INTERSHOP™

# Interim Report
# first Quarter 2006

January 1 to March 31, 2006

*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.*

# Group Management Report

## Overall Economy and Industry

The first quarter of 2006 was dominated by business consolidation and stabilization on the IT customer market. The IT industry in general – and the e-commerce software sector in particular – are picking up and beginning to record modest growth rates. At the same time, e-commerce software providers and their customers are being confronted with new market conditions.

Companies today are faced with the challenges posed by the global information society. One element of these challenges is the Internet, which is a fast growing sales channel. Any company that wants to hold its own on the market must now offer its products and services online. A powerful and cost-effective e-commerce strategy is a crucial factor for a company's success. However, implementing such a strategy is a major problem for many firms. Intershop offers them a solution thanks to its new focus on full-service e-commerce.

## Revenue Development

In the first quarter of 2006, Intershop's total revenues increased by 17% year-on-year from EUR 4.4 million to EUR 5.1 million. License revenues rose by 41% to EUR 1.8 million and their share of total revenues climbed to 36% (previous year: 30%). Service, maintenance, and other revenues were up by 6% to EUR 3.3 million (previous year: EUR 3.1 million), and their share of total revenues fell from 70% in the first quarter of 2005 to 64% in Q1 2006.

Intershop received a major order from an American technology company in the first quarter of 2006, which will generate total revenues of EUR 4.4 million. The Company recognized EUR 1.4 million of this, or around 30% of the total volume, in the period under review. This amount related to license revenues. The remaining 70% of the order volume will be recognized in the coming quarters.

Europa and North America remained Intershop's key revenue regions in the first quarter of 2006. Once again, Europe was the Company's primary market in the period under review, with a 64% share of total revenues, compared with 67% in Q1 2005. Intershop generated revenues of EUR 1.8 million in North America in the first quarter of 2006, or 36% of the global total. In the first quarter of 2005, this region recorded revenues of EUR 1.4 million, or 33% of the global total.

## Earnings Development

The cost of revenues was EUR 2.4 million in the first three months of the fiscal year, compared with EUR 2.1 million in the prior-year period.

The gross profit margin on total revenues increased from 51% in the first quarter of 2005 to 54% in Q1 2006; this corresponds to EUR 2.2 million in the first three months of 2005 and EUR 2.7 million in the period under review. The gross profit margin on license revenues rose to 98% as against 95% in the prior-year period. The gross profit margin on service revenues (including services, maintenance, and other revenues) fell from 33% in Q1 2005 to 29% in Q1 2006.

Operating expenses increased from EUR 2.9 million in the first quarter of 2005 to EUR 4.0 million in Q1 2006. This is mainly due to higher sales and marketing expenses from the recruitment of new sales staff. Sales and marketing expenses were EUR 2.3 million in the first three months of fiscal year 2006, compared with EUR 1.3 million in the prior-year period. The figure for Q1 2006 includes the costs of the CeBIT 2006 trade fair in Hanover.

Research and development expenses fell by EUR 0.1 million or 15% year-on-year to EUR 0.7 million. General and administrative expenses remained virtually constant at EUR 1.1 million in the first three months of fiscal year 2006, compared with EUR 1.0 million in Q1 2005.

The depreciation and amortization expense was virtually unchanged year-on-year at EUR 0.1 million in the first quarter of 2006.

The ongoing negative result from operating activities amounted to EUR 1.3 million in the first quarter of 2006, compared with EUR 0.7 million in the prior-year period.

The interest expense included in the financial result rose from EUR 0.1 million in Q1 2005 to EUR 0.3 million.

In the first quarter of 2006, Intershop's net loss was EUR 1.5 million, representing a loss of EUR 0.08 per share. In Q1 2005, Intershop recorded a net loss of EUR 0.8 million, or EUR 0.09 per share.

**Research and Development**

Research and development expenses amounted to EUR 0.7 million in the period under review, compared with EUR 0.9 million in the first quarter of 2005. This corresponds to a drop of 15% and is due in particular to a reduction in the workforce.

**Organization**

There were no changes to the Management Board or the Supervisory Board as against December 31, 2005.

**Employees**

The number of employees remained virtually constant. Intershop employed 219 full-time equivalents as of March 31, 2006, compared with 222 as of December 31, 2005 and 220 as of March 31, 2005.

The technical departments (research and development and service functions) employed 144 full-time equivalents as of March 31, 2006, or 66% of the entire workforce, as against 159 as of March 31, 2005 (December 31, 2005: 150). The sales and marketing departments accounted for 46 full-time equivalents as of March 31, 2006, compared with 32 employees as of March 31, 2005 (December 31, 2005: 43 employees). 29 full-time equivalents were employed in general and administrative functions as of March 31, 2006; this figure remained unchanged as against March 31, 2005 and December 31, 2005.

93% of Intershop's global workforce was employed in Germany as of March 31, 2006 (203 full-time equivalents). The remaining 7% belong to the U.S. branch (16 full-time equivalents). As of December 31, 2005, 207 full-time equivalents were employed in Germany and 15 in the United States.

## Presentation of Net Assets and Financial Position

Total assets increased slightly from EUR 23.0 million as of December 31, 2005 to EUR 23.5 million as of March 31, 2006.

Current assets rose from EUR 14.0 million as of December 31, 2005 to EUR 14.5 million. Trade receivables were up by 7% and other receivables and other assets increased from EUR 0.9 million to EUR 1.0 million.

Cash and cash equivalents included in noncurrent and current assets rose to EUR 13.6 million as of March 31, 2006, as against EUR 13.5 million as of December 31, 2005. The amount of unrestricted cash included in cash and cash equivalents increased from EUR 7.3 million to EUR 7.4 million.

Equity fell from EUR 8.3 million as of December 31, 2005 to EUR 7.1 million in the first quarter of 2006. As a result, the equity ratio declined to 30% compared with 36% as of December 31, 2005. This change is due to the net loss for the period.

Noncurrent liabilities rose from EUR 5.8 million as of December 31, 2005 to EUR 6.5 million as of March 31, 2006. This resulted from the EUR 0.5 million increase in deferred revenue and the growth in liabilities arising from the convertible bond due to interest on the bond.

Current liabilities rose to EUR 9.8 million as of March 31, 2006, compared with EUR 9.0 million as of December 31, 2005. Other current provisions increased from EUR 0.8 million as of December 31, 2005 to EUR 1.0 million. Trade accounts payable were up from EUR 3.8 million to EUR 4.0 million, while other current liabilities fell by 24% to EUR 1.2 million. Deferred revenue increased by 50% to EUR 2.9 million as of March 31, 2006.

Intershop generated net cash provided by operating activities of EUR 0.2 million in the first quarter of 2006, compared with net cash used in operating activities of EUR 4.1 million in the first quarter of 2005.

Cash flows from financing activities amounted to EUR 0 million in the first three months of fiscal year 2006, because no financing measures were taken. By comparison, the first quarter of fiscal year 2005 saw net cash provided by financing activities of EUR 10.1 million, due to the successful placement of the zero-coupon convertible bond.

## Group Risks

In the first quarter of 2006, there were no significant changes to the risks described in detail on pages 15 to 17 of the 2005 Annual Report.

## Events subsequent to the balance sheet date

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 925 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 requires the landlord to pay around EUR 925 thousand plus interest.

In the proceedings brought by the landlord for payment of rent and ancillary costs, the court heard evidence from a witness on the issue of the agreement of the contractual penalty, and then set the date for pronouncing its decision as May 18, 2006. On this date, the court is expected to pronounce an order to take evidence, under which an expert will be engaged to prepare an appraisal of the faults in the rented property.

On May 3, 2006, the Hamburg Regional Court pronounced an order to take evidence in the claim brought by an investment bank against Intershop for payment of around EUR 593 thousand. Under the order, witnesses will be heard on the issue of the continued validity or termination of the contract and the services provided.

**Outlook**

Many experts believe that demand for e-commerce software products will increase further in 2006. Business models in the online shopping sector are changing: they are becoming more diverse. E-commerce is a complex network of closely integrated processes in which the interaction between individual components is both sophisticated and essential: the weakest link in the process chain determines success or failure. Since CeBIT 2006, Intershop has reflected this trend by offering full-service e-commerce from a single source, thus covering all aspects of online trading: Intershop manages its customers' entire online business and works together with them to achieve their business goals. Intershop's alliances with leading fulfllment partners allow their first-class fulfllment and logistics solutions to be complemented by the Company's proven e-commerce software. Full-service e-commerce is tailor-made for companies that have a strong brand but have not yet developed a powerful e-commerce strategy. Intershop's Business Process Outsourcing concept offers an end-to-end business model for e-commerce, and the Company's reference customers include Europe's most successful online traders.

Intershop's core business is and will remain the sale of standard software for online trading. Intershop Enfinity Suite 6 is the current generation of the multi-award-winning Enfinity e-commerce software. Enfinity Suite 6's unique functionality enables all online business channels to be consolidated onto one platform and centrally managed. This allows dealings with end customers, business customers, partners, and suppliers to be harmonized with each other and conducted in the most effective manner.

Thanks to its restructured offering and the Enfinity Suite 6 standard software, Intershop's Management Board believes that the Company is excellently positioned to meet market demands. The market for high-end e-commerce software continues to be dominated by development platforms and tools for programming business processes. Intershop offers its customers high-quality standard software and is making every effort to further extend its technology lead in the area of e-commerce software.

On the basis of the significant improvement in revenues as of the end of 2005 and assuming a slight increase in corporate IT expenditure in 2006, Intershop expects to generate a positive net result in fiscal year 2006.

**Consolidated Balance Sheet**
(IFRS, unaudited)

| | March 31, 2006 (EUR thousand) | December 31, 2005 (EUR thousand) |
|---|---|---|
| **ASSETS** | | |
| **Noncurrent assets** | | |
| Intangible assets | 4,486 | 4,495 |
| Property, plant and equipment | 445 | 483 |
| Financial investments | 59 | 59 |
| Other noncurrent assets | 97 | 105 |
| Restricted cash | 3,857 | 3,855 |
| | **8,944** | **8,997** |
| **Current assets** | | |
| Trade receivables | 3,746 | 3,518 |
| Other receivables and other assets | 997 | 881 |
| Restricted cash | 2,341 | 2,355 |
| Cash and cash equivalents | 7,438 | 7,279 |
| | **14,522** | **14,033** |
| **TOTAL ASSETS** | **23,466** | **23,030** |
| **SHAREHOLDERS´ EQUITY AND LIABILITIES** | | |
| **Shareholders´ equity** | | |
| Subscribed capital | 17,665 | 17,662 |
| Capital reserve | 413 | 54 |
| Other reserves | (10,935) | (9,444) |
| | **7,143** | **8,272** |
| **Noncurrent liabilities** | | |
| Provisions for restructuring | 0 | 17 |
| Convertible bonds | 5,848 | 5,600 |
| Deferred revenue | 685 | 188 |
| | **6,533** | **5,805** |
| **Current liabilities** | | |
| Provisions for restructuring | 754 | 790 |
| Other current provisions | 955 | 840 |
| Trade accounts payable | 3,964 | 3,817 |
| Income tax liabilities | 4 | 4 |
| Other current liabilities | 1,168 | 1,538 |
| Deferred revenue | 2,945 | 1,964 |
| | **9,790** | **8,953** |
| **TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES** | **23,466** | **23,030** |

**Consolidated Income Statement**
(IFRS, unaudited)

| | Three months ended March 31, | |
|---|---|---|
| | **2006** (EUR thousand) | 2005 (EUR thousand) |
| **Revenues** | | |
| Licenses | 1,833 | 1,299 |
| Services, maintenance and other | 3,264 | 3,074 |
| | **5,097** | **4,373** |
| **Cost of revenues** | | |
| Licenses | (42) | (68) |
| Services, maintenance and other | (2,313) | (2,074) |
| | **(2,355)** | **(2,142)** |
| **Gross profit** | **2,742** | **2,231** |
| **Operating expenses, operating income** | | |
| Research and development | (725) | (857) |
| Sales and marketing | (2,305) | (1,287) |
| General and administrative | (1,113) | (1,017) |
| Restructuring costs | 0 | 1 |
| Other operating income | 110 | 238 |
| Other operating expenses | (2) | (1) |
| | **(4,035)** | **(2,923)** |
| **Result from operating activities** | **(1,293)** | **(692)** |
| Interest income | 59 | 37 |
| Interest expense | (253) | (140) |
| **Financial result** | **(194)** | **(103)** |
| **Earnings before tax** | **(1,487)** | **(795)** |
| **Income taxes** | **(2)** | **(1)** |
| **Earnings after tax** | **(1,489)** | **(796)** |
| **Consolidated net loss** | **(1,489)** | **(796)** |
| Earnings per share (EUR, basic) | (0.08) | (0.09) |
| Earnings per share (EUR, diluted)* | (0.08) | (0.09) |
| Weighted average shares outstanding (basic) | 17,663 | 8,517 |
| Weighted average shares outstanding (diluted) | 24,108 | 14,309 |

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

**Consolidated Statement of Cash Flows**
(IFRS, unaudited)

| | Three months ended March 31, | |
|---|---|---|
| | **2006** (EUR thousand) | 2005 (EUR thousand) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Earnings before tax | (1,487) | (795) |
| *Adjustments to reconcile net loss to cash used in operating activities* | | |
| Financial result | 194 | 103 |
| Depreciation and amortization | 74 | 94 |
| Noncash effects from deconsolidation | 0 | (190) |
| Other noncash expenses and income | 287 | 20 |
| Allowances for doubtful accounts | 58 | (4) |
| (Gain) Loss on disposal of property and equipment | (15) | (10) |
| *Changes in operating assets and liabilities* | | |
| Accounts receivable | (304) | (1,006) |
| Other assets | (28) | (88) |
| Liabilities and provisions | (147) | (2,312) |
| Deferred revenue | 1,496 | 113 |
| **Net cash used in operating activities before income tax and interest** | **128** | **(4,075)** |
| Interest received | 53 | 32 |
| Interest paid | (5) | (6) |
| Income taxes paid | (2) | (1) |
| **Net cash used in operating activities** | **174** | **(4,050)** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Restricted cash | 11 | 0 |
| Payments for investments in intangible assets | 0 | -2 |
| Proceeds on disposal of equipment | 17 | 2 |
| Purchases of property and equipment, net of capital leases | (29) | (76) |
| **Net cash (used in) provided by investing activities** | **(1)** | **(76)** |
| | | |
| **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 | (1,212) |
| **Net cash provided by financing activities** | **0** | **10,119** |
| | | |
| Effect of change in exchange rates on cash | (14) | 97 |
| **Net change in cash and cash equivalents** | **159** | **6,090** |
| | | |
| Cash and cash equivalents, beginning of period | 7,279 | 1,632 |
| **Cash and cash equivalents, end of period** | **7,438** | **7,722** |

**Consolidated Statement of Shareholders´ Equity**
(IFRS, unaudited)

| | | | | Other reserves | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common shares | Subscribed capital | Capital reserve | IFRS conversion resverve | Cumulative profit/loss | Cumulative currency differences | Treasury stock | Total share-holders´equity |
| (in EUR thousand) | | | | | | | | |
| **Balance, January 1, 2006** | **17,662,052** | **17,662** | **54** | **-93** | **-11,607** | **2,256** | **0** | **8,272** |
| Net loss | | | | | -1,489 | | | -1,489 |
| Foreign currency translation adjustments | | | | | | -2 | | -2 |
| Stock option expense | | | 359 | | | | | 359 |
| Issue of new shares | 3,200 | 3 | | | | | | 3 |
| **Balance, March 31, 2006** | **17,665,252** | **17,665** | **413** | **-93** | **-13,096** | **2,254** | **0** | **7,143** |
| | | | | | | | | |
| **Balance, January 1, 2005** | **25,551,412** | **25,551** | **1,948** | **-93** | **-27,669** | **2,919** | **-1** | **2,655** |
| Net loss | | | | | -796 | | | -796 |
| Foreign currency translation adjustments | | | | | | -130 | | -130 |
| Stock option expense | | | 19 | | | | | 19 |
| Convertible bond | | | 1,452 | | | | | 1,452 |
| **Balance, March 31, 2005** | **25,551,412** | **25,551** | **3,419** | **-93** | **-28,465** | **2,789** | **-1** | **3,200** |

## Notes to the Consolidated Financial Statements as of March 31, 2006

### General disclosures

The consolidated financial statements of Intershop Communications AG as of December 31, 2005 were prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as well as the provisions required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code). Accordingly, the Group's interim report as of March 31, 2006 was prepared in accordance with IAS 34, Interim Financial Reporting.

This interim report as of March 31, 2006 is unaudited and must be read in conjunction with the consolidated financial statements and the associated notes to the consolidated financial statements for fiscal year 2005. The consolidated financial statements and the notes to the consolidated financial statements are contained in the Company's Annual Report for the fiscal year ended December 31, 2005. The 2005 Annual Report is available on the Company's website at http://www.intershop.com/company/investor_relations/financials/.

### Accounting principles (compliance statement)

The consolidated financial statements of Intershop Communications AG for 2005 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.

Since January 1, 2006, 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:

**- IFRIC 8, Scope of IFRS 2**

In January 2006, the IASB published IFRIC Interpretation 8 that addresses the scope of IFRS 2. IFRS 2, Share-based Payment must be applied to transactions in which a company receives goods or services as consideration for share-based payment. Under IFRIC 8, IFRS 2 must be applied even if the company cannot clearly identify the received goods or services. IFRIC 8 must be applied for fiscal years beginning on or after May 1, 2006.
This Interpretation will not have any effects on Intershop's future consolidated financial statements because none of the companies included in the consolidated financial statements have performed the type of transactions specified in the Interpretation and will not do so in the foreseeable future.

For details of further Standards, please refer to the 2005 Annual Report, pages 34 and 35.

Financial reporting 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.

**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.

**Basis of consolidation**
There were no changes to Intershop Communications AG's basis of consolidation in the first quarter as against December 31, 2005. In addition to the parent company, the basis of consolidation therefore comprised the following companies as of March 31, 2006:

Intershop Communications, Inc., San Francisco, U.S.A.
Intershop Communications Ventures GmbH, Jena, Germany
Intershop Communications s.r.o., Prague, Czech Republic
IS Nordic AB, Stockholm, Sweden
Intershop Communications Australia Pty Ltd., Sydney, Australia

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.

**Accounting policies**
The same accounting policies were used to prepare this interim report as for the consolidated financial statements for fiscal year 2005. The policies used are described in detail on pages 40 to 45 of the 2005 Annual Report.

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

The subscribed capital increased by EUR 3,200 as of March 31, 2006 to EUR 17,665,252 and is divided into 17,665,252 no-par value bearer shares. The change in the subscribed capital of EUR 3,200 is due to a capital increase from Authorized Capital II.

As of March 31, 2006, the Company had authorized capital of EUR 40,484,637. 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 December 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.
  A cash capital increase including subscription rights was implemented in fiscal year 2005 from Authorized Capital I (see the section entitled „Capital increases in fiscal year 2005").
- By up to a total of EUR 9,649,300 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 December 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, the capital increase from Authorized Capital II became legally effective on February 22, 2006. As a result, Authorized Capital II was reduced from EUR 9,652,500 to EUR 9,649,300.

The conditional capital remained unchanged as of March 31, 2006 compared with December 31, 2005. The Company's share capital was increased conditionally by up to EUR 25,418,317 in order to issue 25,418,317 shares. Due to capital reductions and the expiry of options, however, a maximum of 17,153,635 shares were issued from the conditional capital.

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.

**Stock option plans**

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

| Three months ended **March 31,** | **2006** | **2006** | **2005** | **2005** |
|---|---|---|---|---|
| | Number of shares outstanding | Weighted average exercise price (Euro) | Number of shares outstanding | Weighted average exercise price (Euro) |
| Outstanding at beginning of period | 453 | 18.38 | 523 | 120.60 |
| Granted | 3,991 | 1.02 | 3 | 3.30 |
| Exercised | 0 | 0 | 0 | 0 |
| Forfeited | (59) | 10.03 | (96) | 573.96 |
| **Outstanding at end of period** | **4,385** | **2.68** | **430** | **61.44** |
| Exercisable options at end of period | 318 | 21.97 | 264 | 92.01 |
| Weighted average fair market value of options granted during the year | 3,991 | 0.59 | 3 | 1.62 |

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

| Range of exercise price | Number of options outstanding (EUR thousand) | Weighted average remaining contractual life (in years) | Weighted average exercise price (EUR) | Number exercisable on March 31, 2006 (EUR thousand) | Weighted average exercise price (EUR) |
|---|---|---|---|---|---|
| 0.01 - 17.99 | 4,219 | 9.2 | 1.37 | 157 | 7.56 |
| 18.00 - 20.99 | 37 | 5.7 | 18.12 | 35 | 18.12 |
| 21.00 - 50.99 | 80 | 4.4 | 23.92 | 78 | 23.92 |
| 51.00 - 149.99 | 47 | 1.0 | 63.88 | 46 | 64.00 |
| 150.00 - 2.274.12 | 2 | 2.8 | 230.10 | 2 | 230.10 |
| | **4,385** | **8.9** | **2.68** | **318** | **21.97** |

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 | 3.29 | 4.03 |
| Risk-free interest rate | in % | 3.00 | 3.85 |
| Volatility | 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 | 0.60 | 4.62 |

Volatility was determined by calculating the average historical volatility of the Company‘s share price in the past three years.

In accordance with IFRS 2.53, only options that were granted after November 7, 2002 and were not exercisable before January 1, 2005 are recognized, as well as all options granted in 2004, 2005 and 2006.

In the first quarter of 2006, the Company recognized expenses of EUR 359 thousand relating to the stock option plans. These expenses amounted to EUR 20 thousand in the first quarter of 2005.

**Convertible bond liabilities**

Convertible bonds are regarded as composite financial instruments, consisting of a debt and an equity component. In subsequent periods, the debt component is measured at amortized cost using the effective interest method.

The effective interest rate is 18.026% per year.

The liabilities from the convertible bond amounted to EUR 5,848 thousand as of March 31, 2006. The change as against December 31, 2005 was as follows (in EUR thousand):

| | |
|---|---|
| Amortized cost as of December 31, 2005 | 5,600 |
| Interest accrued on the convertible bond up to March 31, 2006 | 248 |
| **Debt component as of March 31, 2006** | **5,848** |

6,444,598 bonds arising from the convertible bond were outstanding as of March 31, 2006. This amount is composed of the following:

| | |
|---|---|
| Subscribed bonds | 11,331,000 |
| Converted bonds | 4,886,402 |
| **Convertible bonds outstanding as of March 31, 2006** | **6,444,598** |

## Restructuring costs

The following tables summarize the restructuring charges recorded during the three months ended March 31, 2006 and 2005 respectively (in thousands EURO):

| Three months ended March 31, | **2006** | **2005** |
|---|---|---|
| Employee-related charges | 0 | (1) |
| Facility-related charges | 0 | 0 |
| **Total restructuring charges** | **0** | **(1)** |

| | Facility-related charges |
|---|---|
| Accrued restructuring costs as of December 31, 2005 | 807 |
| Currency adjustments | (4) |
| Restructuring charges for the quarter ended March 31, 2006 | 0 |
| Cash payments | (49) |
| **Accrued restructuring costs as of March 31, 2006** | **754** |

***Facility-related charges***
The accruals for facility-related costs mainly include the expected future payments for existing lease commitments for property no longer in use, net of sublease income. The sub lease income has been estimated based upon the contractual agreements in place as of the date the financials were prepared.

Restructuring accruals are calculated on the basis of financial estimates and data available as at March 31, 2006.

Adjustments to this restructuring reserve will be made in future periods, if necessary, based upon actual events and available information at that moment in time.

**Earnings per share**
The calculation of basic and diluted earnings per share is based on the following data (in EUR thousand):

| Three months ended March 31, | **2006** | **2005** |
|---|---|---|
| Basis for calculating basic earnings per share (consolidated net loss for the year) | (1,489) | (796) |
| Dilutive effect of potential ordinary shares: interest on the convertible bond | 247 | 124 |
| **Basis for calculating diluted earnings per share** | **(1,242)** | **(672)** |

The number of shares is calculated as follows:

| Three months ended March 31, | **2006** | **2005** |
|---|---|---|
| Weighted average number of ordinary shares used to calculate basic earnings per share | 17,663 | 8,517 |
| Dilutive effect of potential ordinary shares: convertible bond | 6,445 | 5,792 |
| **Weighted average number of ordinary shares used to calculate diluted earnings per share** | **24,108** | **14,309** |

The earnings per share is calculated as follows:

| Three months ended March 31, | **2006** | **2005** |
|---|---|---|
| **Calculation of earnings per share (basic)** | | |
| Consolidated net loss for the year (in EUR thousand) | (1,489) | (796) |
| Weighted average number of shares (basic) | 17,663 | 8,517 |
| **Earnings per share (basic) (in EUR)** | **(0.08)** | **(0.09)** |
| | | |
| **Calculation of earnings per share (diluted)** | | |
| Basis for calculating diluted earnings per share | (1,242) | (672) |
| Weighted average number of shares (diluted) | 24,108 | 14,309 |
| Earnings per share (diluted) (in EUR) | (0.05) | (0.05) |
| **Adjustment of earnings per share (diluted) (in EUR)** | **(0.08)** | **(0.09)** |

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.

## Segment Reporting

### Segment reporting as of March 31, 2006

| in EUR thousand | Germany | U.S.A | Rest of the world | Consolidation | Group |
|---|---|---|---|---|---|
| **Revenues from external customers** | | | | | |
| Licenses | 366 | 1,467 | 0 | 0 | 1,833 |
| Consulting and training | 1,552 | 88 | 0 | 0 | 1,640 |
| Maintenance | 1,353 | 264 | 0 | 0 | 1,617 |
| Others | 7 | 0 | 0 | 0 | 7 |
| **Total revenues from external customers** | **3,278** | **1,819** | **0** | **0** | **5,097** |
| Intersegment revenues | 145 | 0 | 0 | (145) | 0 |
| **Total revenues** | **3,423** | **1,819** | **0** | **(145)** | **5,097** |
| | | | | | |
| Net profit/ loss for the period | (864) | (603) | (37) | 15 | (1,489) |
| Net profit/ loss for the period (adjusted) | (2,308) | 832 | (15) | 2 | (1,489) |
| Assets | 20,559 | 2,844 | 63 | 0 | 23.466 |
| Liabilities | 14,021 | 2,305 | 9 | (12) | 16,323 |
| Depreciation and amortization | 72 | 2 | 0 | 0 | 74 |
| Acquisitions of noncurrent assets | 27 | 2 | 0 | 0 | 29 |
| Noncash income | 0 | 83 | 0 | 0 | 83 |
| Noncash expenses | 606 | 0 | 0 | 0 | 606 |

### Segment reporting as of March 31, 2005

| in EUR thousand | Germany | U.S.A | Rest of the world | Consolidation | Group |
|---|---|---|---|---|---|
| Revenues from external customers | | | | | |
| Licenses | 391 | 908 | 0 | 0 | 1,299 |
| Consulting and training | 1,126 | 213 | 0 | 0 | 1,339 |
| Maintenance | 1,404 | 325 | 0 | 0 | 1,729 |
| Others | 6 | 0 | 0 | 0 | 6 |
| **Total revenues from external customers** | **2,927** | **1,446** | **0** | **0** | **4,373** |
| Intersegment revenues | 23 | | 0 | (15) | 0 |
| **Total revenues** | **2,950** | **1,446** | **0** | **(15)** | **4,373** |
| | | | | | |
| Net profit/loss for the period | (2,010) | (366) | 1,573 | 7 | (796) |
| Net profit/loss for the period (adjusted) | (1,976) | 974 | 168 | 38 | (796) |
| Assets | 22,475 | 1,208 | 939 | 0 | 24,622 |
| Liabilities | 19,272 | 1,712 | 452 | (13) | 21,423 |
| Depreciation and amortization | 89 | 5 | 0 | 0 | 94 |
| Acquisitions of noncurrent assets | 78 | 0 | 0 | 0 | 78 |
| Noncash income | 0 | 0 | 190 | 0 | 190 |
| Noncash expenses | 149 | 0 | 0 | 0 | 149 |

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 the first quarter of 2006:
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 „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 subsidiaries in Prague, the Czech Republic, and in Sweden and Australia. The „Consolidation" segment includes all transactions within the individual segments.

Regions in the first quarter of 2005:
The „Germany" segment comprises the Germany sales unit including direct sales for Central Europe (Germany, Austria, Switzerland). 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 subsidiaries in the United Kingdom, Sweden, Australia, and Dubai. The subsidiary in Dubai was deconsolidated in the first quarter of 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.
- 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 and expenses relating to the stock options plans.

## Litigation

In the first quarter of 2006, there were no significant changes as against the litigation described on pages 69 to 71 of the 2005 Annual Report. Please refer to the section entitled „Events subsequent to the balance sheet date“ in this interim report for details of changes after the end of the first quarter.

## 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 March 31, 2006.

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.

## Directors‘ holdings

As of March 31, 2006, the following members of the Company‘s executive bodies held 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 | - | - |
| Peter Mark Droste | Member of the Supervisory Board | 100,000 | - | - |
| 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 | 57,450 |

* 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 the annual report 2005 on page 42. 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 the first quarter of 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 | Date | Type of security | Type of transaction | Amount | Total value (EUR) |
|---|---|---|---|---|---|
| **Management Board:** | | | | | |
| Ralf Männlein | February 21, 2006 | Bond | Purchase | 50,000 | 57,450 |

**Intershop Shares**

Intershop shares began the first quarter at EUR 1.02 on January 2, 2006, and closed at EUR 1.43 on March 31, 2006. They reached a high of EUR 1.77 in Q1 2006, and recorded a low of EUR 0.85. The average trading volume was around EUR 131 thousand.

| **Key figures for Interhop shares** | | **March 31, 2006** | **March 31, 2005** | **December 31, 2005** |
|---|---|---|---|---|
| Closing price* | in EUR | 1.43 | 0.93 | 1.00 |
| Number of shares outstanding | Number (thousand) | 17,665 | 25,551 | 17,662 |
| Number of shares - diluted | Number (thousand) | 24,110 | 36,882 | 24,107 |
| Market capitalization | in EUR million | 25.3 | 23.8 | 17.7 |
| Market capitalization - diluted | in EUR million | 34.5 | 34.3 | 24.1 |
| Free float | in % | 100 | 90.2 | 100 |
| Shareholders´ equity | in EUR million | 7.1 | 3.2 | 8.3 |
| Earnings per share | in EUR | (0.08) | (0.09) | (0.35)** |

* in Xetra
** Year 2005

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