INTERSHOP™

Group Management Report for the Six Months Ended

June 30, 2006

This interim 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 economic consolidation and stabilization of the IT customer market seen in the first quarter of 2006 continued throughout the first half of the year. As was apparent at the beginning of 2006, the IT industry in general and the e-commerce software sector in particular are again experiencing positive development and initial modest growth.

However, the challenges facing e-commerce companies are increasingly changing. A product range comprising software solutions alone has long ceased to be sufficient to satisfy customers in this market. Rather, customers are demanding a combination of software solutions for online marketing, sales, and procurement. Intershop offers all this from a single source. What's more, we are establishing ourselves as a full-service e-commerce provider.

Intershop announced at CeBIT 2006 that it would expand its product portfolio in future to include full-service e commerce solutions. This enables the Company to cover all e-commerce business processes – from software through online marketing to fulfillment services and logistics. In May 2006, Intershop announced that it had received its first all-round order for its new full-service e-commerce business area from a prominent brand manufacturer in a German-speaking country. Intershop entered the online marketing business – a segment with enormous growth potential – by acquiring the Frankfurt-based online marketing service provider SoQuero GmbH at the end of June 2006. Intershop expects this move to enable it to round off its full-service e-commerce offering.

Revenue Development

In the first half of 2006, Intershop's total revenues increased by 9% year-on-year from EUR 8.6 million to EUR 9.4 million. License revenues rose by 65% to EUR 2.9 million and their share of total revenues climbed to 31% (previous year: 20%). Service, maintenance, and other revenues decreased by 5% to EUR 6.5 million (previous year: EUR 6.8 million), and their share of total revenues fell from 80% in the first half of 2005 to 69% in the first half of 2006.

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 1.6 million of this, or around 36% of the total volume, in the first half of 2006. The remaining 64% of the order volume will be recognized in the coming periods.

Europa and North America remained Intershop's key revenue regions in the first six months of 2006. Once again, Europe was the Company's primary market in the period under review, with a 72% share of total revenues and EUR 6.7 million respectively, compared with 75% in the first six months of 2005 (or EUR 6.4 million). Intershop generated revenues of EUR 2.6 million in North America in the first six months of 2006, or 28% of the global total. In the first six months of 2005, this region recorded revenues of EUR 2.1 million, or 25% of the global total.

Earnings Development

The cost of revenues was EUR 4.7 million in the first six months of the fiscal year, compared with EUR 4.5 million in the prior-year period.

The gross profit margin on total revenues increased from 47% in the first half of 2005 to 50% in first half of 2006; this corresponds to EUR 4.0 million in the first six months of 2005 and EUR 4.7 million in the period under review. The gross profit margin on license revenues rose to 98% as against 94% in the prior-year period. The gross profit margin on service revenues (including services, maintenance, and other revenues) fell from 36% in the first six months of 2005 to 29% in the first six months of 2006.

Operating expenses increased from EUR 5.7 million in the first half year of 2005 to EUR 7.1 million in the first half year of 2006. This is mainly due to higher sales and marketing expenses from the recruitment of new sales staff. Sales and marketing expenses were EUR 4.0 million in the first six months of fiscal year 2006, compared with EUR 2.7 million in the prior-year period. The figure includes the costs of the CeBIT 2006 trade fair in Hanover.

Provisions for restructuring costs amounted to EUR 0.4 million in the first half of 2006. In the first half of 2006, the Company received a payment of EUR 929 thousand plus interest in connection with the legal dispute with its landlord relating to the payment of a contractual penalty. As an appeal has been filed against the judgment, Intershop has recognized parts of this payment in its provision for restructuring costs as a precautionary measure.

Other operating income increased from EUR 0.5 million in the first half of 2005 to EUR 1.1 million.This item includes the above-mentioned payments by the landlord as a result of the court judgment.

The depreciation and amortization expense was EUR 0.1 million in the first half of 2006, compared with EUR 0.2 million in the first six months of 2005.

The ongoing negative result from operating activities amounted to EUR 2.8 million in the first half of 2006, compared with EUR 2.0 million in the prior-year period.

The interest expense included in the financial result rose from EUR 0.4 million in the first half of 2005 to EUR 0.5 million. Interest expense primarily includes interest from the convertible bond. Interest expense in the first half of 2005 also included reversals of interest provisions amounting to EUR 0.1 million as a result of the termination of previously pending legal proceedings.

In the first six months of 2006, Intershop‘s net loss was EUR 2.8 million, representing a loss of EUR 0.16 per share. In the first six months of 2005, Intershop recorded a net loss of EUR 2.0 million, or EUR 0.11 per share.

Research and Development

Research and development expenses amounted to EUR 1.5 million in the first half of 2006 and the first half of 2005, since there were no significant changes in the average headcount year-on-year.

Organization

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

Employees

The number of employees increased by 12 to 234 full-time equivalents as of June 30, 2006, compared with 222 full-time equivalents as of December 31, 2005. Intershop had 216 full-time equivalents as of June 30, 2005.

The technical departments (research and development and service functions) employed 160 full-time equivalents as of June 30, 2006, or 69% of the entire workforce, as against 152 as of June 30, 2005 (December 31, 2005: 150). The sales and marketing departments accounted for 45 full-time equivalents as of June 30, 2006, compared with 35 employees as of June 30, 2005 (December 31, 2005: 43 employees). The increase relates to the acquisition of SoQuero GmbH in the first half of 2006. 29 full-time equivalents were employed in general and administrative functions as of June 30, 2006; this figure remained unchanged as against June 30, 2005 and December 31, 2005.

94% of Intershop‘s global workforce was employed in Germany as of June 30, 2006 (219 full-time equivalents). The remaining 6% belong to the U.S. branch (15 full-time equivalents). As of June 30, 2005, 201 full-time equivalents were employed in Germany and 15 in the United States (December 31, 2005: 207 full-time equivalents in Germany and 15 full-time equivalents in the United States).

Presentation of Net Assets and Financial Position

Total assets increased from EUR 23.0 million as of December 31, 2005 to EUR 26.0 million as of June 30, 2006.

Noncurrent assets rose by 21% from EUR 9.0 million to EUR 10.9 million, mainly due to the increase in intangible assets from EUR 4.5 million as of December 31, 2005 to EUR 6.4 million as of June 30, 2006. This increase is attributable to the recognition of the intangible assets belonging to our acquisition SoQuero GmbH, and the related goodwill. Details on the acquisition of SoQuero GmbH are provided in the section entitled „Basis of consolidation."

Current assets rose from EUR 14.0 million as of December 31, 2005 to EUR 15.1 million. Trade receivables fell from EUR 3.5 million to EUR 2.6 million as of June 30, 2006. Cash and cash equivalents included in noncurrent and current assets rose to EUR 15.4 million as of June 30, 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 7.9 million.

Equity fell from EUR 8.3 million as of December 31, 2005 to EUR 6.2 million in the first half year of 2006. 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 7.9 million. Convertible bond liabilities increased by EUR 0.5 million to EUR 6.1 million due to interest on the convertible bond. 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 0.5 million were recognized for the acquisition of SoQuero GmbH and result from the measurement of intangible assets.

Current liabilities rose to EUR 11.9 million as of June 30, 2006, compared with EUR 9.0 million as of December 31, 2005. Provisions for restructuring measures increased from EUR 0.8 million to EUR 1.0 million (for details, please see the section entitled "Restructuring costs"). Other provisions rose from EUR 0.8 million as of December 31, 2005 to EUR 1.1 million. Trade accounts payable were up from EUR 3.8 million to EUR 4.6 million. Other current liabilities increased by 11% to EUR 1.7 million, while deferred revenue rose from EUR 2.0 million to EUR 3.4 million as of June 30, 2006.

Intershop generated net cash provided by operating activities of EUR 1.8 million in the first half of 2006, compared with net cash used in operating activities of EUR 5.5 million in the first half of 2005. In contrast, net cash used in investing activities amounted to EUR 1.1 million in the first half of 2006, compared with net cash provided by investing activities of EUR 0.3 million in the first six months of 2005.

Cash flows from financing activities amounted to EUR 0 million in the first six months of fiscal year 2006, because no financing measures were taken. By comparison, the first six months 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 six months 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

Under the employee stock option plan, 6,840 employee stock options were exercised during the July exercise period and converted into ordinary bearer shares of Intershop Communications AG. The subscribed capital therefore increased by EUR 6,840 to EUR 17,672,092 due to the capital increase from Authorized Capital II. The capital increase from Authorized Capital II became legally effective on July 12, 2006.

In accordance with section 15a of the WpHG (Wertpapierhandelsgesetz – German Securities Trading Act), the Company announced on July 27, 2006 that Supervisory Board member Hans W. Gutsch lent the Company 20,000 Intershop ordinary bearer shares free of charge on July 25, 2006 to support the employee stock option plan.

Outlook

In the future, e-commerce will pose a challenge for middle-market companies in particular, which are having to adapt to ever-growing competitive pressure. Developing new customer segments, retaining existing customers, and cutting costs are the challenges to which middle-market companies must rapidly respond. These companies require both software that is precisely tailored to their needs and additional software solutions for online marketing, sales, and procurement.

Intershop's full-service e-commerce offering covers all aspects of online shopping. In addition to providing software, the Company handles all other aspects of e-commerce from IT services through online marketing to receivables management, payment, logistics, and returns handling. Intershop's full-service e-commerce covers the entire business model needed for successful online trading.

In the future, Intershop's core business will remain the sale of standard software for online trading. With Enfinity Suite 6, Intershop presents a fully modular product suite bundling six powerful and specialized functional modules under a uniform application. This allows customers to manage all their online business channels centrally from a single platform.

Middle-market companies in particular require software that is precisely tailored to their specific needs: short introduction times, low costs for purchasing, using, and maintaining the system, flexibility, and a rapid return on investment are key factors for selecting a software solution. Enfinity Suite 6 meets the demands of our middle-market customers.

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)

	June 30, 2006 (EUR thousand)	December 31, 2005 (EUR thousand)
ASSETS		
Noncurrent assets		
Intangible assets	6,396	4,495
Property, plant and equipment	460	483
Financial investments	59	59
Other noncurrent assets	103	105
Restricted cash	3,857	3,855
	10,875	**8,997**
Current assets		
Trade receivables	2,630	3,518
Other receivables and other assets	964	881
Restricted cash	3,671	2,355
Cash and cash equivalents	7,869	7,279
	15,134	**14,033**
TOTAL ASSETS	**26,009**	**23,030**
SHAREHOLDERS´ EQUITY AND LIABILITIES		
Shareholders´ equity		
Subscribed capital	17,665	17,662
Capital reserve	778	54
Other reserves	(12,274)	(9,444)
	6,169	**8,272**
Noncurrent liabilities		
Provisions for restructuring	0	17
Convertible bonds	6,106	5,600
Other noncurrent liabilities	705	0
Deferred tax liabilities	505	0
Deferred revenue	602	188
	7,918	**5,805**
Current liabilities		
Provisions for restructuring	1,030	790
Other current provisions	1,066	840
Trade accounts payable	4,614	3,817
Income tax liabilities	60	4
Other current liabilities	1,711	1,538
Deferred revenue	3,441	1,964
	11,922	**8,953**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES	**26,009**	**23,030**

Consolidated Income Statement
(IFRS, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	**2006**	2005
	(EUR thousand)	(EUR thousand)	(EUR thousand)	(EUR thousand)
Revenues				
Licenses	1,029	433	2,863	1,732
Services, maintenance and other	3,219	3,758	6,482	6,832
	4,248	**4,191**	**9,345**	**8,564**
Cost of revenues				
Licenses	(20)	(41)	(62)	(110)
Services, maintenance and other	(2,294)	(2,332)	(4,606)	(4,406)
	(2,314)	**(2,373)**	**(4,668)**	**(4,516)**
Gross profit	**1,934**	**1,818**	**4,677**	**4,048**
Operating expenses, operating income				
Research and development	(773)	(605)	(1,499)	(1,463)
Sales and marketing	(1,739)	(1,369)	(4,043)	(2,655)
General and administrative	(1,085)	(993)	(2,199)	(2,011)
Restructuring costs	(434)	(7)	(434)	(6)
Other operating income	964	212	1,074	451
Other operating expenses	(10)	(39)	(12)	(40)
	(3,077)	**(2,801)**	**(7,113)**	**(5,724)**
Result from operating activities	**(1,143)**	**(983)**	**(2,436)**	**(1,676)**
Interest income	120	43	178	80
Interest expense	(267)	(290)	(520)	(429)
Financial result	**(147)**	**(247)**	**(342)**	**(349)**
Earnings before tax	**(1,290)**	**(1,230)**	**(2,778)**	**(2,025)**
Income taxes	**0**	**0**	**(2)**	**(1)**
Earnings after tax	**(1,290)**	**(1,230)**	**(2,780)**	**(2,026)**
Consolidated net loss	**(1,290)**	**(1,230)**	**(2,780)**	**(2026)**
Earnings per share (EUR, basic)	(0.07)	(0.07)	(0.16)	(0.11)
Earnings per share (EUR, diluted)*	(0.07)	(0.07)	(0.16)	(0.11)
Weighted average shares outstanding (basic)	17,665	17,665	17.663	17,663
Weighted average shares outstanding (diluted)*	24,110	28,996	20.824	21,854

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

Consolidated Statement of Cash Flows
(IFRS, unaudited)

	Six months ended June 30,	
	2006 (EUR thousand)	2005 (EUR thousand)
CASH FLOWS FROM OPERATING ACTIVITIES		
Earnings before tax	(2,778)	(2,025)
Adjustments to reconcile net loss to cash used in operating activities		
Financial result	342	349
Depreciation and amortization	142	192
Noncash effects from deconsolidation	0	-365
Other noncash expenses and income	715	37
Allowances for doubtful accounts)	124	37
(Gain) Loss on disposal of property and equipment	(79)	(24)
Changes in operating assets and liabilities		
Accounts receivable	1,057	-38
Other assets	(21)	(300)
Liabilities and provisions	427	(2,291)
Deferred revenue	1,726	(1,036)
Net cash used in operating activities before income tax and interest	**1,655**	**(5,464)**
Interest received	165	65
Interest paid	(12)	(18)
Income taxes paid	(2)	(1)
Net cash used in operating activities	**1,806**	**(5,418)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	(1,319)	412
Payments for investments in intangible assets	(19)	(3)
Proceeds on disposal of equipment	81	12
Purchases of property and equipment, net of capital leases	(82)	(141)
Acquisition of consolidated companies (less funds acquired amounting to EUR 175 thousand)	175	0
Net cash (used in) provided by investing activities	**(1,164)**	**280**
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	(1,341)
Net cash provided by financing activities	**0**	**9,990**
Effect of change in exchange rates on cash	(52)	138
Net change in cash and cash equivalents	**590**	**4,990**
Cash and cash equivalents, beginning of period	7,279	1,632
Cash and cash equivalents, end of period	**7,869**	**6,622**

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					(2,779)			(2,779)
Foreign currency translation adjustments						-51		(51)
Stock option expense			724					724
Issue of new shares	3,200	3						3
Balance, June 30, 2006	**17,665,252**	**17,665**	**778**	**(93)**	**(14,386)**	**2,205**	**0**	**6,169**
Balance, January 1, 2005	**25,551,412**	**25,551**	**1,948**	**(93)**	**(27,669)**	**2,919**	**(1)**	**2,655**
Net loss					(2,026)			(2,026)
Foreign currency translation adjustments						-270		(270)
Stock option expense			36					36
Simplified withdrawal of shares	(112)							0
Simplified capital decrease	(17,034,200)	(17,034)	(3,419)		20,454			1
Convertible bond			1,452					1,452
Balance, June 30, 2005	**8,517,100**	**8,517**	**17**	**-93**	**(9,241)**	**2,649**	**(1)**	**1,848**

Notes to the Consolidated Financial Statements as of June 30, 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 June 30, 2006 was prepared in accordance with IAS 34, Interim Financial Reporting.

This interim report as of June 30, 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 consolidated 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 changes to Intershop Communications AG's basis of consolidation in the first six months of 2006 as against December 31, 2005.

The following company was included in the basis of consolidation as of June 30, 2006: SoQuero GmbH

In addition to the parent company, the basis of consolidation therefore comprised the following companies as of June 30, 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
SoQuero GmbH

Acquisition of SoQuero GmbH
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.

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.

	Carrying amount EUR thousand	**Adjustments to fair value** EUR thousand	**Fair Value** EUR thousand
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. As the purchase price had not been paid as of the reporting date, a cash inflow of EUR 175 thousand was reported in the cash flow statement.

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.

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.

The initial accounting for the acquisition of SoQuero GmbH in accordance with IFRS 3, paragraph 62, was only provisional at the end of the period under review. The purchase price allocation is based on assumptions by Intershop's Management Board, provisional estimates and SoQuero GmbH's unaudited balance sheet figures, and may therefore change until the fair values of the net assets acquired and of the liabilities and provisions assumed are finally assessed and examined by the Management Board.

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 and 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 9,345 thousand to EUR 10,553 thousand, and the consolidated net loss would have decreased from EUR 2.780 thousand to EUR 2,771 thousand.

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.

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 June 30, 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 June 30, 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.
- 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 June 30, 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):

Six months ended June 30,	2006	2006	2005	2005
	Number of shares outstanding	Weighted average exercise price (Euro)	Number of shares outstanding	Weighted average exercise price (EUR)
Outstanding at beginning of period	453	18.38	523	120.60
Granted	5,136	1.17	8	3.12
Exercised	0	0	0	0
Forfeited	(168)	18.06	(108)	559.52
Outstanding at end of period	**5,421**	**2.08**	**423**	**45.05**
Exercisable options at end of period	296	16.44	280	62.40
Weighted average fair market value of options granted during the year	5,136	0.70	8	1.73

The following table summarizes information with respect to the stock options outstanding on June 30, 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	5,296	9.1	1.44	172	7.45
18,00 - 20,99	37	5.5	18.12	36	18.12
21,00 - 50,99	77	4.3	23.92	77	23.92
51,00 - 149,99	10	3.7	78.89	10	79.21
150,00 - 2.274,12	1	2.6	230.10	1	230.10
	5,421	**9.0**	**2.08**	**296**	**16.44**

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 six months of 2006, the Company recognized expenses of EUR 724 thousand relating to the stock option plans. These expenses amounted to EUR 36 thousand in the first six months 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 6,106 thousand as of June 30, 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 June 30, 2006	506
Debt component as of June 30, 2006	**6,106**

6,444,598 bonds arising from the convertible bond were outstanding as of June 30, 2006. This amount is composed of the following:

Subscribed bonds	11,331,000
Converted bonds	4,886,402
Convertible bonds outstanding as of June 30, 2006	**6,444,598**

Restructuring costs

The following tables summarize the restructuring costs recorded during the quarters ended June 30, 2006 and 2005 respectively (in thousands):

	Three months ended		Six months ended	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
Employee Related Charges	0	7	0	6
Facility Related Charges	434	0	434	0
Total restructuring costs	**434**	**7**	**434**	**6**

	Facility-related charges
Accrued restructuring costs as of December 31, 2005	807
Currency adjustments	(8)
Restructuring costs from January 1, 2006 through June 30, 2006	(434)
Cash payments	(203)
Accrued restructuring costs as of June 30, 2006	**1,030**

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 June 30, 2006.

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

In the first half of 2006, the Company received a payment of EUR 929 thousand plus interest in connection with the legal dispute with its landlord relating to the payment of a contractual penalty (see the section entitled „Litigation“). As an appeal has been filed against the judgment, Intershop has recognized parts of this payment in its provision for restructuring costs as a precautionary measure.

Earnings per share

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

	Three months ended		Six months ended	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
Basis for calculating basic earnings per share (consolidated net loss for the year)	(1,290)	(1,230)	(2,780)	(2,026)
Dilutive effect of potential ordinary shares: interest on the convertible bond	258	382	506	506
Basis for calculating diluted earnings per share	**(1,032)**	**(848)**	**(2,274)**	**(1,520)**

The number of shares is calculated as follows:

	Three months ended		Six months ended	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
Weighted average number of ordinary shares used to calculate basic earnings per share	17,665	17,665	17,663	17,663
Dilutive effect of potential ordinary shares: convertible bond	6,445	11,331	3,161	4,191
Weighted average number of ordinary shares used to calculate diluted earnings per share	**24,110**	**28,996**	**20,824**	**21,854**

The earnings per share is calculated as follows:

	Three months ended		Six months ended	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
Calculation of earnings per share (basic)				
Consolidated net loss for the year (in EUR thousand)	(1,290)	(1,230)	(2,780)	(2,026)
Weighted average number of shares (basic)	17,665	17,665	17,663	17,663
Earnings per share (basic) (in EUR)	**(0.07)**	**(0.07)**	**(0.16)**	**(0.11)**
Calculation of earnings per share (diluted)				
Basis for calculating diluted earnings per share	(1,032)	(848)	(2,274)	(1,520)
Weighted average number of shares (diluted)	24,110	28,996	20,824	21,854
Earnings per share (diluted) (in EUR)	(0,04)	(0.03)	(0,11)	(0.07)
Adjustment of earnings per share (diluted) (in EUR)	**(0.07)**	**(0.07)**	**(0.16)**	**(0.11)**

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 number of shares was adjusted retrospectively.

Segment Reporting

Three months ended June 30, 2006

in EUR thousand	Germany	U.S.A	Rest of the world	Consolidation	Group
Revenues from external customers					
Licenses	834	195	0	0	1,029
Consulting and training	1,198	274	0	0	1,472
Maintenance	1,383	353	0	0	1,736
Others	11	0	0	0	11
Total revenues from external customers	**3,426**	**822**	**0**	**0**	**4,248**
Intersegment revenues	177	0	0	(177)	0
Total revenues	**3,603**	**822**	**0**	**(177)**	**4,248**
Net profit / loss for the period	50	(1,285)	(37)	(18)	(1,290)
Net profit / loss for the period (adjusted)	(1,413)	140	(15)	(2)	(1,290)
Noncash income	0	0	0	0	0
Noncash expenses	1,057	0	0	0	1,057

Three months ended June 30, 2005

in EUR thousand	Germany	U.S.A	Rest of the world	Consolidation	Group
Revenues from external customers					
Licenses	286	147	0	0	433
Consulting and training	1,840	166	0	0	2,066
Maintenance	1,347	354	43	0	1,744
Others	8	0	0	0	8
Total revenues from external customers	**3,481**	**667**	**43**	**0**	**4,191**
Intersegment revenues	15	0	0	(15)	0
Total revenues	**3,496**	**667**	**43**	**(15)**	**4,191**
Net profit/loss for the period	(4,741)	(1,261)	4,940	(168)	(1,230)
Net profit/loss for the period (adjusted)	(1,576)	182	304	(140)	(1,230)
Noncash income	322	0	175	0	497
Noncash expenses	176	0	0	0	176

Segment Reporting

Six months ended June 30, 2006

in EUR thousand	Germany	U.S.A	Rest of the world	Consolidation	Group
Revenues from external customers					
Licenses	1,200	1,663	0	0	2,863
Consulting and training	2,749	361	0	0	3,110
Maintenance	2,736	618	0	0	3,354
Others	18	0	0	0	18
Total revenues from external customers	**6,703**	**2,642**	**0**	**0**	**9,345**
Intersegment revenues	323	0	0	(323)	0
Total revenues	**7,026**	**2,642**	**0**	**(323)**	**9,345**
Net profit / loss for the period	(814)	(1,888)	(75)	(3)	(2,780)
Net profit / loss for the period (adjusted)	(3,721)	972	(31)	0	(2,780)
Noncash income	0	84	0	0	84
Noncash expenses	1,663	0	0	0	1,663

Six months ended June 30, 2006

in EUR thousand	Germany	U.S.A	Rest of the world	Consolidation	Group
Revenues from external customers					
Licenses	676	1,056	0	0	1,732
Consulting and training	2,966	379	0	0	3,345
Maintenance	2,750	680	43	0	3,473
Others	14	0	0	0	140
Total revenues from external customers	**6,406**	**2,115**	**43**	**0**	**8,564**
Intersegment revenues	38	0	0	(38)	0
Total revenues	**6,444**	**2,115**	**43**	**(38)**	**8,564**
Net profit / loss for the period	(6,751)	(1,627)	6,513	(161)	(2,026)
Net profit / loss for the period (adjusted)	(3,552)	1,156	472	(120)	(2,026)
Noncash income	322	0	365	0	687
Noncash expenses	325	0	0	0	325

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 six months 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 six months 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 subsidiaries in Dubai and Japan were deconsolidated in the first six months 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, provision for restructuring and expenses relating to the stock options plans.

Litigation

In the first half of the year, the following changes occurred with respect to the litigation described in the 2005 Annual Report:

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 requires the landlord to pay around EUR 929 thousand plus interest. The landlord paid the amount sued for after the judgment was served. An appeal has been filed against the judgment.

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. During the hearing, directions were issued in preparation for an order to take evidence; both parties have until the end of July to respond to these directions. A hearing for the pronouncement of the court's decision is scheduled for August 24, 2006.

In the proceedings brought by the investment bank for the payment of a consulting fee of around EUR 594 thousand, 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. No result had been pronounced as of the reporting date.

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 June 30, 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 June 30, 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 six months 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 1.96 on June 30, 2006. They reached a high of EUR 3.84 in first half-year 2006, and recorded a low of EUR 0.85. The average trading volume was around EUR 168 thousand.

Key figures for Interhop shares		**June 30, 2006**	**June 30, 2005**	**December 31, 2005**
Closing price*	in EUR	1.96	0.86	1.00
Number of shares outstanding	Number (thousand)	17,665	8,517	17,662
Number of shares - diluted	Number (thousand)	24,110	19,848	24,107
Market capitalization	in EUR million	34.6	22.0	17.7
Market capitalization - diluted	in EUR million	47.3	31.7	24.1
Free float	in %	100	90.2	100
Shareholders´ equity	in EUR million	6.2	1.8	8.3
Earnings per share	in EUR	(0.16)**	(0.11)**	(0.35)***

* in Xetra
** six months ended
** Year 2005

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