



Group Management Report for the Three Months Ended March 31, 2004

This annual report contains forward-looking statements regarding future events or the future financial and operational performance of InterShop. Actual events or performance may differ materially from those contained or implied in such forward-looking statements. Risks and uncertainties that could lead to such difference could include, among other things: InterShop's limited operating history, the unpredictability of future revenues and expenses and potential fluctuations in revenues and operating results, significant dependence on large single customer deals, consumer trends, the level of competition, seasonality, risks related to electronic security, possible governmental regulation, and general economic conditions. Additional information regarding factors that potentially could affect InterShop's business, financial condition and operating results is included in InterShop's filings with the Securities and Exchange Commission, including the Company's Form 20-F dated June 6, 2003.

Market Environment

In the first three months of 2004, InterShop Communications AG Group's ("InterShop", "the Company", or "the InterShop Group") business was impacted by generally low levels of corporate information technology (IT) spending. In addition, InterShop's earnings suffered as a result of seasonally lower corporate IT budgets in the first quarter of 2004. Furthermore, with the upcoming market launch of InterShop's new multichannel e-commerce software Enfinity Suite 6, which was announced at the CeBIT trade fair, some of InterShop's existing customers and prospects were reluctant to spend money on prior versions of InterShop's Enfinity software.

Revenue

Reflecting the weak market environment, InterShop's total revenue declined from €4.6 million in the fourth quarter of 2003 to €4.4 million in the first three months of 2004. By comparison, total revenue in the first three months of fiscal 2003 was €6.4 million. A major contributor to the fall in revenue was a decline in license revenue in the first quarter of 2004. License revenue in the first three months of 2004 totaled €0.6 million, compared with €1.5 million in the fourth quarter of 2003, and €1.3 million in the comparable prior-year period. By contrast, service revenue (including consulting, customer support, maintenance, and other revenue) rose from €3.1 million in the fourth quarter of 2003 to €3.9 million in the first quarter of 2004, compared with €5.1 million in the first three months of 2003.

With a large installed base across the region, Europe remained the Company's primary market in the first three months of 2004, accounting for €3.6 million, or 81% of the worldwide total, as compared to €4.5 million or 83% in the fourth quarter of 2003, and €5.7 million or 89% in the first three months of 2003.

In the Americas region, InterShop generated €0.8 million, or 17% of total global revenue, in the first three months of 2004, compared with €0.7 million, or 13%, in the fourth quarter of 2003, and €0.6 million, or 9%, in the first three months of 2003.

In the Asia Pacific region, InterShop generated revenues of €0.1 million in the first three months of 2004, representing 2% of total global revenue for that period. This compares to €0.2 million in total revenue, or 4%, in the fourth quarter of 2003, and €0.1 million, or 2%, in the first three months of 2003.

In the first quarter of 2004, InterShop sold 10 Enfinity configurations (i.e., Enfinity platforms and solutions including Enfinity MultiSite), bringing the total number of Enfinity configurations sold to date worldwide to

466 since the fourth quarter of 1999. By comparison, Intershop sold 10 Enfinity configurations in the fourth quarter of 2003, and 11 in the first three months of 2003.

Gross Profit

Gross profit generated in the first three months of 2004 was €2.0 million, versus €2.4 million in the fourth quarter of 2003, and €2.7 million in the first quarter of 2003. Gross margin on sales for the first three months of 2004 was 44%, as compared to 51% in the fourth quarter of 2003, and 42% in the first quarter of 2003. The decrease in gross margin compared with the fourth quarter of 2003 was primarily due to both the absolute and relative declines in high-margin license revenues.

The Company's license gross margin in the first nine months of 2003 was 91%, unchanged from the previous quarter, versus 88% in the first three months of 2003.

The Company's service gross margin (including consulting, customer support, maintenance, and other revenue) was 37% in the first three months of 2004, as compared to 32% in the fourth quarter of 2003, and 30% in the first three months of 2003. This quarter-on-quarter improvement in Intershop's service gross margin in the first quarter of 2004 was driven primarily by improved utilization of service personnel capacity in conjunction with a reduction in the service workforce.

Expense and Income

In the first quarter of 2004, Intershop's quarterly operational costs (cost of revenue and operating costs) totaled €7.0 million (as compared to €7.2 million in the fourth quarter of 2003, and €14.6 million in the first quarter of 2003). As of March 31, 2004, the Company employed a total of 264 full-time equivalent employees worldwide (compared with 278 full-time equivalents as of December 31, 2003), of which 232 were employed in Europe, 17 in the Americas region, and 15 in the Asia Pacific region. As of March 31, 2004, Intershop employed 185 full-time equivalents in technical departments (research and development, services), 45 full-time equivalents in sales and marketing, and 34 full-time equivalents in general and administrative functions.

As a result of minor workforce reductions in the first quarter of 2004, the Company recorded restructuring charges of around €0.1 million in the first quarter of 2003, driven primarily by severance payments to former employees and facility-related charges. By comparison, the Company recorded restructuring costs of €0.3 million in the fourth quarter of 2003, and €0.7 million in the first three months of 2003.

In the first quarter of 2004, R&D expenses of €1.3 million remained almost unchanged from the previous quarter; in the first three months of 2003, the Company had spent €1.7 million on R&D.

Sales and marketing expenses were €1.5 million in the first three months of 2004, compared with €1.3 million in the previous quarter, and €5.7 million in the first three months of 2003. The sales and marketing expenses of the first quarter of 2004 also included costs incurred for the CeBIT 2004 trade fair in Hanover, Germany, where Intershop presented its new multichannel e-commerce software Enfinity Suite 6. The new Enfinity Suite 6 package has six functional modules that can also be used as separate applications: Consumer Channel, Business Channel, Partner Channel, Supplier Channel, Procurement Channel, and Content Channel. All individual packages are optimized for the use of web-based services and support both Linux and Blade systems.

As a result of further workforce reductions and efficiency gains, general and administrative (G&A) expenses decreased from €2.0 million in the fourth quarter of 2003 to €1.6 million in the first three months of 2004. By comparison, the Company recorded G&A expenses of €2.8 million in the first three months of 2003.

Depreciation and amortization charges were €0.1 million in the first quarter of 2004, compared with €0.3 million in the previous quarter, and €1.2 million in the first quarter of 2003. Investments in the first three months of 2004 were focused on capital replacements to adequately support the Company's ongoing operations in line with reduced business activities.

Intershop's operating loss of €2.6 million in the first quarter of 2004 was almost unchanged from the previous quarter, and was due primarily to total operational costs declining in line with revenue in the first quarter of 2004. By comparison, Intershop recorded an operating loss of €8.2 million in the first three months of 2003.

In the first quarter of 2004, Intershop's net loss was €2.5 million, representing a net loss of €0.11 per share. By comparison, Intershop recorded a net profit of €0.1 million, or €0.00 per share, in the fourth quarter of 2003, primarily due to other income totaling €2.6 million in connection with the discontinuation of business operations in France. Without this one-time factor, the result for the first quarter of 2004 would have been largely unchanged quarter-on-quarter. In the comparable first quarter of 2003, Intershop's net loss was €8.4 million, representing a net loss of €0.44 per share.

Liquidity and Balance Sheet

Net cash usage related to operating activities decreased from €5.6 million in the first three months of 2003 to €1.8 million in the first three months of 2004, primarily driven by lower net losses from operating activities in the first quarter of 2004 as compared to the first quarter of 2003.

Investments in capital replacements were the main cause of the net cash usage from investing activities of €0.1 million in the first three months of 2004, compared with €0.2 million in the first three months of 2003.

Cash generated by financing activities was €3.8 million in the first three months of 2004, compared with €0.0 million in the first three months of 2003. The cash generated in the first quarter of 2004 is the result of a rights issue of €1,916,113 from the issuance of 1,916,113 new common bearer shares in Intershop, which was approved by Intershop's Board on March 5, 2004.

As a result of the rights issue, the Company's cash and cash equivalents, marketable securities, and restricted cash increased from €8.8 million as of December 31, 2003 to €10.9 million as of March 31, 2004. The amount of unrestricted cash included in this total increased from €2.6 million as of December 31, 2003 to €4.7 million as of March 31, 2004. Intershop is in active negotiations with a number of international financial and strategic investors in order to further improve its cash position and capital resources.

Days sales outstanding (DSO) decreased from 67 as of December 31, 2003 to 55 as of March 31, 2004, reflecting some early payments in the first quarter of 2004.

Trade receivables as of March 31, 2004 were €2.7 million, compared with €3.3 million as of December 31, 2003. The decrease was driven primarily by reduced sales in the first three months of 2004, as well as lower DSO as of March 31, 2004 compared with December 31, 2003.

Intershop had short-term deferred revenues of €4.3 million as of March 31, 2004, compared with €5.1 million as of December 31, 2003.

Capital Structure

On January 14, 2004, Intershop announced its voluntary delisting from the Nasdaq National Market (Nasdaq) and also notified Citibank, N.A., the depositary for Intershop ADRs, of termination of its American Depositary Receipt facility (ADR facility) effective as of the close of trading on February 17, 2004. American Depositary Receipts (ADRs) issued by Intershop ceased to be tradable with effect from that date. In addition, effective January 15, 2004, Intershop terminated its F-6 Registration Statement with the U.S. Securities and Exchange Commission (SEC) in respect of all 98,550,000 unissued ADRs in its ADR facility.

On January 27, 2004, Intershop announced that it had agreed with Citibank, N.A., to shorten the six-month period for holders of Intershop ADRs to surrender them in exchange for the underlying Intershop common bearer shares. Under the termination provision, which was amended as of January 27, 2004,

holders of Intershop ADRs were entitled to surrender their Intershop ADRs in exchange for the underlying Intershop common bearer shares at any time up to February 27, 2004, i.e., ten days after conclusion of the surrender agreement on February 27, 2004, rather than six months as previously. Holders of Intershop ADRs who chose not to surrender their Intershop ADRs in exchange for the underlying common bearer shares received the cash proceeds from the sale of the underlying Intershop common bearer shares at the price obtained on the Frankfurt Stock Exchange. The depositary bank then remitted the cash proceeds from the sale, less any charges, expenses, taxes or governmental charges, to such holders of Intershop ADRs.

On March 5, 2004, Intershop announced resolutions adopted by the Management and Supervisory Boards for the implementation of a cash capital increase from authorized capital that would enable shareholders to exercise preemptive rights.

As part of the subscription offer published in the electronic German Federal Bulletin (*Bundesanzeiger*) and in the *Frankfurter Allgemeine Zeitung* the Company offered all Intershop shareholders the opportunity to subscribe for one new Intershop common bearer share per 11.5 old Intershop common bearer shares at a price of €2.00 per share (indirect preemptive right) in the period March 10, 2004 through March 24, 2004. To this end, Intershop issued 1,916,113 new common bearer shares from authorized capital. The investment bank handling the transaction, VEM Aktienbank AG, Munich, Germany, placed any shares not subscribed by shareholders with institutional investors.

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

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

In the first three months of 2004, no employee stock options were exercised and exchanged for Intershop Communications AG common bearer shares.

Organizational Changes

On February 4, 2004 Intershop announced that Stephan Schambach had asked the Supervisory Board to be immediately released of his duties as a Member of the Management Board. The Company's Supervisory Board accepted Mr. Schambach's decision; his contract of employment was terminated by mutual agreement and he left the Company effective February 4, 2004. As of December 31, 2003, Mr. Schambach held a 19.26% interest in the Company and was therefore one of the Company's major shareholders.

Subsequent Events

At the time Intershop published its results for the first quarter 2004 on April 30, 2004, it announced that the Company would in future take steps to accelerate sales of electronic procurement solutions with the Enfinity Procurement Channel and Enfinity Supplier Channel modules, which are based on the latest version of its multichannel e-commerce software, Enfinity Suite 6. The Company also said that it regarded the e-procurement market as a market with high growth prospects and was therefore planning to expand its activities in this area.

Business Outlook

Against the backdrop of renewed signs of a recovery in corporate IT spending patterns in 2004, as well as a number of encouraging customer leads from the CeBIT trade fair, the Company expects to break even on an annual net income basis in 2004. However, the Management Board will continue to focus on improving operating efficiency to help offset the weaker-than-expected first quarter 2004 results.

Intershop Communications AG
Consolidated Balance Sheets (U.S.GAAP)
(in thousands €, except share and per-share amounts)

	March 31, <u>2004</u> (unaudited) €	December 31, <u>2003</u> €
ASSETS		
Current assets		
Cash and cash equivalents	4.667	2.611
Marketable securities	-	-
Restricted cash	6.190	6.190
Trade receivables, net of allowances for doubtful accounts of €5,254 at December 31, 2003	2.698	3.345
Prepaid expenses and other current assets	1.105	1.370
Total current assets	14.660	13.516
Property and equipment, net	1.145	1.106
Other assets	579	557
Goodwill	4.473	4.473
Total assets	20.857	19.652
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current debt and current maturities of long-term debt	-	-
Accounts payable	1.266	249
Accrued restructuring costs	2.425	2.657
Other accrued liabilities	3.591	3.827
Deferred revenue	4.309	5.058
Total current liabilities	11.591	11.791
Long-term liabilities, net of current portion	-	-
Deferred revenue	11	23
Total liabilities	11.602	11.814
Shareholders' equity		
Common share, stated value €1-authorized: 76,651,106 shares; outstanding: 23,951,412 shares at March 31, 2004 and 22,035,299 shares at December 31, 2003	23.951	22.035
Paid-in capital	1.876	-
Accumulated deficit	(19.734)	(17.245)
Accumulated other comprehensive income	3.162	3.048
Total shareholders' equity	9.255	7.838
Total liabilities and shareholders' equity	20.857	19.652

Intershop Communications AG
Consolidated Statements of Operations (U.S.-GAAP)
(In thousands €, except per-share amounts, unaudited)

	Three Months Ended March 31,	
	<u>2004</u>	<u>2003</u>
	€	€
Revenues		
Licenses	565	1.296
Services, maintenance, and other	3.868	5.070
Total revenues	<u>4.433</u>	<u>6.366</u>
Cost of revenues		
Licenses	49	153
Services, maintenance, and other	2.431	3.550
Total costs of revenues	<u>2.480</u>	<u>3.703</u>
Gross profit	1.953	2.663
Operating expenses		
Research and development	1.298	1.698
Sales and marketing	1.518	5.701
General and administrative	1.644	2.790
Restructuring costs and asset impairment	81	712
Total operating expenses	<u>4.541</u>	<u>10.901</u>
Operating loss	(2.588)	(8.238)
Other income (expense)		
Interest income	30	54
Interest expense	-6	-10
Other income (expense), net	75	-205
Total other income (expense)	<u>99</u>	<u>(161)</u>
Net loss	<u>(2.489)</u>	<u>(8.399)</u>
Basic and diluted result per share	<u>(0,11)</u>	<u>(0,44)</u>
Shares used in computing:		
For basic and diluted result per share	<u>22.035</u>	<u>19.306</u>

Intershop Communications AG
Consolidated Statements of Cashflows (U.S.GAAP)
(in thousands €, unaudited)

Three Months Ended
March 31,

	<u>2004</u>	<u>2003</u>
	€	€
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	-2.489	-8.399
<i>Adjustments to reconcile net loss to cash used in operating activities</i>		
Depreciation and amortization	73	1.217
Provision for doubtful accounts	22	-1.617
(Gain) loss on disposal of marketable securities	-	-2
(Gain) Loss on disposal of property and equipment	-11	-
<i>Changes in operating assets and liabilities</i>		
Accounts receivable	652	5.531
Prepaid expenses and other current assets	273	-3.647
Other assets	9	1.101
Accounts payable	1.006	630
Deferred revenue	-796	-469
Accrued restructuring costs	-232	-835
Accrued expenses and other liabilities	-277	905
Net cash used in operating activities	<u>(1.770)</u>	<u>(5.585)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	-	-20
Proceeds on disposal of equipment	124	-
Purchases of property and equipment, net of capital leases	-214	-214
Proceeds from sale of marketable securities	-	4.173
Purchases of marketable securities	-	-4.162
Net cash (used in) provided by investing activities	<u>(90)</u>	<u>(223)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for unregistered stock	3.792	
Net cash provided by financing activities	<u>3.792</u>	-
Effect of change in exchange rates on cash	124	-52
Net change in cash and cash equivalents	2.056	-5.860
Cash and cash equivalents, beginning of period	<u>2.611</u>	<u>11.303</u>
Cash and cash equivalents, end of period	<u>4.667</u>	<u>5.443</u>

Intershop Communications AG
Consolidated Statement of Shareholders' Equity
(in thousands €, except share data)

	Common Shares	Common Shares Stated Value	APIC	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2002	88.191.322	88.191	13.420	(60.632)	2.894	43.874
Other comprehensive loss:						
Net loss				(27.555)		(27.555)
Foreign currency translation adjustments					157	157
Unrealized gain (loss) on available for sale security, net					(109)	(109)
Comprehensive loss						(27.507)
Exercise of stock options	6.678	7	(3)			4
Private placement of common stock, net	8.334.000	8.334	1.667			10.001
Allocation of par value resulting from reverse stock split	(77.225.600)	(77.226)	77.226			
Appropriation of additional paid-in capital			(92.310)	92.310		
Balance, December 31, 2002	19.306.400	19.306	-	4.124	2.942	26.372
Other comprehensive loss:						
Net loss				(18.640)		(18.640)
Foreign currency translation adjustments					(83)	(83)
Unrealized gain (loss) on available for sale security, net					189	189
Comprehensive loss						(18.534)
Conversion of common stock of subsidiary to common stock of parent	2.499.999	2.500		(2.500)		
Conversion of preferred stock of subsidiary to common stock of parent	228.900	229		(229)		
Balance, December 31, 2003	22.035.299	22.035		(17.245)	3.048	7.838
Other comprehensive loss:						
Net loss (unaudited)				(2.489)		(2.489)
Foreign currency translation adjustments (unaudited)					114	114
Comprehensive loss						(2.375)
Issuance of common bearer stock, rights issue (unaudited)	1.916.113	1.916	1.876			3.792
Balance, March 31, 2004	23.951.412	23.951	1.876	(19.734)	3.162	9.255

Intershop Communications AG and Subsidiaries

Notes to Consolidated Financial Statements

1. Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Neuer Markt. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report for the fiscal year ended December 31, 2003. The unaudited condensed consolidated financial statements included herein reflect all adjustments (which include only normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year ending December 31, 2004.

2. Accounting Policies

The consolidated financial statements presented are prepared in conformity with U.S. generally accepted accounting principles (U.S.-GAAP). The principle accounting policies adopted by the Company are as follows:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain financial statement captions that are prepared using estimates where it is reasonably possible that these estimates will change in the near term include allowance for doubtful accounts and restructuring accruals.

Revenue Recognition

The Company generates the following types of revenue:

Licenses. License fees are earned under software license agreements primarily to end-users, and to a lesser extent resellers and distributors. Revenues from licenses to end-users are recognized upon shipment of the software if persuasive evidence of an arrangement exists, collection of the resulting receivable is probable and the fee is fixed and determinable. If an acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period.

Service and maintenance. Services consist of support arrangements and consulting and education services. Support agreements generally call for the Company to provide technical support and provide certain rights to unspecified software updates to customers. Revenue on technical support and software update rights is recognized ratably over the term of the support agreement. The Company provides consulting and education services to its customers; revenue from such services is generally recognized as the services are performed.

For arrangements that include multiple elements, the fee is allocated to the various elements based on vendor-specific objective evidence of fair market value established by independent sale of the elements when sold separately.

Stock-Based Compensation

The Financial Accounting Standards Board ("FASB") issued SFAS No. 123, "Accounting for Stock-Based Compensation," in October 1995. This accounting standard permits the use of either a fair value based method of accounting or the method defined in Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25") to account for stock-based compensation arrangements. The Company has elected to continue to account for its stock-based compensation arrangements under the provisions of APB 25, and, accordingly, has included in Note 12 the pro forma disclosures required under SFAS No. 123. If compensation cost for the Plan had been determined based on the fair value at the grant dates for the awards calculated in accordance with the method prescribed by SFAS No. 123, the impact on the Company's net loss and net loss per share would have been as follows (in thousands of €, except per-share amounts):

Three Months ended March 31,	2003	2004
Net loss attributable to common shareholders As reported	(8,399)	(2,489)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(16)	(1)
Pro forma	(8,415)	(3,490)
Basic and diluted loss per share As reported	(0.44)	0.11
Pro forma	(0.44)	0.11

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

	2003	2004
Risk-free interest on the date of grant	3.75	3.0
Assumed dividend	-	-
Volatility	79.0%	117.32%
Expected option lives (in years)	4.03	3.56

Goodwill

Since the beginning of 2002, the Company has adopted the accounting standard SFAS No. 142, "Goodwill and Other Intangible Assets," which was published in June 2001. Under SFAS No. 142, goodwill will no longer be amortized, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. The Company identified indicators of impairment under SFAS No. 142 to be the same as under SAB No. 100. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined by SFAS No. 131 as an operating segment or one level lower. The Company markets its products and services in one segment and thus allocates goodwill to one reporting unit. Therefore, impairment is tested at the enterprise level using the Company's market capitalization as fair value. Goodwill will no longer be allocated to other long-lived assets for impairment testing in accordance with SFAS No. 121.

A full description of the accounting policies adopted by the Company can be found within the Company's Annual Report for the financial year ending December 31, 2003.

3. Comprehensive Income

Comprehensive income includes foreign currency translation gains and losses and unrealized gains and losses on equity securities that are reflected in stockholders' equity instead of net income.

The following table sets forth the calculation of comprehensive income for the periods indicated (in thousands €):

Three Months ended March 31,	2003	2004
Net loss	(8,399)	(2,489)
Foreign Currency translation gains (losses)	189	114
Unrealized loss on available-for-sale securities	26	-
Total comprehensive income (loss)	(8,184)	(2,375)

4. Earnings Per Share

Basic net loss per common share is presented in conformity with Statement of Financial Accounting Standards ("FAS") No. 128 "Earnings Per Share" for all periods presented. Basic net loss per share is computed using the weighted-average number of vested outstanding shares of common stock. Diluted net loss per share is computed using the weighted-average number of vested shares of common stock outstanding and, when dilutive, unvested common stock outstanding, potential common shares from options and warrants to purchase common stock using the treasury stock method and from convertible securities using the as-if-converted basis. The options exercised that result in shares subject to repurchase have been excluded in computing the number of weighted average shares outstanding for basic earnings per share purposes. All potential common shares have been excluded from the computation of diluted net loss per share for the periods presented because the effect would be antidilutive.

The following table sets forth the computation of basic earnings per share for the periods indicated (in thousands €, except per share data):

Three Months ended March 31,	2003	2004
Net loss attributable to common shareholders	(8,399)	(2,489)
Basic and diluted net loss per share:		
Weighted average common shares outstanding	19,306	22,035
Basic and diluted net loss per share	(0.44)	(0.11)

5. Stock-Based Compensation

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan. Option activity under the plans was as follows (in thousands of €, except per-share data):

Three Months ended March 31,	2003	2003	2004	2004
	Number of shares outstanding	Weighted-average exercise price (€)	Number of shares outstanding	Weighted-average exercise price (€)
Outstanding at beginning of period	1,979	77.60	2,055	36.50
Granted	21	2.69	6	3.43
Exercised	0	0	0	0
Forfeited	72	62.80	246	22.38
Outstanding at end of period	1,928	34.85	1,815	35.56
Exercisable options at end of period	767	128.83	726	78.57
Weighted average fair market value of options granted during the year (€)	21	1.68	6	1.31

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

Range of Exercise Price	Number of options outstanding (000s)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price (€)	Number exercisable on March 31, 2004 (000s)	Weighted-average exercise price (€)
0.07 – 5.99	938	8.7	2.47	171	3.21
6.00 – 6.99	177	7.3	6.03	92	6.03
7.00 – 16.99	365	6.5	7.98	193	7.98
17.00 – 49.99	206	2.6	21.31	148	21.70
50.00 – 758.04	129	1.2	418.33	122	418.78
	1,815	6.9	35.56	726	78.57

6. Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires companies to record an appropriate charge in connection with the retirement or disposal of property and equipment in the period in which this took place, provided that the fair value can be reasonably determined. The costs incurred in the retirement or disposal of assets are netted against the carrying amount of the long-lived assets. Companies will calculate the changes over time in the amount of the anticipated expenses to be incurred for the retirement or disposal of an asset by discounting the amount calculated at the beginning of the period. The interest rate used in the calculation of this change corresponds to the risk-adjusted rate to be fixed in accordance with the company's credit rating the first time the expenses are recognized. The carrying amount of the related property and equipment increases by the amount calculated, which is then written down over the objects' remaining useful lives and recorded as operating expenses in the income statement. SFAS No. 143 is effective for the fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 did not have a material effect on it's the Company's financial position, results of operations, or cash flows.

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

In June 2002, the FASB published SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes the preliminary provisions of the Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity must be recognized when the liability is incurred. Under Issue 94-3, the liability for an exit cost was recognized as the date of an entity's commitment to a concrete exit or disposal plan. The new standard holds that a company's commitment to a plan does not represent a direct obligation to another party that would be defined as a liability. SFAS

No. 146 therefore rescinds the definitions and requirements for the accounting of exit costs contained in Issue 94-3 until a liability is actually incurred and stipulates that the amount of the liability be initially measured at the current fair value. However, this standard does not apply to expenses arising in connection with the retirement of activities in divisions acquired by way of a combination or covered by SFAS No. 144. The Company does not expect the adoption of SFAS No. 146 to have a material adverse effect on its financial position, results of operations, or cash flows.

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

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

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

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

At the July 31, 2003 meeting, the ETIF discussed whether non-software deliverables (e.g., non-software related equipment or services) included in an arrangement that contains software that is more than incidental to the products or services as a whole are included within the scope of AICPA Statement of Position 97-2, "Software Revenue Recognition". The Task Force reached the following consensus: In an arrangement that includes software that is more than incidental to the products or services as a whole, software and software-related elements are included within the scope of SOP 97-2. Software-related elements include software-products and services such as those listed in paragraph 9 of SOP 97-2 (examples of software deliverables include software products, upgrades/enhancements, postcontract customer support, and services) as well as any non-software deliverable(s) for which a software

deliverable is essential to its functionality. For example, in an arrangement that includes software, computer hardware that will contain the software, and additional unrelated equipment, if the software is essential to the functionality of the hardware, the hardware would be considered software-related and, therefore, included within the scope of SOP 97-2. However, because the software is not essential to the functionality of the unrelated equipment, the equipment would not be considered software-related and would, therefore, be excluded from the scope of SOP 97-2. The Task Force agreed that the consensus in Issue 03-5 should be applied to arrangements entered into in the first reporting period (annual or interim) beginning after the date of Board ratification of the consensus, which was August 13, 2003. The Company does not anticipate the adoption to have a material effect on the Company's financial position, or results of operations, or cash flows.

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

7. Industry Segment and Geographic Information

The Company operates primarily in one line of business, which is providing Unified Commerce Management software for managing online commerce processes across extended enterprises. Accordingly, the Company does not disclose significant additional segment information under the definition of segment reporting, defined by SFAS No. 131. However, the Company's business has five international sales geographies: Germany, United States, United Kingdom, Asia Pacific, and other (which includes France, Denmark, Norway, and Sweden). These geographies are supported by the central General Administration as well as by the Research & Development and Technical Support departments. The Company's products are developed at its headquarter in Jena, Germany, and are sold in Europe, North America, Australia, and Asia via the Company's own direct distribution, sales partners, and independent distributors.

Three months ended March 31, 2004 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other	Total
Revenues						
Licenses	317	244	4	0	0	565
Services, maintenance and other	3,026	527	248	66	0	3,867
Total Revenues	3,343	771	252	66	0	4,432
Gross profit						
Licenses	290	222	4	0	0	516
Services, maintenance and other	748	374	248	75	(223)	1,222
Total gross profit (loss)	1,038	596	252	75	(223)	7,738
Total Operating expenses	5,721	682	278	319	20	7,020
Operating income (loss)	(2,378)	89	(26)	(253)	(20)	(2,588)
Other income (expense) net						99
Net loss						(2,489)
Long lived assets	748	42	330	17	8	1,145

Three months ended March 31, 2003 (in thousands of €):

	Germany	United States	United Kingdom	Asia Pacific	Other	Total
Revenues						
Licenses	710	130	318	43	95	1,296
Services, maintenance and other	3,747	439	216	21	647	5,070
Total Revenues	4,457	569	534	64	742	6,366
Gross profit						
Licenses	557	130	318	43	95	1,143
Services, maintenance and other	677	164	128	21	530	1,520
Total gross profit (loss)	1,234	294	446	64	625	2,663
Total Operating expenses	10,480	1,223	796	424	1,681	14,604
Operating income (loss)	(6,023)	(654)	(262)	(360)	(939)	(8,238)
Other income (expense) net						(161)
Net loss						(8,399)
Long lived assets	2,608	125	407	-	158	3,298

The accounting policies followed by the Company's business segments are the same as those described for the group and these can be found within the Company's Annual Report for the financial year ending December 31, 2003.

8. Restructuring Charges and Asset Impairments

In the first quarter of 2004, the restructuring measures implemented in the previous year meant that the Company further reduced its headcount in line with reduced revenue expectations, and transferred the majority of its European sales activities outside Germany to local distributors.

The following tables summarize the restructuring charges recorded during the three months ended March 31, 2004 and 2003 respectively (in thousands €):

Three Months ended March 31,	2003	2004
Employee Related Charges	462	52
Facility Related Charges	153	37
Other	97	(8)
Total restructuring charges	712	81

	Employee related charges	Facility related charges	Other	Total
Accrued restructuring costs at December 31, 2003	224	2,433	-	2,657
Currency Adjustments	5	18	-	23
Restructuring charges quarter ended March 31, 2004	52	70	-	122
Cash Payments	(39)	(330)	(8)	(377)
Accrued restructuring costs at March 31, 2004	242	2,191	(8)	2,425

The above costs are broken down as follows:

Employee Related Charges

As of December 31, 2003, the Group employed 278 full-time equivalents.

As a result of cost reductions, the number of employees was reduced further to 264 full-time equivalents in the first quarter of 2004.

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

Facility Related Charges

In the first quarter of 2004, the Intershop Group recorded restructuring costs of approximately € 0.04 million in connection with the consolidation of existing facilities, which principally relate to probable future payments for existing lease commitments for property no longer in use, net of sublease income.

The 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.

Other

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

Restructuring accruals are calculated on the basis of financial estimates and data available as at March 31, 2004. Adjustments to this restructuring reserve will be made in future periods, if necessary, based upon actual events and available information at that moment in time.

9. Dividends

The Company did not pay any dividends in the first quarter of 2004 or in the previous financial year.

10. Research and development

The Company is continuing to invest resources into research and development of new products in the e-commerce software market. In the first quarter of 2004, the Company incurred research and development costs of approximately € 1.3 million compared with € 1.7 million in the first quarter of 2003. The Company expenses all research and development costs as incurred.

11. Share Repurchase

The Company did not own or repurchase any of its own shares in the first quarter of 2004.

12. Marketable Securities

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

13. Shareholders' Equity

The following tables summarize the change in shareholders' equity for the three months ended March 31, 2004 and 2003 (in thousands €):

Three Months ended March 31,	2003	2004
Net loss	(8,399)	(2,489)
Foreign Currency translation gains (losses)	189	114
Unrealized gain (loss) on available-for-sale securities	26	-
Cash received for unregistered stock	-	3,792
Opening Shareholders' equity	26,372	7,838
Closing Shareholders' equity	18,188	9,255

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

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

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

14. Legal Matters

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

The Company is a defendant in a consolidated class-action lawsuit in the United States and an investigation by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BAFin; formerly German Federal Supervisory Office for Securities Trading (Bundesaufsichtsamt für den Wertpapierhandel, BAWe)). At the beginning of 2001, several securities class-action lawsuits were filed in the U.S. against Intershop Communications AG, Management Board members, certain other officers, and the underwriters of the Company's September 2000 public offering. The plaintiffs allege that the defendants made material misrepresentations and omissions of material facts concerning the Company's business performance. The plaintiffs seek an unspecified amount of damages. The Management Board believes there is no merit to these allegations and intends to defend itself vigorously. However, there can be no assurance that the Company will prevail in the lawsuit, or that the outcome of the lawsuit will not adversely affect the Company's operations. In Germany, BAFin announced in January 2001 that it had initiated an investigation regarding a possible violation of the duty to disclose material information in connection with the release on January 2, 2001 of Intershop Communications AG's preliminary results for 2000. BAFin handed this case over to the public prosecutor in Hamburg, Germany, who initiated an investigation into complaints about stock price manipulations in May 2001. The Company is cooperating in full with these investigations and, to the best of the management's knowledge, has never previously been the subject of such investigations. The Company believes there is no merit to these allegations.

In January 2001, a U.S. company filed a suit in the federal district court in Delaware against Intershop Communications, Inc., claiming violation of certain patent rights. The plaintiff seeks an unspecified amount of compensation for damages based on the alleged patent infringements. This case was settled for US\$0.5 million on September 24, 2001. As part of the settlement, the parties exchanged certain licenses and rights for a limited term under their respective United States patents and patent

applications, in addition to other terms and conditions of the settlement agreement that were not disclosed.

In 2002, a claim of €5 million regarding the violation of a license agreement was legally asserted by another software company. An out-of-court settlement with this software company was reached, subject to the approval of the software Company's stockholders. This approval was not granted; for this reason, the Company has restarted legal proceedings with the aim of having the claim fully dismissed. As of March 31, 2004 the court had not issued its ruling.

15. Directors' Holdings

As of March 31, 2004, the following Company directors held Intershop Communications AG ordinary bearer shares or options to purchase such shares:

Name	Title, Function	Share held *	Stock options held*, **
Eckhard Pfeiffer	Chairman of the Supervisory Board	80.000	0
Theodore J. Smith	Vice-Chairman of the Supervisory Board	21.458	0
Peter Mark Droste	Member of the Supervisory Board	0	0
Hans W. Gutsch	Member of the Supervisory Board	70.000	0
Burgess Jamieson	Member of the Supervisory Board	228.900	0
Dr. Jürgen Schöttler	Chief Financial Officer, Member of the Management Board (Finanzvorstand)	14.000	160.000

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

** The stock options were granted under the conditions of the 1999 Equity Incentive Plan. Details on the 1999 Equity Incentive Plan can be found in the Notes to the Consolidated Financial Statements in the Company's 2003 annual report (section 12). Jürgen Schöttler's stock options have an average reverse stock split adjusted exercise price of €4.16 per share, and Stephan Schambach's stock options have an exercise price of €1.91 per share.

16. Securities Transactions subject to Reporting Requirements

The members of the Company's executive bodies made no purchases or sales of Intershop common bearer shares during the first quarter of 2004.

Intershop Communications AG
Investor Relations

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