 5.00 on ten consecutive trading days at any time after January 1, 2006. As collateral, Intershop will furnish a first-ranking lien on its worldwide copyright to the Enfinity Software

Stockholders were granted an indirect right to subscribe at a ratio of 1.3 to 1 in the period from November 29 to December 14, 2004; they also received the right to subscribe for additional bonds. However, the minimum amount of EUR 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. On January 26, 2005, Intershop announced that the convertible bond had been successfully placed. Bonds arising from the convertible bond with a value of EUR 11,331,000 were subscribed.

The income from the issue of the convertible bond was divided into a debt and an equity component. In the first conversion window (November 1 to November 30, 2005), 4,886,402 convertible bonds were converted into shares of the Company; this corresponds to a proportion of 43.12 %. During the second conversion window (August 4 to September 8, 2006) 3,815,559 convertible bonds were converted into 3,815,559 shares in the Company. Since there were 6,444,598 convertible bonds in issue prior to the second conversion, the 3,815,559 bonds converted represent a proportion equal to 59.21%.

A standard market interest rate of 15% was used for the calculation. The interest rate used corresponds to a standard market rate for debt financing for four-year maturities and a credit rating that is comparable with that of Intershop. The effective interest rate is 18.026% per year.

The following table shows the development of convertible bonds in fiscal year 2006 (in EUR thousand):

1. Adjusted debt component at January 1, 2006	6,187
Interest on the convertible bond before conversion	684
Adjusted debt component before conversion	**6,871**
2. Adjusted debt component before conversion	6,871
Converted portion of the adjusted debt component (59.21%)	(4,068)
Adjusted debt component after conversion	**2,803**
3. Adjusted debt component after conversion	2,803
Interest on the convertible bond after conversion	99
Adjusted debt component at December 31, 2006	**2,902**

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 2007. For fiscal 2007, the Company's financial obligations under the lease amount to EUR 1.4 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, 2006 amounted to EUR 9,7 million, which are due ratably until the end of the lease period on November 14, 2013.

In view of the ongoing litigation, the Company is attempting to reach an agreed settlement in the short term.

Statement of Operations

The following table shows a break-down of revenues by region:

Germany	8,906,889
Rest of Europe	3,662,451
Rest of the world excluding Europe	1,538,248
	14,107,588

EUR 2,754,863 of revenues relates to license income and EUR 11,352,725 to income from services.

Other operating income in the fiscal year 2006 includes prior-period income of EUR 1,741,220.

Personnel expenses in fiscal year 2006 include prior-period expenses of EUR 245,000.

Other operating expenses for fiscal 2006 contain prior-period expenses amounting to EUR 265,881.

The write-downs charged in accordance with section 253 (2) of the HGB amount to EUR 8,777 (previous year: EUR 1,806,551); those charged in accordance with section 253 (3) of the HGB amount to EUR 5,185,288 (previous year: EUR 5,472,273).

EUR 5,894,382 of other interest and similar income relates to affiliated companies (previous year: EUR 5.708.977).

The Company had an average of 219 employees during the fiscal year 2006 (prior year: 236). The figure excludes an average of 15 employees with temporary leave of absence.

Notes to the Financial Statements

The Supervisory Board comprised the following members in 2006:

Hans W. Gutsch
– Chairman of the Supervisory Board
– Graduate in business administration
– Former Senior VP Human Resources and Organization, Compaq Computer Corporation
Other supervisory board memberships:
– Sensomotion Inc., USA (Chairman of the Supervisory Board)
– El-Nets, Ltd., Singapore
– ESCALURE Inc., USA (Chairman of the Supervisory Board)
– TELOVITAL GmbH, Vienna, Austria (Chairman of the Advisory Board)

Wolfgang Meyer
– Graduate engineer
– Chairman of the Management Board of Schott Jenaer Glas GmbH
Other memberships:
– Schott Lithotec AG (Member of the Management Board)
– Ernst-Abbe-Foundation in Jena (Member of the Management Board)
– Foundation for Technology, Innovation and Research Thuringia (Member of the Management Board)

Michael Sauer
(since November 1, 2006)
– Managing Director and Shareholder of Music Store A. Sauer GmbH
– Managing Director and Shareholder of Kölner Parkhaus und Parkplatz GmbH

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)
– Interhyp AG (Chairman of the Supervisory Board)
– Member of the Advisory Council of Aventeon Mobil Business Solution GmbH
– Amadee AG (Member of Management Board)
– Simyo GmbH (Member of the Advisory Board)

The Management Board included the following persons in 2006:

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

Ralf Männlein
– Management Board member responsible for Sales and Marketing

Compensation of the members of the Management Board and the Supervisory Board

The compensation of the Management Board comprises fixed and variable components. The fixed components comprise the fixed salary and additional benefit such as the non-cash benefit of the use of a company car and subsidized life insurance.The variable remuneration is determined by the Supervisory Board on the basis of an assessment of a member's personal performance, the business situation, and successes achieved. The Management Board also participates in the Company's stock option plan.

The total compensation of the Management Board in fiscal year 2006 amounted to EUR 736 thousand, of which EUR 513 thousand related to fixed components (EUR 459 thousand fixed salary, EUR 54 thousand additional benefits) and EUR 223 thousand to variable components. In 2006, members of the Management Board were granted 300,000 stock options from the 1999 stock option plan with an option value of EUR 0.62 per option. The exercise price amounts to EUR 1.22 per option.

The compensation was made up as follows:

	Fixed salary in EUR thousand	**Variable remuneration** in EUR thousand	**Total** in EUR thousand	**Stock options** number of options	**Value of options** in EUR thousand
Dr. Jürgen Schöttler	294	142	436	200,000	124
Ralf Männlein	219	81	300	100,000	62
	513	**223**	**736**	**300,000**	**186**

No member of the Management Board has been promised benefits in the event of the termination of his employment with the Company. No loans or similar benefits were granted to members of the Management Board. No member of the Management Board received any benefits from third parties during the fiscal year that were promised or granted because of his position as a member of the Management Board.

The Supervisory Board receive the following compensation for 2006:

Name	Compensation in EUR thousand
Hans W. Gutsch (Chairman)	30
Wolfgang Meyer	15
Michael Sauer	3
Peter Mark Droste	12
Total Supervisory Board compensation	**60**

The compensation of the Supervisory Board consists solely of a fixed component, stipulated by the Articles of Association, payable at the end of the fiscal year. The Chairman receives twice, and the Deputy Chairman one and a half times, the amount determined for the other members of the Supervisory Board. Expenses incurred by the members of Supervisory Board in the performance of their duties are reimbursed by the Company.

In addition, the Company incurred expenses of EUR 52 thousand in fiscal year 2006 in respect of former members of the Supervisory Board prior to 2006. The expenses are the result of additional tax payments required by the tax authorities in respect of the remuneration of members of the Supervisory Board in 2000 and 2001.

Information on the shareholdings of the members of the executive bodies (Supervisory and Management Boards) as of December 31, 2006 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 IFRS 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 Jena Germany. These consolidated financial statements include the financial statements of the parent company and the following companies as of December 31, 2006:
Intershop Communications, Inc., San Francisco, USA
Intershop Communications Ventures GmbH, Jena, Germany
Intershop Communications s.r.o., Praque, Czech Republic
Intershop Communications AB, Stockholm, Sweden
Intershop Communications Online Marketing GmbH, Frankfurt/Main, Germany

The following list shows the subsidiaries of Intershop Communications AG and the Company‘s respective interest as of December 31, 2006:

	Interest in %	Currency	Nominal capital	Equity*	Net loss*
Intershop Communications, Inc., San Francisco, U.S.A	100	EUR	7,332,682	(119,038,284)	(4,852,478)
Intershop Communications Ventures GmbH, Jena	100	EUR	1,000,000	(2,183,917)	(107,628)
Intershop (UK) Ltd., London, United Kingdom	100	EUR	1,586	0	0
Intershop Communications S.a.r.l., Paris, France	100	EUR	300,000	0	0
Intershop Communications AB, Stockholm, Sweden	100	EUR	11,437	32,066	(8,463)
Intershop Communications Hongkong Co. Ltd., Hongkong, China	99,99	EUR	1,378	0	0
Intershop Communications Korea Co. Ltd., Seoul, Korea	99,98	EUR	50,940	0	0
Intershop Communications Taiwan Co. Ltd., Taipeih, Taiwan	100	EUR	32,393	0	0
Intershop Communications Singapore Pte Ltd., Singapur	100	EUR	65,168	0	0
Intershop Communications Online Marketing GmbH, Frankfurt / Main, Germany	100	EUR	75,000	53,770	(30,835)
Intershop Communications s.r.o., Prague, Czech Republic	100	EUR	6,746	(56,578)	(30,060)

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

Auditors' fees

In fiscal year 2006, the Company incurred expenses of EUR 125,000 for auditors' fees in respect of the audit of the annual and consolidated financial statements, as well as EUR 13,483 for other assurance services and EUR 30,934 for other services. There were no expenses for tax consulting services in 2006.

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/corporate_governance since March 6, 2007.

Appropriation of net income/loss

The Management Board of Intershop Communications AG proposes to carry forward the accumulated deficit of EUR 10,899,656 to new account.

Jena, March 15, 2007

The Management Board

Dr. Jürgen Schöttler　　Ralf Männlein

Report of Independent Auditors

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the INTERSHOP Communications AG, Jena, for the business year from January 1, 2006 to December 31, 2006. 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 § [Article] 317 HGB [„Handelsgesetzbuch": „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (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 expectations as to 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, based on the findings of our audit, the annual financial statements comply with the legal requirements and 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. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company‘s position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we refer to the discussion in the management report. In paragraph “Forecast” therein it is disclosed, that if the planned revenue targets for the following year are not achieved, a risk of insolvency of the Company can not be excluded. In this case further measures will be required to strengthen the liquidity and equity, to ensure the Company’s continued existence.

Leipzig, March 19, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sign.	sign.
Dr. Georg Flascha	Maik Pülmanns
Wirtschaftsprüfer	Wirtschaftsprüfer

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 8, 2006, April 11, 2006, June 16, 2006, July 31, 2006 and November 7, 2006.

In addition, the Management Board regularly reported to the Supervisory Board on the achievement of planned targets for the current year and on the forecast for future periods. The Supervisory Board held regular meetings with the CFO and the head of accounting to discuss, analyze, and monitor financial issues relating to ongoing business operations.

In 2006, all members of the Supervisory Board attended at least half of the Supervisory Board's meetings. No conflicts of interest arose for any of the Supervisory Board members during the year.

In 2006, there was a change in the composition of the Supervisory Board. Effective October 31, 2006, member of the Supervisory Board Mr. Peter Mark Droste resigned his position at his own request for personal reasons. Mr. Droste had been a member of Intershop's Supervisory Board since November 28, 2002. At the request of the Company, Mr. Michael Sauer was appointed to the Supervisory Board by order of the Jena local court as of November 1, 2006. The Supervisory Board would like to thank Mr. Droste for his valuable work and commitment while a member of the Supervisory Board of Intershop Communications AG.

The Supervisory Board has two committees: the audit committee and the HR/compensation committee. The Chairman of the Supervisory Board also chairs the HR/compensation committee. The audit committee is headed by Mr. Peter Mark Droste.

KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft (auditors and tax consultants), which was elected by the Annual Stockholders' Meeting on August 1, 2006 as auditor for fiscal year 2005, 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. Following its own detailed review, the Supervisory Board concurred with the result of the audit and approved the annual and consolidated financial statements prepared by the Management Board on March 21, 2007. 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 21, 2007

Hans W. Gutsch
Chairman of the Supervisory Board
Intershop Communications AG

Corporate Governance Report

Intershop welcomes the German Corporate Governance Code presented by the Government Commission and most recently updated in July 2006. The recommendations of the German Corporate Governance Code were largely complied with in fiscal year 2006. The Supervisory Board and the Management Board issued the following joint Declaration of Conformity in accordance with section 161 of the Aktiengesetz on March 6, 2007:

1. Since its last declaration of conformity dated February 8, 2006, Intershop Communications AG complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version dated June 2, 2005, in the period from February 8 to June 11, 2006, and in the version dated June 12, 2006 published on July 24, 2006 („Code“) from July 25, 2006 until the present, with the following exceptions[1]:

    a) The Supervisory Board does not receive performance-related compensation (section 5.4.7).
    b) Individualized information on the compensation components of Management Board salaries was not given in the notes to the 2005 consolidated financial statements (section 4.2.4).
    c) The 2005 consolidated financial statements are published 18 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).
    d) D&O insurance policy was taken out for the Management Board and the Supervisory Board. It did not provide for a deductible (section 3.8.).

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 June 12, 2006, with the following exceptions:

    a) The Supervisory Board will not receive performance-related compensation (section 5.4.7).
    b) The existing D&O insurance policy does not provide for a deductible (section 3.8.).

Jena, March, 2007

Intershop Communications AG

on behalf of the Management Board — on behalf of the Supervisory Board

Dr. Jürgen Schöttler — Ralf Männlein — Hans W. Gutsch

[1] The Management Board and the Supervisory Board note, for the purposes of clarification, that each executive body issues the elements of the Declaration of Conformity relating to past and current events only in respect of those recommendations which fall within its respective area of responsibility. Where a recommendation applies to individual members of the Supervisory Board, each member of the Supervisory Board declares his conformity with the recommendation on behalf of himself alone. This applies in particular to the recommendations under sections 5.5.2 and 5.4.1 of the Code.

This declaration has been permanently available to stockholders on the Company's website at http://www.intershop.com/corporate_governance since March 6, 2007.

Explanatory notes to the exceptions:

The members of the Management Board and the Supervisory Board believe that the existing compensation of the Supervisory Board is better suited to ensuring the independence of the Supervisory Board in the performance of its supervisory function.

The D&O insurance policy in place since 2006 does not provide for a deductible for the executive bodies of the Company. The Company has been making efforts to conclude a D&O insurance policy for several years. To date, however, insurance companies have generally been reluctant to conclude D&O insurance policies with companies in the „new economy", because they were afraid of an enormous rise in claims for damages. This has not happened in practice, however, and insurance providers have expanded their range of insurance customers. Several offers of D&O insurance policies were available to Intershop in fiscal year 2006. For cost reasons, the Company decided on the cheapest insurance policy, for which the premiums, with no deductible but with otherwise comparable terms, are several times cheaper than all the other available offers with a deductible.

Compensation of the members of the Management Board and the Supervisory Board (Remuneration report)

The compensation of the Management Board comprises fixed and variable components. The fixed components comprise the fixed salary and additional benefit such as the non-cash benefit of the use of a company car and subsidized life insurance.The variable remuneration is determined by the Supervisory Board on the basis of an assessment of a member‘s personal performance, the business situation, and successes achieved. The Management Board also participates in the Company‘s stock option plan.

The total compensation of the Management Board in fiscal year 2006 amounted to EUR 736 thousand, of which EUR 513 thousand related to fixed components (EUR 459 thousand fixed salary, EUR 54 thousand additional benefits) and EUR 223 thousand to variable components. In 2006, members of the Management Board were granted 300,000 stock options from the 1999 stock option plan with an option value of EUR 0.62 per option. The exercise price amounts to EUR 1.22 per option.

The compensation was made up as follows:

	Fixed salary in EUR thousand	**Variable remuneration** in EUR thousand	**Total** in EUR thousand	**Stock options** number of options	**Value of options** in EUR thousand
Dr. Jürgen Schöttler	294	142	436	200,000	124
Ralf Männlein	219	81	300	100,000	62
	513	**223**	**736**	**300,000**	**186**

No member of the Management Board has been promised benefits in the event of the termination of his employment with the Company. No loans or similar benefits were granted to members of the Management Board. No member of the Management Board received any benefits from third parties during the fiscal year that were promised or granted because of his position as a member of the Management Board.

The compensation of the Supervisory Board consists solely of a fixed component, stipulated by the Articles of Association, payable at the end of the fiscal year. The Chairman receives twice, and the Deputy Chairman one and a half times, the amount determined for the other members of the Supervisory Board. Expenses incurred by the members of Supervisory Board in the performance of their duties are reimbursed by the Company.

The Supervisory Board receive the following compensation for 2006:

Name	Compensation in EUR thousand
Hans W. Gutsch (Chairman)	30
Wolfgang Meyer	15
Michael Sauer	3
Peter Mark Droste	12
Total Supervisory Board compensation	**60**

After the balance sheet date, Supervisory Board member Mr. Michael Sauer waived his Supervisory Board compensation for fiscal year 2006 amounting to EUR 3 thousand.

In addition, the Company incurred expenses of EUR 52 thousand in fiscal year 2006 in respect of former members of the Supervisory Board prior to 2006. The expenses are the result of additional tax payments required by the tax authorities in respect of the remuneration of members of the Supervisory Board in 2000 and 2001.

Securities transactions subject to reporting requirements (Directors´Dealings)

In fiscal year 2006, the members of the Company's executive bodies made the following purchases and sales of Intershop ordinary bearer shares or shares in the 2004/2008 zero-coupon convertible bond issued by the Company.

Name	Datue	Type of security	Type of transaction	Amount	Total value (EUR)
Supervisory Board					
Hans W. Gutsch	July 25, 2006	Share	Lending*	20,000	0
Michael Sauer	Nov. 10, 2006	Share	Purchase	30,000	45,100
Management Board					
Ralf Männlein	February 21,2006	Bond	Purchase	50,000	57,450

* The Chairman of the Supervisory Board, Hans W. Gutsch, lent the Company 20,000 Intershop ordinary bearer shares free of charge to cover requirements under the employee stock option plan. The Company returned the shares to Mr. Gutsch as of December 31, 2006.

Securities transactions subject to reporting requirements

In fiscal year 2006, the members of the Company's executive bodies made the following purchases and sales of Intershop ordinary bearer shares or shares in the 2004/2008 zero-coupon convertible bond issued by the Company.

Name	Title Function	Shares held *	Stock options held*, **	Convertible bonds
Hans W. Gutsch	Chairman of the Supervisory Board	155,018	–	–
Michael Sauer	Member of the Supervisory Board	429,712	–	–
Wolfgang Meyer	Member of the Supervisory Board	–	–	–
Dr. Jürgen Schöttler	Chairman of the Management Board	111,519	253,333	–
Ralf Männlein	Member of the Management Board	50,000	123,333	50,000

* All information post 5:1 reverse stock split in 2002 and the 3:1 reverse stock split in 2005.

** The stock options were granted at the conditions of the 1999 stock option plan. Details on the 1999 stock option plan can be found in section entitled „Stock option plans." Dr. Jürgen Schöttler's stock options have an average reverse stock split adjusted exercise price of EUR 3.59 per share, and Ralf Männlein's stock options have an exercise price of EUR 2.06 per share.

Stock option plans

Stock option plans allow employees to acquire shares in the Company.

Intershop has the following Stock Option Plans:

1997 Stock Option Plan

The Company had originally reserved 2,000,000 ordinary shares for issuance to employees, directors, and consultants under its 1997 Stock Option 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 grant date. Options vest ratably over periods determined by the Board, generally three years. The Management Board also has the authority to set exercise dates (no longer than ten years from the grant date), payment terms, and other provisions. The Company had the right of first refusal for all ordinary shares issued under the 1997 Plan should the holder intend to sell or otherwise transfer any of the shares. The Company's right of first refusal terminated at the effective date July 16, 1998, of the Company's initial public offering. The 1997 stock option plan was terminated as of December 31, 2006. All 13 option holders have formally agreed to surrender their stock options. In consideration, the option holders have received a gross payment of EUR 1 for each option surrendered. The total payment amounted to EUR 4,391.

1999 Stock Option Plan

With effect from June 21, 1999, the Company adopted a new stock option plan (the 1999 Plan) for the issuance of shares to Management Board members, executives, and various employees. The options under the 1999 Plan vest ratably over a four-year period, beginning six months from the grant date; however, in accordance with the Aktiengesetz (German Stock Corporation Act), no options will be exercisable, even though a portion is vested, prior to the second anniversary of the grant date. The exercise price of the options is equal to 120% of the market price of the shares at the grant date, 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 grant date.

2001 Stock Option Plan

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 grant date; however, in accordance with the Aktiengesetz, no options will be exercisable, even though a portion is vested, prior to the six months after the grant date. The exercise price of the options is the fair value at the grant date, defined as equivalent to the XETRA closing price on the Frankfurt Stock Exchange for voting shares of stock of the Company.

Intershop Shares

Stock Market Data on Intershop Shares	
ISIN	DE000A0EPUH1
WKN	A0EPUH
Stock market symbol	ISH2
Admission segment	Prime Standard / Regulated market
Sector	Software
Membership of Deutsche Börse indices	CDAX, Prime All Share, Technology All Share

Key figures for Intershop shares		2006	2005
Closing price*	in EUR	1.58	1.00
High*	in EUR	3.84	2.46
Low*	in EUR	0.92	0.68
Number of shares outstanding (as of Dec. 31)	Number	21,503,851	17,662,052
Number of shares – diluted (as of Dec. 31)	Number	24,132,890	24,106,650
Market capitalization (as of Dec. 31)	in EUR million	34.0	17.7
Market capitalization (as of Dec. 31) – diluted	in EUR million	38.1	24.1
Free float	in %	100	100
Average trading volume per day*	Number	114,663	178,094
Shareholder Equity	million	6.9	8.3

** im Xetra*

Financial Calendar 2007

Date	Event
Februar 15, 2007	Release of Q4 / 2006 and FY 2006 financials
April 26, 2007	Release of Q1 / 2007 financials
May 9, 2007	Annual stockholders´ meeting
July 26, 2007	Release of Q2 / 2007 and 6-month financials
October 25, 2007	Release of Q3 / 2007 and 9-month financials

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