Group Management Report
For The Three Months Ended

March 31, 2008

# Inhalt

# Group Management Report

## Overall Economy and Industry

According to the spring forecast by the European Commission, economic growth in the European Union will drop from 2.8% in 2007 to 2% in 2008. The market for online marketing will continue to grow at an above-average rate in 2008. The Bundesverband Informationswirtschaft, Telekommunikation und neue Medien (German Association for Information Technology, Telecommunications, and New Media – BITKOM) estimates that investments in software grew by 5.3% in 2007 and that investments in IT services (including consulting and maintenance) grew by 6.6%. According to the German Association for Information Technology, Telecommunications, and New Media (BITKOM), Q1 2008 sales in the German online advertising market rose by 75% over the prior-year period.

Intershop expects revenues to grow by a double-digit percentage in 2008. These growth expectations in the first three months of the 2008 fiscal year compared to 2007 were met.

## Revenue Development

Intershop's total net revenues rose by 35% from EUR 5.1 million in the first quarter of 2007 to EUR 6.9 million in the first quarter of 2008. License revenues increased by 31% from EUR 0.8 million to EUR 1.1 million. Net revenues from services, maintenance, and other increased by 35%, from EUR 4.3 million to EUR 5.8 million. This increase is due mainly to the rise in consulting and training revenues from EUR 2.1 million to EUR 3.4 million.

The following overview shows the development of net revenues (in EUR thousand):

| Three months ended March 31, | 2008 | 2007 | Change |
|---|---|---|---|
| **Licences** | **1,071** | **817** | **31%** |
| Maintenance | 1,686 | 1,632 | 3% |
| Consulting / Training | 3,407 | 2,142 | 59% |
| Online Marketing | 634 | 510 | 24% |
| Other revenues | 142 | 48 | 196% |
| **Service, maintenance and other** | **5,869** | **4,332** | **35%** |
| **Net revenue total** | **6,940** | **5,149** | **35%** |

Gross revenues, which include media costs from online marketing, increased by 33%, from EUR 6.1 million to EUR 8.1 million. Gross revenues from online marketing rose from EUR 1.5 million to EUR 1.8 million.

In March 2008, Intershop and the Otto Group signed a wide-ranging master agreement covering a group license for Otto and its affiliated companies, as well as a package of services valued in the single-digit millions over three years.

Europe (including Asia-Pacific region) and North America remained Intershop's key revenue regions in the first quarter of 2008. Intershop's most important market in the first quarter of 2008 was once again Europe with revenues of EUR 5.9 million (previous quarter: EUR 4.1 million or 79%), representing 85% of total revenues. Intershop generated revenues of EUR 1.0 million in North America in the first three months of 2008, or 15% of the global total (previous quarter: EUR 1.1 million or 21%).

## Earnings Development

In the first three months of fiscal year 2008, Intershop generated a positive quarterly result and was therefore able to report a profit for the period for three consecutive quarters for the first time since the Company was founded. Earnings before tax increased from EUR 1.4 million in the first quarter of 2007 to EUR +0.4 million.

The cost of revenues amounted to EUR 4.5 million in the first quarter of 2008, compared with EUR 3.1 million in the first quarter of 2007. The rise in the cost of revenues should be viewed in conjunction with the increase in revenues.

The gross profit margin on total net revenues declined from 41% to 35%. The gross profit margin on license revenues was 97% compared with 99% in the prior-year period. The gross margin on net service revenues fell from 30% to 24%. The margin in the online marketing business area increased from 16% to 30%.

Operating expenses and income decreased by 41% from EUR 3.4 million to EUR 2.0 million. The restructuring measures implemented in the previous fiscal year led to cost reductions, particularly in sales and marketing. Costs in these areas were halved to EUR 0.8 million. General and administrative expenses remained constant at EUR 1.0 million. Other operating income totaled EUR 0.2 million in the first quarter of 2008 as in the prior-year quarter. Among other things, this figure included government grants of EUR 0.1 million in the first quarter of 2008 and EUR 0.2 million in the first quarter of 2007.

The cost of revenues and operating expenses include expenses from the employee stock option plans amounting to EUR 0.2 million in first three months of 2008 and EUR 0,3 million in the first three months of 2007.

The depreciation and amortization expense was EUR 0.1 million, compared with EUR 0.2 million in the prior-year period. This decrease was due mostly to the sharp drop in amortization relating to the intangible assets identified and measured in the course of purchase price allocation during the acquisition of SoQuero GmbH in late June 2006.

The result from operating activities (EBIT) improved from EUR -1.4 million to EUR 0.4 million. The EBIT margin improved from -26% to +6%.

Earnings after tax rose from EUR -1.4 million to EUR 0.3 million. In the first quarter, earnings per share were EUR 0.01. In the comparable prior-year period, Intershop reported a loss per share of EUR 0.06. Thanks to the profit generated in the first three months of fiscal year 2008, Intershop was able to sustain the positive earnings trend that began during the past fiscal year.

## Research and Development

Research and development expenses declined from EUR 1.0 million in the first quarter of 2007 to EUR 0.3 million in the first quarter of 2008. This drop was due mainly to the initial capitalization of development costs in addition to the reduction in the number of employees. (For additional information, please see the section entitled “Accounting Policies” in the notes to the consolidated financial statements.)

## Organisation

There have been no changes in the composition of the Management Board or the Supervisory Board since December 31, 2007.

## Employees

As of March 31, 2008, Intershop employed 240 full-time equivalents worldwide. The number of employees therefore increased by 3% from the 233 full-time employees recorded on December 31, 2007.

The following overview shows the breakdown of employees by department:

| Employees by department (full-time equivalents) | March 31, 2008 | March 31, 2007 | Dec. 31, 2007 |
|---|---|---|---|
| Technical Departments (research and development and service functions) | 192 | 174 | 182 |
| Sales and Marketing departments | 20 | 41 | 22 |
| General and administrative departments | 28 | 30 | 29 |
| **Total** | **240** | **245** | **233** |

92% of Intershop's global workforce was employed in Germany as of March 31, 2008 (221 full-time equivalents; March 31, 2007: 225). The remaining 8% belong to the U.S. branch (19 full-time equivalents; March 31, 2008: 20). As of December 31, 2007, 211 full-time equivalents were employed in Germany and 22 in the United States.

## Presentation of Net Assets and Financial Position

Total assets increased from EUR 23.2 million as of December 31, 2007 to EUR 25.6 million as of March 31, 2008.

Noncurrent assets rose from EUR 7.4 million to EUR 7.8 million. The rise was mainly the result of the increase in intangible assets from EUR 5.6 million to EUR 6.1 million. On the one hand, amortization of intangible assets declined significantly from the past fiscal year, since certain assets were written off in full as of December 31, 2007. On the other hand, the capitalization of software development expenses increased the cost of internally developed software.

Current assets rose from EUR 15.8 million to EUR 17.8 million. This item includes trade receivables, which increased from EUR 4.8 million to EUR 8.5 million. Cash and cash equivalents included in noncurrent and current assets fell from EUR 9.9 million to EUR 8.5 million.

The amount of unrestricted cash included in cash and cash equivalents increased from EUR 5.9 million to EUR 6.9 million. Restricted cash declined from EUR 3.9 million to EUR 1.6 million.

Equity rose from EUR 12.4 million as of December 31, 2007 to EUR 13.0 million as of March 31, 2008. The equity ratio was 51% as compared with 53% as of the balance sheet date for the previous fiscal year.

Current liabilities rose from EUR 10.6 million to EUR 12.5 million. Trade accounts payable dropped by 26% to EUR 2.4 million. Deferred revenue increased from EUR 1.8 million to EUR 4.5 million.

Net cash used in operating activities fell from EUR 3.2 million in the first quarter of 2007 to EUR 0.5 million in the first quarter of 2008. Net cash provided by investing activities amounted to EUR 1.4 million as compared to EUR 1.2 million. In the first quarter of 2008, restricted cash in the amount of EUR 2.4 million was reclassified as unrestricted cash (prior-year quarter: EUR 1.2 million), and the second purchase price installment was paid for SoQuero GmbH, which was acquired in June 2006. Net cash provided by financing activities totaled EUR 0.2 million compared to EUR 0.1 million in the prior-year quarter. This was due to payments in connection with the exercise of employee options and the issue of ordinary shares. Overall, cash and cash equivalents rose by EUR 0.9 million in the first quarter of 2008.

## Group Risks

In the first quarter of 2008, there were no significant changes to the risks described in detail on pages 14 to 17 of the 2007 Annual Report.

## Events subsequent to the balance sheet date

Subscribed capital rose by EUR 127,607 to EUR 25,158,697 due to the implementation of a capital increase from Authorized Capital II by way of the exercise of employee options. This was entered in the commercial register on May 6, 2008.

## Outlook

As described in the 2007 Annual Report, Intershop expects a clearly positive result for the fiscal year based on its expected revenue growth and its modified cost structure.

# Consolidated Balance Sheet

| in EUR thousand | March 31, 2008 | December 31, 2007 |
|---|---|---|
| **ASSETS** | | |
| **Noncurrent assets** | | |
| Intangible assets | 6,064 | 5,639 |
| Property, plant and equipment | 482 | 459 |
| Other noncurrent assets | 40 | 57 |
| Restricted cash | 1,213 | 1,213 |
| | **7,799** | **7,368** |
| **Current assets** | | |
| Trade receivables | 8,473 | 4,760 |
| Other receivables and other assets | 2,087 | 2,353 |
| Restricted cash | 383 | 2,736 |
| Cash and cash equivalents | 6,885 | 5,949 |
| | **17,828** | **15,798** |
| **TOTAL ASSETS** | **25,627** | **23,166** |
| **SHAREHOLDERS´ EQUITY AND LIABILITIES** | | |
| **Shareholders´ equity** | | |
| Subscribed capital | 25,031 | 24,879 |
| Capital reserve | 5,840 | 5,678 |
| Other reserves | (17,860) | (18,191) |
| | **13,011** | **12,366** |
| **Noncurrent liabilities** | | |
| Other noncurrent provisions | 52 | 50 |
| Deferred tax liabilities | 96 | 112 |
| Deferred revenue | 11 | 16 |
| | **159** | **178** |
| **Current liabilities** | | |
| Provisions for restructuring | 0 | 28 |
| Other current provisions | 968 | 683 |
| Convertible bonds | 2,090 | 2,001 |
| Trade accounts payable | 2,437 | 3,294 |
| Income tax liabilities | 196 | 134 |
| Other current liabilities | 2,276 | 2,718 |
| Deferred revenue | 4,490 | 1,764 |
| | **12,457** | **10,622** |
| **TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES** | **25,627** | **23,166** |

# Consolidated Income Statement

| | Three months ended March 31, | |
|---|---|---|
| **in EUR thousand** | **2008** | **2007** |
| **Gross Revenues** | | |
| Licenses | 1,071 | 817 |
| Services, maintenance and other | 7,052 | 5,312 |
| | **8,123** | **6,129** |
| **Media costs** | **(1,183)** | **(980)** |
| **Net Revenues** | | |
| Licenses | 1,071 | 817 |
| Services, maintenance and other | 5,869 | 4,332 |
| | **6,940** | **5,149** |
| **Cost of revenues** | | |
| Licenses | (32) | (9) |
| Services, maintenance and other | (4,471) | (3,048) |
| | **(4,503)** | **(3,057)** |
| **Gross profit** | **2,437** | **2,092** |
| **Operating expenses, operating income** | | |
| Research and development | (303) | (971) |
| Sales and marketing | (846) | (1,663) |
| General and administrative | (994) | (1,036) |
| Restructuring costs | 6 | 0 |
| Other operating income | 154 | 227 |
| Other operating expenses | (41) | (6) |
| | **(2,024)** | **(3,449)** |
| **Result from operating activities** | **413** | **-1,357** |
| Interest income | 65 | 66 |
| Interest expense | (94) | (148) |
| **Financial result** | **(29)** | **(82)** |
| **Earnings before tax** | **384** | **-1,439** |
| **Income taxes** | **(84)** | **23** |
| **Earnings after tax** | **300** | **-1,416** |
| Earnings per share (EUR, basic) | 0.01 | (0.06) |
| Earnings per share (EUR, diluted) | 0.01 | (0.06) |
| Weighted average shares outstanding (basic) | 24,873 | 24,859 |
| Weighted average shares outstanding (diluted) | 28,287 | 26,488 |

# Consolidated Statement of Cash Flows

| | Three months ended March 31, | |
|---|---|---|
| in EUR Thousand | 2008 | 2007 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Earnings before tax | 384 | (1,439) |
| *Adjustments to reconcile net profit/loss to cash used in operating activities* | | |
| Financial result | 29 | 82 |
| Depreciation and amortization | 120 | 241 |
| Other noncash expenses and income | (257) | 87 |
| Allowances for doubtful accounts | 31 | 73 |
| (Gain) Loss on disposal of property and equipment | (1) | (7) |
| *Changes in operating assets and liabilities* | | |
| Accounts receivable | (3,713) | (2,620) |
| Other assets | 284 | 191 |
| Liabilities and provisions | (149) | (1,125) |
| Deferred revenue | 2,722 | 1,348 |
| **Net cash used in operating activities before income tax and interest** | **(550)** | **(3,169)** |
| Interest received | 65 | 69 |
| Interest paid | (1) | (20) |
| Income taxes received | 0 | 0 |
| Income taxes paid | (3) | (7) |
| **Net cash used in operating activities** | **(489)** | **(3,127)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Restricted cash | 2,353 | 1,242 |
| Proceeds on disposal of equipment | 0 | 6 |
| Purchases of property and equipment, net of capital leases | (90) | (33) |
| Acquisition of consolidated companies | (855) | 0 |
| **Net cash (used in) provided by investing activities** | **1,408** | **1,215** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Cash received for unregistered stock | 168 | 92 |
| Expenses of cash received for unregistered stock | 0 | (6) |
| **Net cash provided by financing activities** | **168** | **86** |
| Effect of change in exchange rates on cash | (151) | (3) |
| **Net change in cash and cash equivalents** | **936** | **(1,829)** |
| Cash and cash equivalents, beginning of period | 5,949 | 3,629 |
| **Cash and cash equivalents, end of period** | **6,885** | **1,800** |

# Consolidated Statement of Shareholders´ Equity

| in EUR thousand | | | | Other reserves | | | |
|---|---|---|---|---|---|---|---|
| | Common shares | Subscribed capital | Capital reserve | Conversion reserve | Cumulative profit/ loss | Cumulative currency differences | Total share-holders´equity |
| **Balance, January 1, 2008** | **24,878,728** | **24,879** | **5,678** | **(93)** | **(20,060)** | **1,962** | **12,366** |
| Net profit/loss | | | | | 300 | | 300 |
| Foreign currency translation adjustments | | | | | | 31 | 31 |
| Stock option expense | | | 231 | | | | 231 |
| Issue of new shares | 152,362 | 152 | (69) | | | | 83 |
| **Balance, March 31, 2008** | **25,031,090** | **25,031** | **5,840** | **(93)** | **(19,760)** | **1,993** | **13,011** |
| **Balance, January 1, 2007** | **21,503,851** | **21,504** | **1,531** | **(93)** | **(18,027)** | **1,991** | **6,906** |
| Net profit/loss | | | | | (1,416) | | (1,416) |
| Foreign currency translation adjustments | | | | | | 3 | 3 |
| Stock option expense | | | 262 | | | | 262 |
| Issue of new shares | 92,557 | 92 | (6) | | | | 86 |
| **Balance, March 31, 2007** | **21,596,408** | **21,596** | **1,787** | **(93)** | **(19,443)** | **1,994** | **5,841** |

# Notes to the Consolidated Financial Statements as of March 31, 2008

## General disclosures

The consolidated financial statements of Intershop Communications AG as of December 31, 2007 were prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as well as the provisions required to be applied under section 315a(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code). Accordingly, the Group's interim report as of March 31, 2008 was prepared in accordance with IAS 34, *Interim Financial Reporting.*

This interim report as of March 31, 2008 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 2007. 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, 2007. The 2007 Annual Report is available on the Company's web site at http://www.intershop.com/intershop/investors/financial_reports/ .

## Accounting principles (Compliance statement)

The consolidated financial statements of Intershop Communications AG for 2008 were prepared in accordance with the International Financial Reporting Standards (IFRSs) valid at the balance sheet date and with the Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU.

The International Accounting Standards Board (IASB) has also issued the 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. Please see pages 33 and 34 in the 2007 Annual Report.

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

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

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

## Estimates and assumptions

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

In particular, estimates are required to recognize and measure provisions for restructuring, legal costs and litigation risks, and guarantee provisions, and for determining the value of the options under the stock option plans as well as to assess the need for and measurement of impairment losses and valuation allowances. An estimate for the degree of completion of contracts for fixed-price projects is required when determining revenues for consulting services.

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.

Certain assumptions were made in determining the value of the options under the stock option plans; these are explained in the section entitled “Stock option plans”.

## Basis of consolidation

There were no changes to Intershop Communications AG's basis of consolidation in the first quarter as against December 31, 2007. In addition to the parent company, the basis of consolidation therefore comprised the following companies as of March 31, 2008:

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

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

## Accounting policies

With the following exception, the same accounting policies were used to prepare this consolidated interim report as for the consolidated financial statements for fiscal year 2007. The policies used are described in detail on pages 38 to 46 of the 2007 Annual Report.

### Software development costs

Development costs for newly developed (software) products are capitalized at cost in accordance with IAS 38 if a clear allocation of expenses is possible, and if both the technical feasibility and the marketability of the newly developed products are ensured. Capitalization of software development costs generally begins when the technological feasibility of the product is established; the Company defines this as the development of a prototype as well as the development of a beta version of the software. Intershop consolidated its different product lines, which had previously been developed separately, for the first time in Enfinity Suite 6.0. The business model was switched to the product life cycle model in the course of the reorganization of the Company and the change in its strategic direction in the past fiscal year. Starting in 2008, updates of Intershop’s standard software Enfinity will be issued regularly as annual releases, not at irregular intervals as has been the case to date. Capitalized software development costs include direct staff costs for employees, ancillary staff costs, directly attributable payments for third-party services, and an appropriate percentage of reasonably identifiable overhead costs. This amount is amortized using the straight-line method over the planned useful life of the product beginning from the time of availability of the relevant software release to customers.

The treatment of development costs for establishing online shops for full-service e-commerce customers has not changed. Because the online shops are developed by Intershop and ownership remains with the Company, the development costs arising are capitalized.

## Equity

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

The subscribed capital increased by EUR 152,362 as of March 31, 2008 to EUR 25,031,090 and is divided into 25,031,090 no-par value bearer shares. The change in subscribed capital amounting to EUR 152,362 reflects capital increases from authorized capital as a result of the exercise of employee stock options. The capital increase became legally effective upon entry into the commercial register on March 27, 2008.

As of March 31, 2008, the Company had authorized capital of EUR 8,516,713. 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 7.038.000 against cash or noncash contributions up to July 4, 2012 (Authorized Capital I). When increasing the share capital, the Management Board is authorized to disapply the stockholders' subscription rights under certain conditions with the approval of the Supervisory Board. There were no changes in Authorized Capital I in the first three months of fiscal year 2008.
- By up to a total of EUR 1,478,731 against cash contributions while disapplying the stockholders' subscription rights on the basis of the resolution adopted by the Annual Stockholders' Meeting on May 9, 2007 (Authorized Capital II). The authorization of the Management Board applies until July 4, 2012. A capital increase in the amount of EUR 152,362 was performed in the first quarter of 2008 due to the exercise of employee options. Authorized Capital II decreased accordingly from EUR 1,631,093 as of December 31, 2007 to EUR 1,478,731 as of March 31, 2008.

The conditional capital remained unchanged as of March 31, 2008 compared with December 31, 2007. The Company's share capital was increased conditionally by up to EUR 10,555,603 in order to issue 10,555,603 shares. However, due to adjustments following the capital reductions and options that have expired or were not issued, a maximum of 2,219,960 shares may be issued in future from the conditional capital.

## Stock option plans

Option activity under the plans was as follows:

| Three months ended March 31, | 2008 | | 2007 | |
|---|---|---|---|---|
| | Number of shares outstanding (in thousand) | Weighted average exercise price (EUR) | Number of shares outstanding (in thousand) | Weighted average exercise price (EUR) |
| Outstanding at beginning of period | 4,216 | 1.68 | 5,302 | 1.43 |
| Granted | 70 | 2.98 | 115 | 1.68 |
| Exercised | (180) | 1.17 | (93) | 1.00 |
| Forfeited | (51) | 1.27 | (137) | 1.72 |
| **Outstanding at end of period** | **4,055** | **1.73** | **5,187** | **1.44** |
| Exercisable options at end of period | 1,636 | 1.61 | 1,440 | 1.91 |
| Weighted average fair market value of options granted during the year | 70 | 1.52 | 115 | 0.93 |

The weighted average share price for the exercised options amounted to EUR 3.11 on the exercise date.

The following table summarizes information with respect to the stock options outstanding on March 31, 2008:

| Range of exercise price | Number of options outstanding | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable on March 31, 2008 | Weighted average exercise price |
|---|---|---|---|---|---|
| | (in thousand) | (in years) | (EUR) | (in thousand) | (EUR) |
| 1.00 – 1.50 | 2,233 | 2.8 | 1.01 | 1,017 | 1.02 |
| 1.51 – 2.50 | 1,207 | 3.3 | 1.72 | 451 | 1.74 |
| 2.51 – 3.50 | 162 | 4.5 | 2.91 | 19 | 2.89 |
| 3.51 – 4.50 | 3 | 4.3 | 3.61 | 0 | 3.57 |
| 4.51 – 7.80 | 450 | 3.2 | 4.83 | 149 | 5.09 |
| | **4,055** | **3.1** | **1.73** | **1,636** | **1.61** |

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 form/to | |
|---|---|---|---|
| Expected term | in years | 1.00 | 5.00 |
| Risk-free interest rate | in % | 2.71 | 4.43 |
| Expected Volatility | in % | 70.00 | 109.78 |
| Dividend yield | in % | 0.00 | 0.00 |
| Exercise price | in Euros | 1.00 | 7.80 |
| Market price | in Euros | 1.00 | 7.80 |
| Option value | in Euros | 0.56 | 4.62 |

The volatility of Intershop shares declined noticeably in the period under review as a whole. For options granted before January 1, 2006, the expected volatility was determined by calculating the average historical volatilities of the Company's stock price for the last three years. For options granted in fiscal year 2006 onwards, an expected volatility of 80% was assumed, as the historical daily volatility in 2005 fluctuated in a corridor between around 80% and around 100%. Volatility fell within a corridor of between 50% and 80% in fiscal year 2007. A volatility of 70% was therefore assumed for the options issued in 2007. Intershop considers an expected volatility of 70% for the next few years to be appropriate.

In accordance with IFRS 2.53, only options that were granted after November 7, 2002 and were not exercisable before January 1, 2005, as well as all options granted from 2004 to 2008, were taken into account in the calculation of the expense incurred from option plans.

In first three months of 2008, the Company recognized expenses of EUR 231 thousand relating to the stock option plans. These expenses amounted to EUR 262 thousand in the first three months of 2007.

## 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 2,090 thousand as of March 31, 2008. The change as against December 31, 2007 was as follows (in EUR thousand):

| | |
|---|---|
| Amortized cost as of December 31, 2007 | 2,001 |
| Accrued interest on the convertible bond up to March 31, 2008 | 89 |
| **Debt component as of March 31, 2008** | **2,090** |

1,629,626 bonds arising from the convertible bond in circulation remained outstanding as of March 31, 2008; this figure is unchanged.

Between November 10 and December 13, 2008 (exercise period at the end of the term), the convertible bonds can be converted into bearer voting ordinary shares of the Company pursuant to the convertible bond conditions.

## Restructuring costs

In the first quarter of 2008, the restructuring measures under the restructuring program begun in April of the past fiscal year were completed in full.

The following tables give an overview of the restructuring charges and the changes in provisions for restructuring measures for the quarters ended March 31, 2008 and March 31, 2007, respectively

| Three months ended March 31, | 2008 | 2007 |
|---|---|---|
| Employee Related Charges | (6) | 0 |
| Facility Related Charges | 0 | 0 |
| **Total restructuring charges** | **(6)** | **0** |

| | Employee related charges | Facility related charges | Total |
|---|---|---|---|
| Accrued restructuring costs at December 31, 2007 | 28 | 0 | **28** |
| Restructuring charges from January 1 through March 31, 2008 | (6) | 0 | **(6)** |
| Cash Payments | (21) | 0 | **(21)** |
| Currency Adjustments | (1) | 0 | **(1)** |
| **Accrued restructuring costs at March 31, 2008** | **0** | **0** | **0** |

The provisions for employee-related charges primarily consist of expected future payments relating to the termination of employment contracts (including severance payments, social security contributions, and legal costs) and to distributor contracts.

## Other operating income

Other operating income includes government grants amounting to EUR 104 thousand. This refers to a claim to a grant from Thüringer Aufbaubank that has been applied for but not yet received.

## Earnings per share

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

| Three months ended March 31, | 2008 | 2007 |
|---|---|---|
| **Basis for calculating basic earnings per share (Earnings after tax)** | **300** | **(1,416)** |
| Dilutive effect of potential ordinary shares: interest on the convertible bond | 89 | 120 |
| **Basis for calculating diluted earnings per share** | **389** | **(1,296)** |

The number of shares is calculated as follows:

| Three months ended March 31, | 2008 | 2007 |
|---|---|---|
| **Weighted average number of ordinary shares used to calculate basic earnings per share** | **24,873** | **24,859** |
| Dilutive effect of potential ordinary shares: | | |
| Weighted average number of options outstanding | 1,785 | 0 |
| Weighted average number of convertible bond outstanding | 1,629 | 1,629 |
| **Weighted average number of ordinary shares used to calculate diluted earnings per share** | **28,287** | **26,488** |

| Three months ended March 31, | 2008 | 2007 |
|---|---|---|
| **Calculation of earnings per share (basic)** | | |
| Earnings after tax (in EUR Thousand) | 300 | (1,416) |
| Weighted average number of shares (basic) | 24,873 | 24,859 |
| **Earnings per share (basic) (in EUR)** | **0.01** | **(0.06)** |
| | | |
| **Calculation of earnings per share (diluted)** | | |
| Basis for calculating diluted earnings per share (in EUR thousand) | 389 | (1,296) |
| Weighted average number of shares (diluted) | 28,287 | 26,488 |
| Earnings per share (diluted) (in EUR) | 0.01 | (0.05) |
| **Adjustment of earnings per share (diluted) (in EUR)** | **0.01** | **(0.06)** |

In accordance with IAS 33.47, the stock options issued are included in the calculation of diluted earnings only if the average market price of Intershop ordinary shares during the quarter exceeds the exercise price of the stock options. As the diluted earnings reduce the loss per share or increase the earnings per share, an adjustment is made to the amount of basic earnings per share (antidilutive effect) in accordance with IAS 33.43. In accordance with IAS 33.64 the calculation of the number of shares was adjusted retrospectively for the prior year.

## Segment Reporting

### Segment reporting as of March 31, 2008

| In EUR thousand | Europe | U.S.A | Rest of the world | Consoli-dation | Group |
|---|---|---|---|---|---|
| **Net Revenues from external customers** | | | | | |
| Licenses | 1,005 | 66 | 0 | 0 | **1,071** |
| Consulting and training | 2,757 | 650 | 0 | 0 | **3,407** |
| Maintenance | 1,431 | 255 | 0 | 0 | **1,686** |
| Online Marketing | 634 | 0 | 0 | 0 | **634** |
| Other | 106 | 36 | 0 | 0 | **142** |
| **Total net revenues from external customers** | **5,933** | **1,007** | **0** | **0** | **6,940** |
| Intersegment revenues | 192 | 166 | 0 | (358) | **0** |
| **Total net revenues** | **6,125** | **1,173** | **0** | **(358)** | **6,940** |
| Net profit/loss for the period | 1,571 | (1,242) | (3) | (26) | **300** |
| Net profit/loss for the period (adjusted) | 71 | 258 | (2) | (27) | **300** |
| Noncash income | 5 | 1 | 0 | 0 | **6** |
| Noncash expenses | 320 | 0 | 0 | 0 | **320** |

### Segment reporting as of March 31, 2007

| In EUR thousand | Europe | U.S.A | Rest of the world | Consoli-dation | Group |
|---|---|---|---|---|---|
| **Net Revenues from external customers** | | | | | |
| Licenses | 807 | 10 | 0 | 0 | **817** |
| Consulting and training | 1,387 | 755 | 0 | 0 | **2,142** |
| Maintenance | 1,339 | 293 | 0 | 0 | **1,632** |
| Online Marketing | 510 | 0 | 0 | 0 | **510** |
| Other | 48 | 0 | 0 | 0 | **48** |
| **Total net revenues from external customers** | **4,091** | **1,058** | **0** | **0** | **5,149** |
| Intersegment revenues | 218 | 0 | 0 | (218) | **0** |
| **Total net revenues** | **4,309** | **1,058** | **0** | **218** | **5,149** |
| Net profit/loss for the period | 173 | (1,495) | (2) | (92) | **(1,416)** |
| Net profit/loss for the period (adjusted) | (1,314) | (2) | (1) | (99) | **(1,416)** |
| Noncash income | 0 | 0 | 0 | 0 | **0** |
| Noncash expenses | 382 | 0 | 0 | 0 | **382** |

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 direct sales units in Germany and in the United States.

The regions are broken down as follows:

Regions in first quarter of 2008:

The "Europe" segment comprises sales by Intershop Communications AG, as well as by Intershop Communications Online Marketing GmbH, most of whose sales activities are in Europe and the Asia-Pacific region. The "U.S.A." segment consists of sales by Intershop Communications Inc., which focus on North America. The "Rest of the world" segment includes the subsidiaries in Prague, Czech Republic, and in Sweden, which have no operating activities. The "Consolidation" segment includes all transactions within the individual segments.

Regions in first quarter of 2007:

The "Europe" segment comprises sales by Intershop Communications AG, as well as by Intershop Communications Online Marketing GmbH, most of whose sales activities are in Europe. The "U.S.A." segment consists of sales by Intershop Communications Inc., which focus on North America. The "Rest of the world" segment includes the subsidiaries in Prague, Czech Republic, and in Sweden, which have no operating activities. The "Consolidation" segment includes all transactions within the individual segments.

Notes to the content of the individual line items:

- Net 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" segment variable is the consolidated net profit or loss as reported in the income statement.
- 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.
- Noncash income includes the reversal of provisions for restructuring and provisions for legal and litigation costs.
- 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

No changes occurred with respect to the litigation described on pages 71 to 73 of the 2007 Annual Report in the first three months of the 2008 fiscal year. In addition to the litigation described in detail, the Company is a defendant in various other actions arising from the normal course of business. Although the outcome of these actions cannot be forecast with certainty, the Company believes that the outcome of the actions will not have any material effects on its net assets and results of operations.

## Related party disclosures

No changes occurred with respect to relationships with related parties as compared to December 31, 2007.

## Directors' holdings

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

| Name | Title, Function | Shares held | Stock options held | Convertible bond |
|---|---|---|---|---|
| Michael Sauer | Chairman of the Supervisory Board | 773,971 | 0 | 0 |
| Andreas Riedel | Chairman of the Management Board | 53,955 | 300,000 | 0 |

## Securities transactions subject to reporting requirements

In the first quarter of 2008, the members of the Company's executive bodies and related parties 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 (in EUR) |
|---|---|---|---|---|---|
| **Supervisory Board:** | | | | | |
| Michael Sauer* | February 6, 2008 | Share | Lending** | 90,000 | 0 |
| | March 20, 2008 | Share | Purchase | 10,000 | 25,000 |

* The securities transactions were executed by Kölner Parkhaus und Parkplatz GmbH, which are subject to the disclosure requirements as related parties of Mr. Sauer

** Mr. Michael Sauer lent the Company Intershop ordinary bearer shares free of charge to cover requirements under the employee stock option plan. The Company returned 12,467 shares on March 31, 2008.

# Intershop Shares

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

Intershop shares began the first quarter at EUR 3.43 on January 2, 2008, and closed at EUR 2.51 on March 31, 2008. They reached a high of EUR 3.54 in Q1 2007, and recorded a low of EUR 2.31. The average trading volume was around 78.000 shares.

| Key figures for Intershop shares | | March 31, 2008 | March 31, 2007 | December 31, 2007 |
|---|---|---|---|---|
| Closing price1 | In EUR | 2.51 | 1.93 | 3.43 |
| Number of shares outstanding | Number (thousand) | 25,031 | 21,596 | 24,879 |
| Number of shares – diluted | Number (thousand) | 26,661 | 24,225 | 26,508 |
| Market capitalization | In EUR million | 62.8 | 41.7 | 85.3 |
| Market capitalization – diluted | In EUR million | 66.9 | 46.8 | 90.9 |
| Free float | In % | 88 | 100 | 91 |
| Shareholder Equity | In Mio. EUR | 13.0 | 5.8 | 12.4 |
| Earnings per share | In EUR | 0.01 | (0.06) | (0.09)[2] |

[1] In Xetra

[2] Year 2007

# Contact

## Investor Relations Contact

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*This interims 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.*