intershop®

2016

Annual **Report**

intershop

Annual
Report

Table of Contents

OVERVIEW

INTERSHOP-GROUP

Revenue

EUR
34.2
million
(in 2016)

Cash and cash equivalents

EUR
10.9
million
(as of 12/31/2016)

EBITDA

EUR
0.1
million
(in 2016)

Employees

355
(as of 12/31/2016)

Equity ratio

59%
(as of 12/31/2016)

Balance sheet total

EUR
27.1
million
(as of 12/31/2016)

Key Figures for the Group

in EUR thousand	2016	2015	Change
Revenue			
Revenues	34,188	42,721	-20%
Product Revenues	13,669	17,399	-21%
Services Revenues	20,519	25,322	-19%
Revenue Europe	25,157	27,942	-10%
Revenue USA	3,187	9,026	-65%
Revenue Asia/Pacific	5,844	5,753	2%
Earnings			
Cost of revenues	18,452	23,616	-22%
Gross profit	15,736	19,105	-18%
Gross margin	46%	45%	
Operating expenses, operating income	18,118	18,937	-4%
Research and development	5,923	5,801	2%
Sales and marketing	7,377	8,504	-13%
General and administrative	3,905	4,962	-21%
Other operating income	(276)	(689)	-60%
Other operating expenses	1,189	359	231%
(thereof restructuring costs)	972	0	
EBIT	(2,382)	168	++
EBIT before restructuring costs	(1,410)	168	++
EBIT-Margin	-7%	0%	
EBITDA	113	3,464	-97%
EBITDA before restructuring costs	1,085	3,464	-69%
EBITDA margin	0%	8%	
EBITDA margin before restructuring costs	3%	8%	
Earnings after tax	(2,988)	5	++
Earnings per share (EUR)	(0.09)	0.00	
Net Assets			
Shareholders´equity	16,055	19,081	-16%
Equity ratio	59%	58%	
Balance sheet total	27,111	32,968	-18%
Noncurrent assets	10,493	11,539	-9%
Current assets	16,618	21,429	-22%
Noncurrent liabilities	3,120	5,316	-41%
Current liabilities	7,936	8,571	-7%
Financial Position			
Cash and cash equivalents	10,898	15,232	-28%
Net cash operating activities	(862)	4,967	-117%
Depreciation and amortization	2,495	3,296	-24%
Net cash used in investing activities	(2,433)	(2,303)	-6%
Net cash provided by financing activities	(1,000)	6,258	-116%
Employees	355	380	-7%

MANAGEMENT BOARD

CEO

Letter from the management board

Dear stockholders and business partners,

Despite positive indications at the beginning of 2016, the balance sheet of the prior fiscal year presents a rather sobering picture, showing a decline in revenues and a negative result. Projects that were deemed certain were postponed or "in the home stretch" assigned to competitors that demonstrated a higher penetrating power with the backing of financially strong IT groups. We responded to this trend and, based on our "Lighthouse 2020" strategy program which we adopted in October and a solid fourth quarter, believe that we are well-established to make 2017 a successful year.

We are convinced that the decision to strictly focus on the wholesale segment and cloud solutions are the key to new growth. We have expanded our platform functionalities gradually to the B2B sector in prior years. Today, thanks to the Synaptic Commerce® approach, we offer an ideal solution for the provision and interlinking of B2B shops. Certainly, we shall cooperate with companies in other sectors in the future as well. However, we will focus our selling and marketing expenses on the wholesale segment since our internal and external analyses showed that this is a sector that has a much greater potential for growth. In that segment, we intend to use our know-how leads, establish a strong market position and keep ahead of our potential competitors.

In addition, the decision to specifically focus on cloud solutions is a logical continuation of the developments in the past years. Hence, our cloud offering achieves increasingly greater acceptance. It is medium-size companies in particular, which are gaining significance in the customer portfolio, that opt more frequently to use the Intershop cloud platform since it presents an entry-level option that is more cost-efficient yet scalable at all times. The partnership with Microsoft agreed upon in 2016 boosts the cloud version of our Intershop Commerce Suite to a new level. Through seamless integration of the e-Commerce platform into the Enterprise Resource Planning (ERP) software Dynamics NAV, it provides us with new opportunities in the technical implementation, as well as in the marketing and distribution.

Our strategy program focuses exactly on those issues and solutions that offer the most promising opportunities on the market and is very well adapted to the strengths of Intershop. Therefore, we are optimistic that "Lighthouse 2020" will be a major milestone for a positive future. The medium-term goal of our roadmap is to generate revenues of EUR 50 million in 2020 and an EBIT margin of 5%; we will make major efforts to implement this objective.

We thank you for your trust.

Sincerely,

Jochen Wiechen. Köhler

Dr. Jochen Wiechen Axel Köhler

Consolidated MANAGEMENT REPORT

and Group Management Report

01

intershop

01

Consolidated management report and group management report

The Intershop Group

Group structure and business activities

INTERSHOP Communications AG[1] is a globally oriented provider of integrated Enterprise solutions for omni-channel commerce. At the center of its service range is the Intershop Commerce software, which was brought to the market in 1996 as the world's first standard software for electronic commerce. Intershop's business model includes the orchestration of the entire omni-channel commerce process chain from the design of the online channels to implementation of the software platform and coordination of delivery of goods, i.e., fulfillment. Intershop's business activities are divided into the two main business segments „Products" and „Service". The product business is comprised of the licensing revenues and maintenance revenues. The service business includes revenues from consulting services and training, and full service revenues.

At an international level, Intershop is a leader among independent providers of omni-channel commerce solutions. Over 300 customers worldwide put their trust in Intershop. Based on its expertise of more than 20 years in software development for the e-Commerce business, Intershop has an extraordinarily powerful and scalable platform for online business activities. The Company is continuously improving the software and is systematically expanding and supplementing its range of services. The newest version of the Intershop Commerce platform - Intershop 7.8 - was introduced in December 2016. The customers include both large corporations such as HP, BMW, Würth and Deutsche Telekom, but also medium-size companies. Intershop operates in Europe, the United States and in the Asia Pacific region (mainly Australia). In the 2016 fiscal year, revenue with European customers totaled around 74% of the total revenues.

INTERSHOP Communications AG, which is domiciled in Jena, is the parent company of the Intershop Group. As of the reporting date of December 31, 2016, it directly holds 100% of the shares in Intershop Communications Inc., San Francisco, USA, Intershop Communications Australia Pty Ltd., Melbourne, Australia, Intershop Communications Asia Ltd., Hong Kong, China, Intershop Communications SARL, Paris, France and Intershop Communications Ltd., Romsey, United Kingdom. Added to these are two other non-operating former sales companies. In Germany, INTERSHOP Communications AG has branches in Stuttgart, Nuremberg, Hamburg, Berlin, Frankfurt am Main and Ilmenau. Moreover, the Company has sales representations in the Netherlands, Italy and Denmark.

Strategic marketing positioning as part of "Lighthouse 2020"

Focus on leading market position as a solution provider in the wholesale market

Over the past years, Intershop has established itself as a leading technological omni-channel solution provider. The strategy program "Lighthouse 2020" approved in October 2016 aims to address the lower visibility in the entire market compared to major competitors through more intensified focus. Following the focus on the product business over the past two years, Intershop will position itself as a provider of B2B e-Commerce license software, focusing on wholesale customers and aims at achieving a dominant position as the solution provider on the B2B market. According to internal and external analyses, there is considerable sales potential in this area for Intershop because the industry is faced with the great challenge of digitalizing its sales channels quickly and professionally. The latest edition of the Intershop 2016 e-Commerce report "Mit Vollgas in die digitale Zukunft des B2B-Commerce" (Full speed ahead into the digital future of the B2B commerce) confirms this view. Since Intershop already has many years of experience and prominent B2B customers, the know-how advantage will be used to establish a strong market position in this area. Intershop is in the technological position to do this because its platform has been recognized as a global leader in the B2B segment by renowned analyst firms.

[1] „Intershop", the „Company", „Intershop Group"

Partnership with Microsoft promotes cloud business

Another strategic focal point in the Lighthouse roadmap is the consistent expansion of the cloud business. In this respect, the cooperation with Microsoft agreed upon in 2016 plays a major role since Intershop is now able to offer its customers a universal, sector-oriented cloud application as the scalable solution on Microsoft's Azure cloud platform. First customers are now using the new offering. At the same time, Microsoft will support Intershop with the seamless integration of its systems into the cloud-based Dynamics NAV enterprise resource planning (ERP) solution. Microsoft Dynamics NAV is the most important alternative to the ERP solutions to SAP and Oracle, and the second biggest player in the German market. Especially for growth-oriented medium-sized companies that want to boost their online sales, the combination of Dynamics NAV and the Intershop solution offers considerable added value. In addition, this linkage presents Intershop with the opportunity to address the digital transformation in the companies. The companies also plan to jointly participate in trade fairs and campaigns, as well as establish a partner landscape.

Improved visibility on the B2B market by investing in distribution and marketing

In order to generate greater visibility in the target market as well as with the relevant partners, the roadmap involves shifting investments to the areas of sales and marketing in order to push forward and expand the current project pipeline in the wholesale market. In addition to an increase in human resources in the areas involving sector experts that have already been partially completed, the regional sales units will be strengthened, the distribution and marketing divisions centralized and product distribution merged. In 2017, Intershop will further adapt its product and service portfolio based on the B2B sector and market it in a target group-oriented approach. This includes the preparation of the respective sales and marketing materials, increased reference marketing with customers from the target market, a modified web presence, new sales documents, and the participation in target group-related events. Furthermore, workshop series for B2B decision makers will be designed with respect to strategy consulting services for digital transformation.

The developed e-Commerce markets in Europe, North America and Asia remain at the center of Intershop's distribution activities, since they offer great potential in terms of the product and service business. Major focus in this respect will be given to the established Intershop markets Germany, Benelux countries, Scandinavia, France, the UK, Australia, and the United States. In these markets, Intershop has its own local subsidiary or flexible sales units and a strong partner network. The expanded focus includes future markets with the potential of developing into strategically important markets. In these markets, Intershop relies mainly on the acquisition of license customers through partners.

Competent business and Synaptic Commerce® partner

The ability to supplement the Company's own development and distribution capacities with competent partners in the respective target markets is an important driver in this regard. In the coming years, the penetration of new partner segments focusing on the wholesale segment will become the center of the partner activities. The main benefit offered by the partner network consists of an optimized customer approach and increased scalability in the area of distribution activities. The collaboration with the partners combines Intershop's expertise and experience with the specific knowledge of the companies in the partner network. In addition to providing the corresponding shop software solutions, Intershop also supports its partners with the high-quality implementation of the shops, and is subsequently responsible for maintenance and support.

Technology partnerships aiming at the expansion of the Intershop Commerce Suite into a Synaptic Commerce® solution form another important building block for a successful partner strategy. In this context, third-party systems and service providers are connected through clearly defined interfaces, which minimize the project-specific costs and risks. Their stability protects the investments over the long term. With the Intershop Synaptic Commerce® API, customer-specific adjustments or new touch points can also be seamlessly embedded in the customer's system environment. The versions 7.7 and 7.8 of the Intershop Commerce Suite released in 2016 and the new technology partnerships with Microsoft, Diebold Nixdorf and others provide a great basis to be able to provide our partners and customers with leading technology also in the coming years.

Research and Development

The research and development activities (R&D) of Intershop focus on the consistent further development of the Intershop commerce platform. Within the existing product cycles, the Company consistently provides technical updates as well as innovative functions and expansions. In addition, major platform releases are developed on a regular basis that comprise significant function upgrades and thus support companies comprehensively in the digital transformation of their business processes. Intershop has a strong and experienced developer team that continuously works on the continued success of the company's products. There were two new major releases of the Intershop Commerce Suite in the 2016 fiscal year. In July 2016, the new version 7.7 was released that primarily included new features regarding order management. The new Intershop Order Management (IOM) enables the display of entire end-to-end processes as well as the company-wide orchestration of all order processing components. Now all of the inventories around the globe can be retrieved in a transparent fashion across all sales channels, in real time. Thanks to the Synaptic Commerce® approach, this new development can be easily integrated into a variety of system landscapes, which in turn significantly reduces the risk and the investment associated with implementation. In December 2016, the Company released version 7.8 focusing on the further development of the content management system and extended SEO functions for orchestrating marketing campaigns. In addition, the new version 7.8 also includes an extended cloud offering that provides the entire infrastructure of the Intershop commerce system in Microsoft's Azure cloud platform. Furthermore, B2B customers can also interconnect their procurement system in an even more flexible manner with the Commerce Suite in the version 7.8 and simplify recurring purchases through subscription orders.

Intershop Order Management (IOM) enables the customer to fully integrate the processing of orders from various sources across channels.

R&D expenses increased by 2% to EUR 5.9 million in the 2016 fiscal year considering the capitalization of software development costs. This corresponds to a share of 17% of revenues (2015: 14%). The increase is primarily the result of one-off effects due to reduced working hours in early 2015 that led to lower expenses in the prior year. Adding the capitalization, R&D expenses increased in the 2016 fiscal year by 4% to a total of EUR 8.3 million.

Control System

The Company will continue to focus primarily on increasing revenues and thus gaining additional market share in a very competitive and dynamic market. This is the reason why all management levels are monitoring the development of revenues over time. Sales performance is also used as an early indicator for liquidity developments, since cash and cash equivalents will rise or fall in line with declining or increasing sales. In this way, liquidity developments can be managed early on by cost adjustment measures, for example. The most important performance indicators in terms of managing profitability are the gross result (total revenues less cost of revenues) and the associated gross margin (gross profit compared to revenues), which the Company intends to increase in the long term in order to generate a higher profit margin. In addition, other important performance indicators include earnings before interest and taxes (EBIT). The control system remains unchanged from the prior year.

The 2016 fiscal year

Overall Economy and Industry

In 2016, the global economy grew by a total of 3.1%, according to estimates by the International Monetary Fund (IMF). Hence, only moderate growth stimuli were observed both in the group of emerging and developing country (+4.1%) and the group of industrial countries (+1.6%). In the Eurozone, including the key target markets of Intershop, the growth was 1.7%. According to IMF information, the economic growth in Germany was also 1.7%. The French economy grew by 1.3%, while the United Kingdom experienced a growth rate of 2.0%. The US economy's growth slowed down compared to the prior year (+2.6%); the IMF projects a growth rate of 1.6%.

The digitalization of the global exchange of goods continued its rapid growth course in 2016 just as in prior years. In its forecast in August 2016, the US market research firm eMarketer expected an increase in the global B2C e-Commerce revenues by 23.7% in 2016. For the key Intershop markets two-digit growth rates were projected as well. In Western Europe, eMarketer expected an increase in B2C e-Commerce revenues by 10.5%. B2C e-Commerce revenues in Germany increased by 11.5%, in North America by 13.1%.

The global IT expenses dropped slightly by 0.6%, according to information provided by the Gartner market analysts. This is primarily the result of the development on the device market (PCs, tablets, smartphones), which declined significantly in the reporting period (-8.9%). The IT services and software business experienced a much better development. In these segments, according to Gartner, the growth rate was 3.9% and 5.9%, respectively. According to forecasts by the industry association Bitkom, the IT sector in Germany grew by 3.6% to a market volume of EUR 84.0 billion. Hence, sales figures in the software segment did particularly well, growing by 6.2% to EUR 21.6 billion. The revenues generated from IT services increased by 2.7% to EUR 38.2 billion.

In the market for e-Commerce platforms, Gartner expects an annual growth rate of over 15% from 2015 to 2020. The key drivers are the ongoing digitalization of B2B commerce as well as the increasing shift from on-premise to cloud solutions.

Business performance during the 2016 fiscal year

The Intershop Group generated revenues of EUR 34.2 million in the 2016 fiscal year. Thus, the revenues were 20% less than the prior year revenues (EUR 42.7 million). One reason for the decline can be attributed to postponed or canceled orders in the product business. In addition, the strategic reorientation of the Group and the related change in customer structure in the service area resulted in a decrease in service revenue. The before-tax EBIT totaled EUR -2.4 million. The result includes extraordinary expenses in the amount of EUR 1.0 million relating to the "Lighthouse 2020" strategy program.

Intershop adopts the "Lighthouse 2020" program

Given the lack of growth momentum in 2016 and the fact that the competition is increasingly being dominated by large companies, the Management Board as well as the Supervisory Board of INTERSHOP Communications AG newly formed in mid-2016, adopted a new strategy program called "Lighthouse 2020" in October 2016 that focuses on wholesale customers. In addition, Intershop will increase their efforts in the field of providing Commerce Suite solutions in the cloud.

The new strategy involves a roadmap to achieve the defined objectives by improving visibility on the target market as well as with the relevant partners. For this purpose, investments in the central distribution and marketing functions will be relocated to focus on and expand the current wholesale project pipeline. This also includes restructuring measures that resulted in one-time costs of about EUR 1.0 million in the fourth quarter of 2016. The measures mainly serve to increase efficiency through personnel adjustments in the administrative areas with cost savings of around EUR 3.0 million per year starting with 2017. The released cash will be invested in distribution and marketing.

On the path to B2B focus: new customers and partnerships in 2016

The new customers in the 2016 fiscal year primarily consisted of medium-sized businesses. In addition, our 15-year cooperation with the BMW Group could be continued successfully by implementing the new online shop based on the Intershop Commerce Suite. Also, the existing cooperation with the Würth Group, the global market leader in assembly and fastening materials, was intensified. Furthermore, there are a number of major B2B customers that complemented the Intershop customer portfolio. This includes CWS-boco International GmbH, a leading provider of textile services and professional laundry room hygiene solutions. The aspiring B2B vendor Zamro who offers technical components and tools to small and medium-sized companies, chose the Intershop Commerce Suite in 2016 with a fully integrated order management solution. Another new key B2B customer is Gustav Ehlert GmbH, the leading specialist wholesaler for commodities for food production, who is now transitioning their commerce platform to Intershop. With about 80,000 transactions per year, over 85,000 customized price lists and 750 suppliers, Ehlert needed a high-performance platform ensuring permanent availability of the shop functions, swift integration of new shops and reduction of logistical and distribution costs.

The most significant new partnerships in 2016 included the new technology collaboration with Diebold Nixdorf, the leading provider of IT solutions and services for banks and trading businesses, which comprises standard integration of the complex e-Commerce and POS solutions. The new partnership with Microsoft is of particular significance especially with regard to the strategic cloud and B2B focus since Intershop can now offer their customers an integrated cloud solution scalable on the Microsoft cloud platform Azure.

Rapid growth course on the B2B market – Intershop reinforces technological leadership position

In order to gain insight into the status of digitalization in the segment for B2B commerce, the independent market research institute Vanson Bourne conducted a survey for the fourth time since 2012 on behalf of Intershop of 400 B2B decision makers in the area of e-Commerce in the Benelux countries, as well as Germany, France, the UK and Scandinavia. The results published in the 2016 Intershop e-Commerce report "Mit Vollgas in die digitale Zukunft des B2B-Commerce" (Full speed ahead into the digital future of the B2B commerce) show that digitalization does not only affect everyday business of B2B companies but also their entire business landscape. The study provides Intershop with valuable information regarding the most significant target market and repeatedly confirms the growth course of the digitalization of the B2B sector from which Intershop intends to benefit in the future.

The technological leadership position of the Intershop platform that has once again been emphasized in the most recent study by the US analyst firm Gartner Research dated June 2016 forms the basis for the future business success. The study assessed various product characteristics of e-Commerce platforms in different application scenarios, such as performance with a variety of purchasing channels. In all scenarios, Intershop was listed among the top three platforms out of a total of 19 providers. Even in an independent benchmarking report of the IT and e-Commerce specialists NBS System and ESV Digital, the Intershop offering was classified as leading, in particular in terms of the B2B functionalities. The German Online Shop Award 2016 presented to nine customers among the winners also underscores the high quality of the Intershop platform.

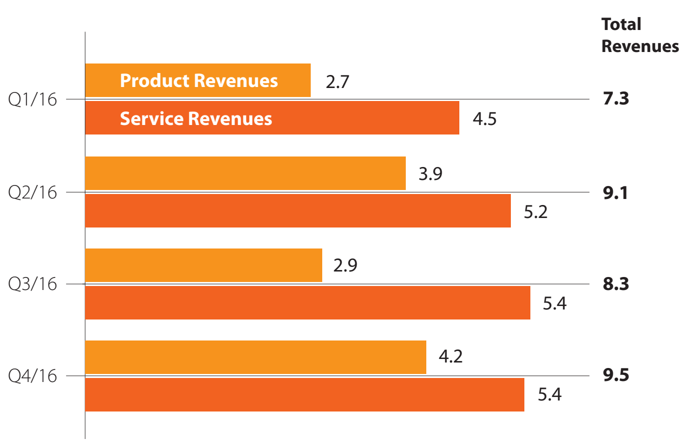
Earnings, financial and asset position

Actual development of key financial figures compared to the original forecast

Overall, the 2016 business development was not satisfactory since Intershop was not able to meet the revenue and earnings objectives defined in the 2015 annual report. Originally, the Company projected revenues at the prior year level and an EBIT that, based on another slight increase in the gross result and the gross margin, would exceed the prior year EBIT slightly and be positive in the 2016 fiscal year. Even though the gross margin in the reporting period could be increased by one percentage point to 46%, however, the revenues and the operating result remained behind plan due to the fact that several larger orders were not realized during the year due to postponing or cancellations and the expected growth course, in particular in the product segment, did not occur. To counter this trend, Intershop adopted the strategy and restructuring program "Lighthouse 2020" in early October and adjusted the existing annual forecast. Intershop now expected sales revenue of between EUR 34 million and EUR 36 million for the entire year 2016 as well as a negative result (EBIT) of between EUR 1.0 and EUR 2.5 million, including the one-off expenses in the amount of EUR 1.0 million resulting from restructuring measures. Based on a solid fourth quarter, Intershop achieved an EBIT of EUR -2.4 million and revenues in the amount of EUR 34.2 million in the entire 2016 reporting period which is the lower end of the projected results. The development of the profit situation is discussed in detail in the sections below.

Revenue Development

During the 2016 fiscal year, Intershop generated net revenues of EUR 34.2 million, which corresponds to a 20% decrease compared to the prior year period. On the one hand, the reason is the lack of growth momentum in the licensing business. In this segment, planned projects were either postponed or eliminated altogether during the year. On the other hand, the service revenues dropped due to the change in the customer structure focusing on consulting services and support of medium-sized customers as well as the stronger involvement of partners.



Positive trend throughout the year reflected both in product and service revenues.

The product revenues in the reporting period fell by 21% to EUR 13.7 million. The corresponding license revenues dropped by 39% to EUR 5.7 million. Totaling EUR 8.0 million, maintenance revenues stayed at the prior year level. After the product revenues in the first nine months were significantly lower than prior year's revenues, the segment development became more stable in the fourth quarter of 2016; this is reflected in an increase in revenues by 45% over the third quarter. Compared to the prior year's period, revenues only declined slightly by 5% in the fourth quarter of 2016. Product revenues in 2016 accounted for 40% of the total revenues which is one percentage point less than in the prior year.

Service revenues declined by 19% to EUR 20.5 million during the 2016 fiscal year. Consulting and training revenue fell by 18% to EUR 15.9 million. This area still remains the largest revenue driver at Intershop with 47%. The full-service revenues declined by 23% to EUR 4.6 million. The service revenues also stabilized throughout the quarter. While revenues of EUR 4.5 million were generated in the first quarter, revenues then consistently increased and was 18% higher at EUR 5.4 million in the fourth quarter. Service revenues accounted for 60% of the total revenues (2015: 59%).

The following overview shows the development of revenues:

in EUR thousand	2016	2015	Change
Product Revenues	**13,669**	**17,399**	**-21%**
Licenses	5,657	9,328	-39%
Maintenance	8,012	8,071	-1%
Service Revenues	**20,519**	**25,322**	**-19%**
Consulting/Training	15,934	19,340	-18%
Full Service	4,585	5,982	-23%
Total Revenues	**34,188**	**42,721**	**-20%**

The most significant business region of Intershop is the European market which grew significantly in the fiscal year in terms of revenues from 65% to 74%. The reason is the disproportionate decline of revenues on the US market. Here, the revenues fell from EUR 9.0 million by 65% to EUR 3.2 million due to a lack of new license sales and expired service orders. Thus, the US revenues dropped to 9% (2015: 21%). The revenues from European customers, on the other hand, fell only by 10% to EUR 25.2 million (prior year: EUR 27.9 million). EUR 11.7 million of these relate to European product revenues (prior year: EUR 11.9 million) and EUR 13.5 million to service revenues (prior year: EUR 16.0 million). In the Asia Pacific region, revenues increased by 2% to EUR 5.8 million, whereby product revenues increased by 6% and service revenues was at the prior year level at EUR 4.6 million. The portion in the revenues increased from 13% to 17%.

Revenues of INTERSHOP Communications AG as a single entity reported under German commercial law decreased by 22% to EUR 26.0 million. The decrease relates to the product revenues which fell by 29% to EUR 11.7 million and the service revenues which fell by 16% to EUR 14.3 million and results from the lack of growth, in particular in the field of licenses.

Earnings Development

The most important financial figures in the group profit are shown in the overview below:

in EUR thousand	2016	2015
Revenue	34,188	42,721
Costs	36,570	42,553
(thereof restructuring costs)	972	0
(costs excl. restructuring costs)	35,598	42,553
EBIT	(2,382)	168
(thereof EBIT before restructuring costs)	(1,410)	168
EBIT-Margin	-7%	0%
EBITDA	113	3,464
(thereof EBITDA before restructuring costs)	1,085	3,464
EBITDA-Margin	0%	8%
(thereof EBITDA margin before restructuring costs)	3%	8%
Earnings after tax	(2,988)	5

The results of Intershop developed negatively in the 2016 fiscal year. The reason for this are both the declining revenues in the product segment and the declining revenues in the service segment of the Group. As a result, the Group's gross result from revenues dropped from EUR 19.1 million to EUR 15.7 million (18%). However, the Group was able to increase the gross margin once again, totaling 46% (prior year: 45%). Operating expenses and income declined by 4% to EUR 18.1 million. This includes extraordinary expenses for restructuring measures in the amount of EUR 1.0 million. Thus, the general and administrative expenses decreased significantly to EUR 3.9 million (21%). Sales and marketing expenses declined by 13% to EUR 7.4 million. Costs for research and development rose sightly by 2% to EUR 5.9 million. The operating cost ratio increased from 44% in the prior year to 53%.

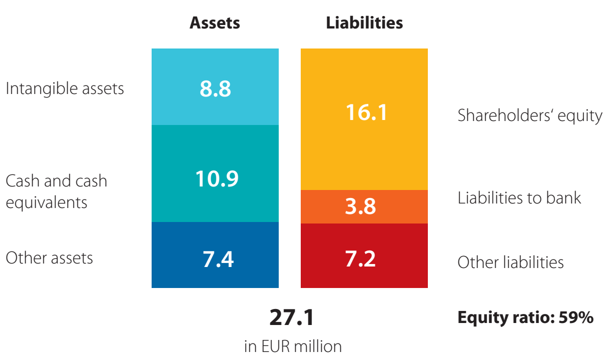
Overall, total costs (cost of revenues and operating expenses/income) fell by 14% to EUR 36.6 million. The operating result before interest, tax, depreciation and amortization (EBITDA) remained positive and totaled EUR 0.1 million (prior year: EUR 3.5 million). Adjusted by the restructuring costs, Intershop generated an EBITDA of EUR 1.1 million which equals an EBITDA margin of 3% (prior year: 8%). Depreciation and amortization decreased from EUR 3.3 million to EUR 2.5 million during the reporting period. The result from operating activities (EBIT) was EUR -2.4 million compared to EUR 0.2 million in the prior year. Adjusted by the extraordinary restructuring costs, the EBIT totaled EUR -1.4 million. Throughout the quarter, a positive trend is apparent; after three negative quarters, the fourth quarter 2016 closed with an EBIT before restructuring costs of EUR 0.6 million and an EBIT margin of 7% which is absolutely positive. This shows that Intershop has a solid cost structure in order to operate profitably at a corresponding revenue level. The financial result was EUR - 0.3 million in the reporting period. The after-tax Group result for the year was EUR -3.0 million (prior year: EUR 5 thousand). Earnings per share were EUR -0.09 compared to EUR 0.00 in the prior year.

Net loss for the year of the AG as reported in accordance with the German commercial law came to EUR 1.5 million following a net profit for the year of EUR 0.4 million in 2015. The main cause was declining revenues. Expenses on the other hand decreased over the prior year. Material expenses fell by 40% to EUR 2.2 million, in particular as a result of the decrease in purchased external services. Personnel expenses decreased by 5% to EUR 19.9 million due to a smaller number of employees and lower commissions. The other operating expenses fell by 9% to EUR 9.3 million. In addition, the expenses include restructuring costs, EUR 571 thousand of these expenses relate to personnel expenses and EUR 291 thousand to other operating expenses. The other capitalized own work totaled EUR 2.3 million due to the first-time capitalization of the software development costs. The other operating income decreased from EUR 2.4 million to EUR 1.2 million, primarily due to the reclassification of income to revenues as a result of the first-time adoption of the Bilanzrichtlinien-Umsetzungsgesetz (BilRUG). Other interest income of EUR 0.2 million is mainly due to affiliated companies and interest expenses of EUR 0.2 million from the bank loan obtained in 2015. In total, the balance sheet loss in accordance with German commercial law increased to EUR 20.6 million compared to EUR 19.1 million in the prior year due to the net loss for the year.

Presentation of the Net Assets and Financial Position

The balance sheet total of the Intershop Group totaled EUR 27.1 million as at December 31, 2016. This corresponds to a decline of 18% compared to the prior year and is primarily the result of a decline in debt due to the repayment of loans and the negative annual net result. On the assets side, liquid assets decreased by EUR 4.3 million to EUR 10.9 million, due in part to the scheduled loan repayment of EUR 1.0 million. In addition, the noncurrent restricted cash to date of EUR 1.2 million were repaid as a special repayment of the loan. Current assets decreased by 22% to EUR 16.6 million. Noncurrent assets decreased by 9% to EUR 10.5 million. The intangible assets and property, plant and equipment included increased by 3% to EUR 9.4 million.

Balance key figures 2016



On the liabilities side, equity decreased by 16% to EUR 16.1 million due to the negative consolidated result for the year. In addition, the non-current liabilities due to banks decreased by 41% to EUR 3.1 million as a result of repayment. The current liabilities dropped at the balance sheet date by 7% to EUR 7.9 million, in particular due to lower trade payables (EUR 1.4 million compared to EUR 2.1 million as at December 31, 2015). The equity ratio increased due to the disproportionate decrease in debt from 58% to 59% as at December 31, 2016.

The cash flow resulting from current operating activities totaled EUR -0.9 million in the reporting period compared to EUR 5.0 million in the prior year, which is the result of the annual net loss. The cash used in investing activities totaled EUR 2.4 million and thus slightly exceeds the prior year amount of EUR 2.3 million. The payments for investments in intangible assets included in this figure increased slightly from EUR 2.2 million to EUR 2.3 million. The net cash outflow from financing activities was EUR 1.0 million as a result of the repayment of the loan. Overall, this results in a decrease in liquid assets compared to the prior year by 28% to EUR 10.9 million. In the fourth quarter, the liquid assets stabilized; they remained at the level of the end of September. Overall, Intershop continues to reflect a solid net assets and financial position.

The total assets of the single entity in the financial statements compiled in accordance with German commercial law decreased by 8% from EUR 31.5 million to EUR 29.0 million. On the asset side, the fixed assets increased by EUR 2.7 million; EUR 2.2 million relate to internally developed software. The current assets decreased by EUR 5.3 million to EUR 16.7 million which is primarily the result of the decline in receivables due from affiliated companies and the decrease in liquid assets. The cash and cash equivalents decreased from EUR 11.7 million to EUR 8.1 million, in particular due to the partial repayment of the loan in the amount of EUR 2.2 million. Equity declined from EUR 19.1 million to EUR 17.6 million due to the higher balance sheet loss. Provisions fell by 21% to EUR 2.7 million and liabilities by 2% to EUR 7.2 million. The liabilities due to banks included in this item decreased from EUR 6.0 million to EUR 3.8 million. The advance payments received increased to EUR 1.4 million from EUR 0.05 million in the prior year.

Employees

On the balance sheet date (December 31, 2016), Intershop had a total of 355 employees worldwide and thus 25 full time employees less than the prior-year period. Broken down by company segments, the number of employees in the technical departments fell from 293 to 268. The number of employees in the general administrative divisions and the distribution and marketing divisions remained at the level of the prior year: 42 or 45 full time employees, respectively.

When it comes to the competition for qualified employees, Intershop relies on cooperations with research institutions and departments at well-known universities to secure the recruitment of young talent. The share of university graduates in the total work force is disproportionately high at 84%. The average age of employees was 39 years (prior year: 38 years).

The personal and specialist development of the employees plays a major role at Intershop. Hence, under the so-called Tec-Lead program (TEC - Technical Expert Career; LEAD - Learn, Assess, Execute, Develop), highly qualified employees have the opportunity to develop by improving their specialist, method and social competence. The program was nominated for the HR Excellence Award in 2016 in one of the best three achievements in the category "Wissensmanagement: Learning and development (KMU)" (knowledge management: learning and development (SME)).

The following overview shows the development of employee figures during the fiscal year:

Employees by department*	12/31/2016	12/31/2015
Technical Departments (Service Functions and Research Development)	268	293
Sales and marketing	45	45
General administration	42	42
	355	**380**

* based on full time staff, including students and trainees

The number of employees in the European branches totaled 309 on the balance sheet date. The share in the total workforce is 87%. In the prior year period this figure was 334 employees and 88%. The branch in San Francisco (USA) had 15 employees or 4% of the work force (prior year: 19 employees, 5%). The number of employees in the Asia Pacific region increased from 27 to 31; the number of employees thus increased to 9% of the total number of staff (prior year: 7%).

The Aktiengesellschaft as a single entity had 305 employees as of the balance sheet date (December 31, 2015: 330 employees).

Management Board and Supervisory Board

Three changes were made to the Company's Supervisory Board during the reporting period. Supervisory Board members Dr. Herbert May and Dr. Kai Hudetz resigned their mandates at the end of the regular Annual Stockholders' Meeting on June 2, 2016. The Annual Stockholders' Meeting appointed Mr. Christian Oecking and Prof. Dr. Louis Velthuis as new members of the Supervisory Board. In addition, the current Deputy Chairman of the Supervisory Board Dr.-Ing. Harald Schrimpf resigned effective November 30, 2016 for personal reasons. The District Court of Jena appointed Mr. Ulrich Prädel as the new member of the Supervisory Board effective December 1, 2016 until the next regular Annual Stockholders' Meeting. The Supervisory Board appointed Mr. Christian Oecking as Chairman and Mr. Ulrich Prädel as his Deputy.

Remuneration report

Remuneration of the Management Board

The compensation of the Management Board comprises fixed and variable components. The fixed components comprise the fixed salary and additional benefits such as the non-cash benefit resulting from the use of a company car and are paid monthly. The variable, annually recurring remuneration is based on various annual and multi-annual qualitative objectives relating to the portfolio of each Management Board member and quantitative objectives related to the financial result, whose assessment depends on the degree achieved of the objective. Approximately 1/3 of the total remuneration is variable. Of the variable remuneration, 55% of the remuneration depends on the achievement of long-term objectives and 45% on the achievement of short-term objectives. The Group EBIT, revenue, the net working capital and the share price form the assessment basis for the quantitative objectives. The qualitative objectives are based on strategic targets.

Total remuneration paid to the Management Board for its activities for fiscal year 2016 amounted to EUR 534 thousand (2015: EUR 838 thousand), of which EUR 510 thousand (2015: EUR 637 thousand) relate to fixed remuneration and EUR 24 thousand (2015: EUR 201 thousand) to variable components. The fixed remuneration components include EUR 460 thousand for the fixed salary component and EUR 50 thousand for additional benefits (2015: EUR 565 thousand for fixed salary, EUR 72 thousand for additional benefits).

The remuneration of the Management Board members is as follows:

	Fixed Remuneration		Variable Remuneration		Total Remuneration	
in EUR thousand	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Dr. Jochen Wiechen	268	236	24	94	292	330
Axel Köhler	242	81	0	32	242	113
Members who stepped down from the Management Board in 2015	–	320	–	75	–	395
	510	**637**	**24**	**201**	**534**	**838**

Stock options were not granted to the members of the Management Board. Membership on the Management Board ends in the event of the Company's reorganization (merger, split-up, or change in legal form). By way of compensation, the Management Board member then receives a severance payment amounting to twelve months' salary; if the remaining term of the Management Board member's contract is less than one year, the severance payment is reduced accordingly. The members of the Management Board agreed to a non-compete agreement, which stipulates that the Company is to pay compensation for one year. The compensation includes 75% of the last remuneration received, excluding additional benefits. The compensation is not paid if Intershop foregoes the non-compete agreement within a specified period. In the event of illness, the Management Board agreements include an entitlement to continued payment of the fixed basic salary for a period of six months up to a maximum period until the end of the contract duration. In the event of the death of a member of the Management Board, the surviving dependents are entitled to the monthly fixed basic salary for the month in which the death occurs, as well as for the following six months. No member of the Management Board has been promised further benefits in the event of the termination of his employment with the Company. No loans or similar benefits were granted to members of the Management Board. No member of the Management Board received any benefits from third parties during the fiscal year that were promised or granted because of his position as a member of the Management Board.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board comprises fixed and variable components. The fixed remuneration is comprised of an annual fixed remuneration of EUR 12,500, as well as an attendance allowance of EUR 2,500 per meeting or EUR 500 if a telephone conference is held in place of a meeting. In addition, the members of the Supervisory Board receive a performance-related remuneration, as long as the result of the operating activities (EBIT) reported in the approved consolidated financial statements of the Company for the fiscal year concerned was positive and the established quantitative goals were reached: EUR 5,000 are granted, respectively if a) the EBIT of the prior year is achieved, b) the EBIT increased by more than 10% compared to the prior year, c) the EBIT increased by more than 20% compared to the prior year, and d) there was an increase in revenue of more than 20% compared to the prior year. The chairman of the Supervisory Board receives twice the amount of the fixed and variable remuneration. Supervisory Board members who belong to the Supervisory Board for only part of the fiscal year receive remuneration proportionate to the duration of their position. Expenses incurred by the members of Supervisory Board in the performance of their duties are reimbursed by the Company.

For the 2016 fiscal year, members of the Supervisory Board were entitled to a total remuneration of EUR 136 thousand (2015: EUR 180 thousand), which consists entirely of fixed compensation. There was no entitlement to variable compensation for 2016. In the prior year, EUR 60 thousand related to the performance-based variable portion; the Supervisory Board waived 2/3 of this amount equaling EUR 40 thousand. The fixed compensation consists of EUR 50 thousand (2015: EUR 50 thousand) in fixed remuneration and EUR 86 thousand (2015: EUR 70 thousand) of fees for meetings.

The remuneration of the Supervisory Board members is as follows:

	Fixed Remuneration		**Variable Remuneration**		**Total Remuneration**	
in EUR thousand	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Christian Oecking (since 06/02/2016)	39	-	0	-	39	-
Prof. Dr. Louis Velthuis (since 06/02/2016)	19	-	0	-	19	-
Ulrich Prädel (since 12/01/2016)	4	-	0	-	4	-
Dr. Herbert May (until 06/02/2016)	29	62	0	30	29	92*
Dr. Kai Hudetz (until 06/02/2016)	15	29	0	15	15	44*
Dr. Harald Schrimpf (until 11/30/2016)	30	20	0	10	30	30*
Member of the Supervisory Board stepped down in 2015 (Prof. Dr. Mohr)	-	9	-	5	-	14*
	136	**120**	**0**	**60**	**136**	**180**

* The Supervisory Board waived 2/3 of its variable remuneration for 2015.

For 2015, remuneration actually paid totaled EUR 140 thousand, taking into account the waived amount.

Report on opportunities and risks

Risk management system

Intershop operates in a dynamic market characterized by continuous changes and a wide range of associated business environment risks, which makes it harder to plan and results in deviations from the forecasts. At the same time, the Company faces risks arising from operating policies, the Company's structure, and the organization of internal processes that could endanger the Company's goals. Intershop is committed to the goal of protecting the property of its stockholders and safeguarding its continued existence as the basis of its business activity. The Management Board has formally adopted a risk policy designed to promptly identify unknown risks (early warning function) and to manage risks. This policy describes and defines the methods and processes used in risk management throughout the Company. Intershop is supported by specialized external advisors in the further development of the risk management system. A risk manual describing the risk management system was created, which is reviewed and updated on a regular basis. Risks are defined as possible deviations from planned targets and include both positive deviations (opportunities) and negative deviations (threats). The risk management system focuses on potentially particularly serious negative deviations that could impact the Company's development and sharply reduce equity. The Management Board has appointed a Risk Manager who provides quarterly information about the Company's risk situation. Above and beyond this, risk management organization is decentralized. The divisional managers in the individual business areas are responsible for identifying and mitigating the risks in their divisions. In the case of significant risks and risks that pose a particular threat to the Company's continued existence, the divisional managers are required to provide the Management Board with immediate and detailed information. Flat hierarchies, short communication channels, and a culture of open communication also ensure that important risk information reaches the Management Board without delay. The Management Board informs the Supervisory Board at least once a quarter, but usually more often, about important developments at the Company.

The operational risk management process encompasses risk identification, risk assessment, risk aggregation, and risk mitigation. Strategic, operating and financial risks are assessed. The strategic risks include environmental and sector risks as well as corporate strategy risks. Operating risks means performance, information technology risks and HR risks. In addition, there are financial and other risks.

To identify risks, the environment and the defined risk fields and risks within it are continuously monitored by risk owners (usually the Intershop divisional managers), to which clearly defined business areas and all possible risks arising from those areas are assigned at an operational level. In addition, a risk inventory is completed once a year (with quarterly updates), in which the relevance score and risk owners are determined, previously identified risks are reviewed and new risks are identified. In financial control, a deviation analysis is performed so as to identify deviations from targets. This involves the use of the financial accounting and controlling software from SAP and the consolidation and controlling software from LucaNet. If possible or useful, all risks are assessed based on the likelihood of occurrence and amount of damage and assigned to a relevance category. The relevance category 1 comprises minor risks, while reference category 2 includes apparent risks and reference category 3 strong risks, reference category 4 major risks and reference category 5 risks endangering the Company's existence. Intershop's total risk exposure is determined by aggregating the risks. In order to do this, the software Strategie Navigator is used. Intershop applies risk mitigation measures that, depending on the point in time involved, reduce the probability of occurrence or lessen the impact. As part of its risk inventories in all departments of the Company, Intershop has identified all risks that could influence the Company's development.

Business environment and industry risks

Intershop is one of the leading providers of innovative and comprehensive solutions for omni-channel commerce in a highly dynamic market. That market is undergoing constant change due to factors such as technological progress, changes in the companies' IT landscape, consolidation of provider landscape or new strategies and behavior patterns of the players in e-Commerce. In principle, there is a risk that Intershop offers products and services that do not reflect the needs of customers or market expectations, and that new technologies greatly affect or even replace the current e-Commerce business. If the Company is not successful in monitoring the target markets adequately, sizing up the competition and providing new innovative product and solution-oriented strategies, this could lead to a negative sales trend because customers will go to the competition, making it more difficult to acquire new customers. Intershop counters this risk through continuous market monitoring and analysis of customer requirements together with customers, partners and market analysts. Therefore customer and partner feedback is regularly incorporated in the new product versions. In addition, discussions are held with industry analysts such as Gartner. In the study "Critical Capabilities for Digital Commerce" published in June 2016, the analyst firm Gartner confirms that Intershop meets the highest market standards with its Commerce Suite. In the report, digital trading platforms of 19 providers were evaluated, taking into account 14 key product features and five application scenarios in order to support IT executives and persons responsible for digital trading in the selection of a platform. Intershop's Commerce Suite placed third in all three application scenarios.

Overall, Intershop has designated these risks as strategic risks that may significantly impact the company's financial and earnings position in the long term. However, at the moment there are no or only weak indicators that would indicate the occurrence of such risks.

Strategic business risks

Intershop's primary strategic objective is to turn the Company from a pure technology provider into an integrated provider of omni-channel commerce solutions.

Brand visibility plays a central role for Intershop, as otherwise potential customers are unaware of the Company as a possible solutions partner. To this end, in recent years Intershop focused on re-branding and re-positioning as part of its brand strategy, taking into account an added-value approach, so as to avoid endangering its existing brand value and in particular to increase brand visibility in important European and non-European markets. Parallel to these developments, the year was marked by the establishment of European subsidiaries and the expansion of a network of international sales partners, which will contribute to increasing the visibility of the Intershop brand in the respective region with various sales and advertising measures. Intershop's software product offering was bundled under the umbrella of the Intershop Commerce Suite, and all services on offer were subsumed under the Commerce Services segment. To market new Intershop solution offerings, the Company uses, inter alia, partner programs, participation in various trade shows, own customer events or consults with industry analysts such as Forrester. Particularly partnerships with companies renowned on the market, such as the collaboration with Microsoft agreed upon in 2016, promote the awareness of the Intershop brand.

One of Intershop's major business areas is consulting services, which are primarily provided in the context of projects. In this regard, customer retention is a very important factor. To be able to ensure customer loyalty, it is important to provide the quality the customer demands, while at the same time keeping an eye on the costs. If this is not successful, this affects the Company's reputation. Future contracts may be lost or the profit margin on projects permanently reduced. To counter such events, detailed resource planning is carried out for all projects. Regular reports document and project meetings the current status of projects. Intershop also manages this risk continuously monitoring customer satisfaction. It is therefore able to control the risks arising from projects.

With regard to the Intershop software, there is the risk of product defects, which is typical for software. Due to development flaws, it could be that a product is defective and, especially in terms of product safety, does not meet the requirements of the customer or market. Product defects could lead to potential or actual impairment of operations for customers and, with serious defects, acceptance of Intershop's products could be considerably diminished. Additional costs for Intershop were incurred in order to remove defects and/or for possible legal disputes and/or compensation for damages with customers. In addition, a decline in revenue is possible. However, the risk is deemed minor due to the fact that an extensive quality assurance process with a designated security code officer and a documented escalation process minimize the risk that such product defects occur.

Apart from the product shortage risk, there is also a general risk that the Intershop software is partially or entirely displaced by new disruptive technologies. As a result of the Synaptic Commerce® approach including the transfer of technologies identified as relevant to the product portfolio, short product release cycles, rapid software development, as well as regular market and competition observations, there are currently no apparent indications for such developments.

In summary, Intershop has assessed these risks as strategic risks that could cause a noticeable to significant negative impact on the earnings position, or a significant impact on the financial position. At this time, Intershop believes that the probability of these risks occurring is rather unlikely.

Business risks

Non-realization of a sufficient number of new customers or large orders, the loss of existing customers or non-targeted marketing and distribution activities cannot be excluded. Efficiency in the distribution segment is reviewed on a regular basis and various countermeasures are taken to manage this risk. Thus, in the 2016 fiscal year, the strategy program "Lighthouse 2020" was adopted. It focuses on wholesale customers and increasingly on extended offerings such as cloud solutions, also in cooperation with the respective partners. In addition, the workforce in the regional sales units has been increased. The areas distribution and marketing are centralized and the product distribution segment is merged. Various additional marketing measures support the distribution activities.

Sales activities through partners are a challenge considering the complexity of the products. Intershop is finding it necessary to rely on sales partners particularly in foreign markets, given the excessive costs associated with establishing its own sales structure. To avoid the risks associated with partners providing incorrect advice to potential clients, Intershop relies on targeted training measures, the further development of partner programs, improved partner support by partner managers, a partner selection process, which must satisfy an extensive catalog of requirements, along with regular partner events.

Based on the measures taken, the performance risks overall are deemed unlikely. But if they were to occur, they could have a significant impact on Intershop's earnings and financial position.

Human Resources risks

The performance and expertise of the employees and management personnel are key to the Company's success. There is also the risk, especially with employees in key positions, that if employees switch to a competitor, the specific knowledge of the employee will be used there. Furthermore, it is generally more difficult to replace these employees. The loss of key personnel could have a negative impact on Intershop's competitiveness and economic development and result in additional replacement costs. These risks are counteracted using a modern personnel management system with individual measures for personnel development together with an open company culture and flat hierarchies. Intershop has also shown in the past that personnel changes can be reduced with the measures mentioned, a highly qualified workforce and an extensive network of external service providers. The economic development in the 2016 fiscal year led to an increased employee turnover. However, in order to keep the risk low, countermeasures have been taken or reinforced. Thus, for example, a TEC-LEAD program was implemented that comprises the support of key personnel.

In summary, Intershop assesses the human resources risks as rather improbable, risks whose occurrence could have a noticeable negative effect on the earnings position.

Information technology risks

Business processes at Intershop are based on information technologies. This means that there is a typical, inherent risk of data loss. Moreover, Intershop is exposed to the risk of attacks on the software, which may reduce its range of functions or availability to the customer. There is also the risk of information leaks to competitors, which can create a competitive advantage for them. Existing information security measures, as well as data protection procedures are enhanced on an ongoing basis so as to limit the risks associated with IT-supported integration. Security policies and processes are updated regularly. Intershop therefore considers the probability of this risk materializing as minor.
The availability of third-party software that must meet market and customer requirements poses a further risk. If the third-party software used is not available in good time or is defective, this may affect the operating result. This challenge is addressed by signing long-term supply agreements with third-party software providers and continuously reviewing their quality. Open source software is used where its use is deemed possible and meaningful. Intershop also has alternative providers in place.

On the whole, Intershop assesses the information technology risks as rather improbable risks that, were they to occur, could have a negligible to significant impact on the earnings position.

Financial risks

On the balance sheet date, Intershop had a comfortable liquidity situation, with liquidity of EUR 10.9 million. A EUR 3.8 million bank loan did not result in an interest risk on the balance sheet date since the interest rate for the loan is fixed over the term of the loan. The liquidity risk as a result of the repayment of the financial liabilities is assessed as minimal since repayments have been fixed at annual installments over a fixed term. In addition, the company has the option to make annual special payments without incurring a prepayment penalty. In the previous fiscal year, this opportunity was pursued and, in addition to the repayment of the agreed-upon annual repayment amount of EUR 1.0 million, special repayment of EUR 1.2 million was made. The credit agreement includes provisions which enable the banks to modify the terms and conditions or demand repayment of the loan under certain circumstances.
Its activities abroad are exposed to the currency risk in that revenues are generated in U.S. and Australian dollars. Measures are taken to hedge currency risks.
In order to at least limit the risk of defaults, Intershop regularly performs credit checks on customers. In the case of larger contracts, this risk is also reduced by agreements on advance payments or progress payments based on the percentage of completion of the contract. Please also see section „Financial instrument disclosures" in the notes to the consolidated financial statements.

On the whole, Intershop assesses the financial risks as rather improbable risks which, if they were to occur, could have a negligible to noticeably negative or positive effect on the earnings and financial position.

Other risks

The Company is a defendant in various legal proceedings arising from the normal course of business. The Management Board assumes that there will be no major financial obligations for the Company resulting from legal disputes other than the ones listed in the notes to the consolidated financial statements. Those risks are covered by insurance respectively reserves were set aside as a precaution. Please also see section "Litigations/contingent liabilities" in the notes to the consolidated financial statements.

Third parties could accuse Intershop of infringement of intellectual property rights, such as patents or copyrights, and claim compensation for damages or also attempt to restrict the sale of Intershop software in the future. This especially applies to the countries, in which software process patents exist. In order to minimize risk in general, Intershop especially checks the compliance of the licensing terms of third parties on a regular basis already in the development process.

Specialized and standardized contracts and GTC are used for the sale of Intershop products. It is possible that deviations from these contracts have to be made, for example, due to customer requests. In these cases, there is a risk that the modified provision has adverse effects for the Company. This risk is minimized by having legal advisors review agreements deviating from the standard template or the standard GTC.

Opportunities

Intershop operates in a very dynamic and rapidly growing market environment for e-Commerce platforms with increasing company density. On this market, new opportunities can present themselves at any time. A major driver of the sustained growth of the Company is to identify those opportunities and take advantage of them without incurring unnecessary risks. Hence, at Intershop the opportunity and risk management are closely interlinked. The rewards management is part of the strategic planning process at Intershop; here, internal and external potentials that might positively affect the further development and value added for the Company are evaluated on a regular basis.

The following opportunities should be emphasized: Satisfied customers might place significant follow-up orders. The existing customer structure, which consists of large and medium-sized companies, offers an opportunity to generate additional revenues with these customers and their affiliated companies without additional acquisition efforts. In addition, after successful implementation of the Intershop software, customers often tend less to change providers due to the financial and timely obstacles this change presents. Additional revenues can result from potential audits if the customer violates licensing provisions. Intershop has the reputation of being a particularly reliable project partner due to their vast experience, a project partner who successfully pursues projects within the agreed-upon schedules and budgets even under difficult circumstances. This can lead to short-term customer acquisition, especially if customers have failed in a project with other providers in the past. Furthermore, Intershop believes that there are major rewards from the expansion of the partner network, in particular as a result of strategic partnerships. There are also opportunities as part of marketing positioning from the Lighthouse program. Thus, additional growth potentials can be triggered since revenue opportunities from new and expanded customer segments or sales regions are presented. The marketing of new unique price models can trigger additional sales opportunities since other customer groups are reached.

Overall risk position

The overall risk position refers to the sum total of all the individual risks to which Intershop is exposed. There are no apparent risks endangering the Company's continuation. The overall risk position slightly declined over the prior year.

Description of the key characteristics of the internal control and risk management system with regard to the consolidated financial reporting process

Intershop's internal control system includes the policies, procedures, and measures introduced by the Management Board to enable the organizational implementation of its decisions so as to ensure the effectiveness, cost-effectiveness, and propriety of financial reporting as well as adherence to the applicable legal provisions.

The Intershop Group is divided according to Management Board areas, whose various departments report to the Management Board member responsible in each case. The departments are divided into a number of cost and profit centers, each with its own department head. The department heads are accountable either for profits and costs or just for costs.

The business ordering and approval processes, including authorizations and threshold values, are set out in the authorization directive („Global Authorization Policy") introduced by the Management Board, which is reviewed and, when necessary, updated on a regular basis. The authorization directive includes three fields of regulation: the procurement of goods and services, offers to and agreements with customers, as well as personnel matters. Defined processes must be adhered to before actions are carried out. If, for example, goods are ordered or services are requested, or if existing contracts are amended or canceled, authorizations in the form of signatures must be obtained. The extent of the authorizations required depends on the type of contract involved and the volume of the order. Information on finances and the impact on the balance sheet, as well as on the budget must be provided, and alternatives (e.g., offers from other suppliers or service providers) must be explained. No orders or commissions may be placed until the relevant departments, department heads, and/or Management Board members have given their approval as required by the policy. In addition to the authorization directive, Intershop has additional guidelines for various areas, such as travel cost guidelines, cell phone guidelines and company car guidelines. These are also reviewed and adjusted accordingly on a regular basis. Management Board meetings, which take place at least once a week, discuss and monitor topics such as third-party commissions, among other things.
Accounting processes are entered in the respective individual financial statements for the subsidiaries in the Group's central SAP system. The consolidation and preparation of Intershop's consolidated financial statements is done centrally using the LucaNet consolidation software, on the basis of the individual financial statements entered in SAP. The Group's accounting policies take into account the requirements of the IFRSs, HGB (German Commercial Code), AktG (German Stock Corporation Act), and the German principles of proper accounting. When preparing the consolidated financial statements, internal controls are carried out in compliance with the dual control system to ensure the reliability of the single-entity financial statements used as a basis and of the consolidated financial statements. The Group's controlling will prepare a detailed analysis every month to show the development of the Group, the single entities, as well as the cost and profit centers. Impairment testing of cash generating units is performed centrally at Group level to ensure the use of uniform evaluation criteria. The preparation and compilation of the data used to prepare the notes to the financial statements and the management report is also performed by the Group's controlling at Group level, and these are checked by the Finance department.

Disclosures in Accordance with Section 289(4) HGB and Section 315(4) HGB Plus Explanatory Report as per sec. 176 para. 1 s. 1 AktG

On the balance sheet date, the Company's subscribed capital amounted to EUR 31,683,484, composed of 31,683,484 no-par value bearer shares. Each share has a notional value of EUR 1. There are no restrictions affecting the voting rights or transferability of the shares.

On the balance sheet date, Shareholder Value Beteiligungen AG holds 14.83% and Shareholder Value Management AG 10.07% in the Company's capital stock. In total, both companies together hold 24.90% of the voting rights (balanced voting rights behavior) according to their voting right notifications in accordance with sec. 21 et. seq. WpHG.
INTERSHOP Communications AG has not been informed of any other direct or indirect share capital holdings that exceed 10% of the voting rights as of the balance sheet date.
There are no shares with special rights conveying powers of control, especially rights of appointment to the Supervisory Board. Also, there are no employee stock option plans, meaning that employees do not have an interest in the capital without being able to exercise their control rights directly at the same time.

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

For information on the powers of the Management Board relating to the issuance of shares, please refer to the section entitled „Equity" in the notes to the consolidated financial statements, and to the notes to the financial statements of INTERSHOP Communications AG. The Company has not entered into any significant binding agreements that are conditional on a change in control as a result of a takeover bid. In addition, the Company has not entered into any binding compensation agreements with the members of the Management Board or with employees in the event of a takeover bid.

Corporate Governance Declaration in Accordance with Section 289a of the HGB or, respectively, sec. 315 (5) HGB

On February 21, 2017, the Management Board and Supervisory Board issued a Corporate Governance Declaration in accordance with section 289a and 315 (5) of the HGB and, together with the Corporate Governance Report, have made it publicly accessible on the Company's website at
http://www.intershop.com/corporate-governance-declaration.

Dependent Company Report

As a purely precautionary measure, pursuant to section 312 of the German Stock Corporation Act (AktG), the Management Board of INTERSHOP Communications Aktiengesellschaft prepared a report for fiscal year 2016 on the relationships with affiliated companies. This report also presents the relations with eBay Enterprise Inc. until April 19, 2016 and with Shareholder Value Management AG and Shareholder Beteiligungs AG as of May 6, 2016. At this time, the Management Board has no reason to believe that there is a dependency with regard to these companies. However, the Management Board is also aware that this assessment is dependent on imponderables and uncertainties, in particular the forecast of future Annual General Meeting majorities, which cannot be predicted with certainty. Therefore the dependency report was prepared as a precautionary measure and on a voluntary basis. It contains the following final statement:
„With respect to the legal transactions outlined in the report on relationships with affiliated companies, INTERSHOP Communications Aktiengesellschaft received commensurate consideration for each legal transaction based on the circumstances that were known to us at the time the legal transactions or measures were undertaken, and has not been disadvantaged by the taking or omission of measures."

Report on Expected Developments

Environment

According to the most recent forecast of the IMF in January 2017, the global economy will grow by 3.4% in the year 2017. While the group of industrialized countries is expected to grow by 1.9%, the growth of the emerging and developing countries is expected to be 4.5% in the current year. For the German economy, an increase in economic performance by 1.5% is projected; for the entire Eurozone, a growth rate of 1.6% is anticipated.

The global e-Commerce market will continue to grow significantly in the years to come. The US company eMarketer predicts that the global B2C online business will increase by around 21% yearly on average to a market volume of about USD 4.1 trillion by 2020. For 2017, eMarketer expects a growth rate of 22.9%. The portion of the online business in the total global retail business is expected to increase by the end of the year from currently 8.7% to 10.0%.

Digital transformation is accelerating further in the coming years also in the B2B segment. Thus, Forrester Research expects that in the US alone, the B2B e-Commerce market will grow by 8% each year to a market volume of EUR 1.1 billion by 2019. It will be a decisive factor for B2B companies to create the suitable technological infrastructure to remain competitive and further develop their business models. The significance but also the complexity of digitalization in the B2B segment is also emphasized by the fact that, according to Forrester, the expenses of B2B companies for e-Commerce technologies, systems and services will be double the comparative expenses in the B2C sector. In correspondence with the already progressing disruption of the retail segment, this growth will result in fundamental changes in the market conditions in the wholesale segment. Thus, 40% of the market participants interviewed for the 2016 Intershop e-Commerce report stated that the business model of their company has already changed completely due to the digital transformation.

Digital transformation leads to continuous growth on the global IT markets. In their forecast, the US analyst firm Gartner projects an increase in the global IT expenditure by 2.7%. In particular corporate software (+6.8%) and IT services (+4.2%) will benefit from major investment growth rates. In Germany, the sector also starts out the year 2017 with a significantly positive development. According to a recent economic survey conducted by the digital association Bitkom, about eight of ten companies in the software segment (85%) and the IT services segment (83%) expect increasing sales in this year. Only 5 or 9%, respectively, expect a decline.

Company outlook

Thanks to the progressing global digitalization, the e-Commerce market will continue its growth course in the coming years. Intershop expects major opportunities in particular from focusing on customers in the B2B segment and in particular in the wholesale segment since the transformation is currently still in the early stages in this sector. At the same time, these companies are under immense pressure to reconsider their business models, interlink their systems and segments and, at the same time, rely on the suitable technical solutions in order to avoid losing their market position to competitors. For these challenges, Intershop offers the suitable solutions thanks to the Synaptic Commerce® approach. In addition, there are new decisive cooperations, in particular the partnership with Microsoft, as a result of which cloud solutions of Intershop achieve new quality standards and allow seamless integration of the Commerce Suite into the Enterprise Resource Planning (ERP) software Dynamics NAV.

The new "Lighthouse 2020" program is aligned perfectly with the strengths of Intershop and based on issues and solutions that present major opportunities on the market. The restructuring measures initiated in the fourth quarter of 2016 are already generating additional funds for investments in the marketing and distribution activities in the current 2017 fiscal year. Thus, Intershop can market the new offering in a target group-specific approach and trigger the corresponding growth stimuli. The goal of the Lighthouse roadmap is to reach sales of EUR 50 million and an EBIT margin of 5% in 2020.

The Management Board of Intershop expects a significant improvement of the business in the 2017 fiscal year. They project increasing license revenues and an increase in the subsequent maintenance revenues in the product segment. The service revenues are expected to be at the prior year level. In addition, new projects and customers and thus an increase in revenues are expected in all three target regions of the Intershop Group (Europe, the United States and Asia/Pacific).

Statement on business developments for 2017

Based on the assumptions for the respective business segments, Intershop expects a slight increase in the Group's revenues in the 2017 fiscal year. Furthermore, a well-balanced operating result (EBIT) is expected with a slight increase in the gross result and the gross margin.

Jena, March 1, 2017

The Management Board of INTERSHOP Communications AG

Jochen Wiechen. Köhler

Dr. Jochen Wiechen Axel Köhler

CONSOLIDATED FINANCIAL STATEMENTS

02

intershop

02

Consolidated Financial Statements

Consolidated Balance Sheet

in EUR thousand	Note No.	December 31, 2016	December 31, 2015
ASSETS			
Noncurrent assets			
Intangible assets	(1)	8,806	8,697
Property, plant and equipment	(2)	567	362
Other noncurrent assets	(4)	52	50
Restricted cash	(5)	0	1,200
Deferred tax assets	(20)	1,068	1,230
		10,493	**11,539**
Current assets			
Trade receivables	(3)	5,129	5,338
Other receivables and other assets	(4)	591	484
Restricted Cash	(5)	0	375
Cash and cash equivalents	(5)	10,898	15,232
		16,618	**21,429**
TOTAL ASETS		**27,111**	**32,968**
SHAREHOLDERS´ EQUITY AND LIABILITIES			
Shareholders´ equity			
Subscribed capital	(6)	31,683	31,683
Capital reserve	(6.1)	7,806	7,806
Other reserves	(6.2)	(23,434)	(20,408)
		16,055	**19,081**
Noncurrent liabilities			
Liabilities to banks	(8)	2,772	4,949
Deferred revenue	(10)	348	367
		3,120	**5,316**
Current liabilities			
Other current provisions	(11)	690	497
Liabilities to banks	(8)	1,000	1,000
Trade accounts payable	(7)	1,350	2,066
Income tax liabilities	(20)	71	141
Other current liabilities	(9)	2,911	2,653
Deferred revenue	(10)	1,914	2,214
		7,936	**8,571**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**27,111**	**32,968**

Consolidated Statement of Comprehensive Income

in EUR thousand	Note No.	January 1 to December 31, 2016	2015
Revenues	(12)		
Product Revenues		13,669	17,399
Service Revenues		20,519	25,322
		34,188	**42,721**
Cost of revenues	(13)		
Cost of revenues - Product		(3,304)	(5,255)
Cost of revenues - Services		(15,148)	(18,361)
		(18,452)	**(23,616)**
Gross profit		**15,736**	**19,105**
Operating expenses, operating income			
Research and development	(14)	(5,923)	(5,801)
Sales and marketing	(15)	(7,377)	(8,504)
General and administrative	(16)	(3,905)	(4,962)
Other operating income	(17)	276	689
Other operating expenses	(18)	(1,189)	(359)
		(18,118)	**(18,937)**
Result from operating activities		**(2,382)**	**168**
Interest income	(19)	20	30
Interest expense	(19)	(279)	(179)
Financial result		**(259)**	**(149)**
Earnings before tax		**(2,641)**	**19**
Income taxes	(20)	**(347)**	**(14)**
Earnings after tax		**(2,988)**	**5**
Other comprehensive income			
Exchange differences on translating foreign operations		(38)	(56)
Other comprehensive income from exchange differences		**(38)**	**(56)**
Total comprehensive income		**(3,026)**	**(51)**
Earnings per share (EUR, basic,diluted)	(21)	(0.09)	0.00
Weighted average shares outstanding (basic,diluted)		31,683	31,683

Consolidated Statement of Cash Flows

in EUR thousand	Note No.	January 1 to December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Earnings before tax		(2,641)	19
Adjustments to reconcile net profit/loss to cash used in operating activities			
Financial result		259	149
Depreciation and amortization		2,495	3,296
Changes in operating assets and liabilities			
Accounts receivable		256	1,577
Other assets		(107)	198
Liabilities and provisions		(280)	251
Deferred revenue		(342)	(180)
Net cash provided by (used in) operating activities before income tax and interest		**(360)**	**5,310**
Interest received		20	30
Interest paid		(268)	(132)
Income taxes received		0	66
Income taxes paid		(254)	(307)
Net cash provided by (used in) operating activities		**(862)**	**4,967**
CASH FLOWS FROM INVESTING ACTIVITIES			
Restricted cash		375	0
Proceeds on disposal of intangible assets		0	41
Payments for investments in intangible assets		(2,336)	(2,168)
Proceeds on disposal of equipment		1	4
Purchases of property and equipment		(473)	(147)
Payments/proceeds on disposal of consolidated companies		0	(33)
Net cash provided by (used in) investing activities		**(2,433)**	**(2,303)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from loan		0	5,902
Restricted cash		1,200	(1,200)
Repayments of loans		(2,200)	0
Cash received for unregistered stock		0	1,650
Expenses of cash received for unregistered stock		0	(94)
Net cash provided by (used in) financing activities		**(1,000)**	**6,258**
Effect of change in exchange rates on cash		(39)	(48)
Net change in cash and cash equivalents		**(4,334)**	**8,874**
Cash and cash equivalents, beginning of period	(5)	15,232	6,358
Cash and cash equivalents, end of period		**10,898**	**15,232**

Consolidated Statement of Shareholders´ Equity

in EUR thousand	Common shares (Number shares)	Subscribed capital	Capital reserve
Balance January 1, 2016	**31,683,484**	**31,683**	**7,806**
Total comprehensive income			
Balance December 31, 2016	**31,683,484**	**31,683**	**7,806**
Balance January 1, 2015	**30,183,484**	**30,183**	**7,751**
Total comprehensive income			
Issue of new shares	1,500,000	1,500	55
Balance December 31, 2015	**31,683,484**	**31,683**	**7,806**

OTHER RESERVES			
Conversion reserve	**Cumulative profit/loss**	**Cumulative currency differences**	**Total shareholders´equity**
(93)	**(22,433)**	**2,118**	**19,081**
	(2,988)	(38)	(3,026)
(93)	**(25,421)**	**2,080**	**16,055**
(93)	**(22,438)**	**2,174**	**17,577**
	5	(56)	(51)
			1,555
(93)	**(22,433)**	**2,118**	**19,081**

NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS

03

intershop®

03

General Disclosures

The Company

INTERSHOP Communications AG ("Intershop", the "Company", the "Intershop Group" or the "Group") is an Aktiengesellschaft (German stock corporation) under German law. The Company's registered office is at Intershop Tower, Leutragraben 1 in 07743 Jena, Germany. The Company is listed on the German stock exchange in Frankfurt and is included in the Prime Standard. INTERSHOP Communications AG is entered in the commercial register of the Jena Local Court under number HRB 209419.

Intershop is a leading independent provider of omni-channel commerce solutions. Intershop offers high-performance packaged software for internet sales, complemented by all necessary services. Intershop also acts as a business process outsourcing provider, covering all aspects of online retailing up to fulfillment.

The Company has prepared its consolidated financial statements assuming the Company's continued operations. As of December 31, 2016, the Company had cash and cash equivalents of EUR 10.9 million (December 31, 2015: EUR 15.2 million). The equity ratio as of the balance sheet date was 59% (previous year: 58%). The Company's financial liabilities to banks totaled EUR 3.8 million on the balance sheet date (prior year: EUR 5.9 million). We refer to the statements in the Group Management Report.

Accounting principles (compliance statement)

In fiscal year 2016, INTERSHOP Communications AG prepared its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and in accordance with the provisions required to be applied under section 315a(1) of the Handelsgesetzbuch (HGB – German Commercial Code).

The consolidated financial statements of the Company for 2016 (January 1, 2016 to December 31, 2016) were prepared in accordance with the International Financial Reporting Standards (IFRSs) valid at the balance sheet date, which include standards (IFRS, IAS) adopted by IASB, and the Interpretations (IFRIC, SIC) issued by the International Financial Reporting Interpretations Committee (IFRIC IC), as adopted by the EU.

The 2016 fiscal year was the first year in which the adoption of the following financial reporting standards and interpretations became mandatory:

- IFRS 11 "Accounting for joint operations"
- Improvements to IFRSs 2012-2014
- Amendments to IAS 1 "Initiative to improve reporting requirements"
- IAS 16 and IAS 38 "Clarification of admissible depreciation methods"
- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment entities: Application of the consolidation exception, contribution to an associate"

The amendments to IAS 1 "Initiative to improve reporting requirements" are designed to remove the obstacles perceived by those who prepare the financial statements when exercising their discretion for the presentation of the financial statements. These amendments will not have any effect on Intershop's assets, financial and earnings position; however, the amendments may result in changes to the information included in the Notes in the future. The other amendments do not have any significant effect on the Company's consolidated financial statements.

The International Accounting Standards Board (IASB) has also issued the following Standards, Interpretations, and amendments to existing Standards whose application is not yet mandatory, or which the European Union has not fully adopted in European law. The Company has decided not to adopt these Standards prior to their effective date and this is also not planned for the future:

IFRS	Change	Amendment for fiscal year as of
IAS 7	Statement of Cash Flows Disclosure initiative	01/01/2017
IAS 12	Income Taxes	01/01/2017
IFRS 2	Classification and measurement of share-based remuneration	01/01/2018
Improvements	Improvements to IFRSs 2014-2016	01/01/2017
IFRS 9	Financial instruments	01/01/2018
IFRS 15*	Revenues from contracts with customers	01/01/2018
IFRS 16	Property, Plant and Equipment	01/01/2019

*including clarification of IFRS 15

The published IFRS 15 „Revenue from contracts with customers" replaces the current IFRS provisions regarding the recognition of revenue IAS 18 and IAS 11, with the objective of combining the large number of provisions currently contained in various standards and interpretations into a uniform model for the recognition of revenue. The basic principle of the standard is that revenues are to be recorded in the amount in which considerations are expected for the services of the accounting entity. Revenues are realized when the customer obtains the power to dispose of the goods or services. Furthermore, IFRS 15 contains provisions regarding the disclosure of the service overages or obligations existing at contract level that result from the relation between the service rendered by the entity and the customer's payment. The Company will adopt the standard for the first time for the fiscal year beginning on January 1, 2018 and, if any, record transition effects in the corresponding reserve (simplified first-time adoption). Changes in the amount and the realization date of the revenues recorded with regard to customer contracts are currently only expected to be rather limited since, according to IAS 18 and IFRS 15, the individual elements of the revenue models of Intershop (sale of licenses, rendering of maintenance services, rendering of implementation services, training, and operation of shops) are basically assessed independently of each other in terms of the date and amount of the consideration even if they are distributed in a combined manner. Since Intershop regularly grants its customers licenses for an indefinite period of time, this kind of transaction is currently and in the future deemed a sale, while maintenance services are rendered periodically. In traditional consulting projects, Intershop renders services that are billed based on the hours spent. It is our current opinion that fixed-price projects that are currently recognized using the percentage-of-completion method also satisfy the criteria set forth in IFRS 15 with regard to time period-based realization of revenues. It is expected that the application of IFRS 15 will not have any impact on the EBIT. In addition, Intershop expects minor changes in the balance sheet and additional quantitative and qualitative disclosures in the notes.

IFRS 16 replaces the current differentiation between operating and finance leases by a uniform lessee accounting model under which the lessee must recognize assets (for the right of use) and the corresponding lease obligation in lease agreements with a term exceeding 12 months. This results in leases that are currently not recognized being accounted for in the future, more or less comparable to today's recognition of finance leases. This will likely lead to Intershop accounting for the right of use of the leased office space and the corresponding liability and thus to a balance sheet extension in the lower one-digit million EUR range. Intershop is currently reviewing the impact on the EBIT resulting from the current rental expenses becoming depreciation and interest expenses in the future.

The amendments of IAS 7 require disclosures regarding the changes in debt relating to financing activities classified by cash and non-cash changes. Intershop will present these disclosures accordingly. The amendments of IAS 12 relate to the recording of deferred tax assets from unrealized losses. Intershop is currently reviewing the concrete impact of the amendments to IAS 12 and the other aforementioned standards on the net assets, financial and earnings position, along with the presentation of the Group.

Financial reporting for fiscal year 2016 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 consolidated financial statements have been prepared in euros. Unless stated otherwise, all amounts are given as thousands of euros (EUR thousand). Figures are rounded to the nearest thousand and totals may not sum due to rounding.

The fiscal year of INTERSHOP Communications AG and its consolidated subsidiaries is the calendar year. The income statement has been prepared using the cost of sales method. The balance sheet is organized in accordance with the maturity of the assets and debt. Assets and debt are considered current if they are due, or are supposed to be sold, within one year.

On March 1, 2017, the Management Board of INTERSHOP Communications AG authorized the submission of these IFRS consolidated financial statements to the Supervisory Board.

Estimates and assumptions

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Estimates are based on past experience and other knowledge of transactions to be accounted for. Actual results may differ from these estimates. As a result, estimates and the assumptions on which they are based are regularly reviewed and assessed for their potential effects on the Company's financial reporting. Provisions are recognized and measured on the basis of financial estimates and data, as well as on the basis of historical data and circumstances known at the balance sheet date. It must be probable that the obligation to a third party will have to be settled. The actual obligation may differ from the amounts of the provisions. A corresponding adjustment in the carrying amounts of assets and liabilities would occur within the next fiscal year. In particular, estimates are required to recognize and measure provisions for legal costs and litigation risks, guarantee provisions, and provisions for income taxes, 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 and full services. In fiscal year 2016, other provisions amounted to a total of EUR 690 thousand (previous year: EUR 497 thousand). The corresponding expense entries were recognized in the Consolidated Statement of Comprehensive Income under general administration costs and cost of revenues. Goodwill is tested for impairment using the test described in the section entitled „Impairment of assets." No impairments were necessary in fiscal years 2016 and 2015. Please refer to the "Revenues" section in the chapter entitled "Accounting Policies" for information on estimating revenues.

Basis of consolidation

As of December 31, 2016, the companies included in consolidation consisted of, apart from the parent company, the subsidiaries Intershop Communications, Inc., Intershop Communications Australia Pty Ltd., Intershop Communications Asia Limited, The Bakery GmbH, Intershop Communications Ventures GmbH, Intershop Communications SARL and Intershop Communications LTD.

The following list shows the subsidiaries of Intershop Communications AG and the Company's respective interest as of December 31, 2016:

	Interest in%	**Equity*** in EUR thousand	**Annual result**** in EUR thousand
Intershop Communications, Inc., San Francisco, USA	100	(1,179)	88
Intershop Communications Australia Pty Ltd., Melbourne, Australia	100	807	183
Intershop Communications Asia Limited, Hong Kong, China	100	9	(35)
Intershop Communications SARL, Paris, France	100	32	(5)
Intershop Communications LTD, Romsey, United Kingdom	100	(161)	68
The Bakery GmbH, Berlin, Germany	100	(3,890)	(47)
Intershop Communications Ventures GmbH, Jena, Germany	100	(1,328)	(17)

* Equity as of December 31, 2016 is translated at the exchange rate as of the reporting date
** Net income/loss for fiscal year 2016 is translated at the average annual rate

The subsidiary Intershop Communications LTD in the UK utilized the provision for an exemption from the audit of the annual financial statements pursuant to 479A of the Companies Act 2006.

Consolidation methods

The consolidated financial statements of INTERSHOP Communications AG include the consolidated results of the Company and all its German and foreign subsidiaries over whose financial and operating policies INTERSHOP Communications AG exercises direct or indirect control. INTERSHOP Communications AG controls an entity when it is exposed to fluctuating returns from its activities in the entity, or owns the rights to these returns, and can influence them through the entity using its control. A company is included in the consolidated financial statements from the date on which control passes to the Intershop Group. Deconsolidation usually occurs on the date control passes to a third party or on the date the subsidiary is liquidated.

Subsidiaries:

Acquisition accounting for companies acquired from third parties is performed as of the date of acquisition using the purchase method of accounting. Under this method, the assets acquired and liabilities assumed are measured at their acquisition-date fair value. Any remaining positive difference between acquisition price and fair value is capitalized as goodwill. Any negative difference is immediately recognized as an expense. Transaction costs are recognized as expense. In subsequent periods, hidden reserves and liabilities realized at the time of initial consolidation are carried, written down or reversed in accordance to the treatment of the corresponding assets and liabilities. Goodwill will be reviewed for impairment at least once a year during subsequent reporting periods and, in case of impairment, an unscheduled write-down to the lower fair value is made. Expense and revenues as well as receivables and liabilities between consolidated companies are eliminated.

Foreign currency translation

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

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

Transactions in foreign currencies are translated at the exchange rate prevailing at the date of each transaction. Nonmonetary items denominated in foreign currency are measured at historical exchange rates. Differences in exchange rates between the date of a transaction denominated in a foreign currency and the date at which it is either settled or translated are recognized in the statement of comprehensive income and are shown in "other operating income" or "other operating expenses." Currency gains and losses were EUR -121 thousands (2015: EUR 180 thousands).

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

	Currency	Closing rate		Average rate for the year	
Country	**1 EUR =**	**Dec. 31, 2016**	**Dec. 31, 2015**	**2016**	**2015**
United States	USD	1.05	1.09	1.11	1.11
Australia	AUD	1.46	1.49	1.49	1.48
Hong Kong	HKD	8.18	8.45	8.58	8.59
United Kingdom	GBP	0.86	0.74	0.82	0.72

Accounting Policies

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

Intangible assets

Purchased intangible assets, such as software and patentsare capitalized at cost. Intangible assets with finite useful lives are measured at cost less accumulated amortization, taking into account accumulated impairment losses and reversals of impairment losses, and are written down using the straight-line method. Their useful lives are generally between 2 and 3 years.
Intangible assets with an indefinite useful life, such as goodwill, are measured at cost less accumulated impairment losses and tested for impairment both annually and when there are indications of impairment. Please refer to the section entitled "Impairment of assets".

Goodwill

In accordance with IFRS 3, goodwill resulting from consolidation is the excess of the cost of a business combination over the Group's interest in the fair value of the identifiable assets and liabilities and contingent liabilities of a subsidiary, associate, or joint venture at the date of acquisition. Goodwill is recognized as an asset and tested for impairment at least once a year in accordance with IAS 36. Goodwill is tested for impairment on the basis of cash-generating units. Goodwill is allocated to cash-generating units. An impairment loss is recognized if the recoverable amount of the cash-generating unit, which is the higher of fair value less costs to sell and value in use, is lower than its carrying amount (for further details, see the section entitled "Impairment of assets"). Impairment losses are immediately recognized in the income statement and not reversed in subsequent periods.

Software development costs

Development costs for newly developed (software) products are capitalized at cost in accordance with IAS 38 if the following criteria are met: the technical feasibility, the intention for own use or for sale, a guarantee of the marketability of the newly developed products, the future benefits, the availability of sufficient technology, finances and other resources, as well as a clear allocation of expenses. 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. 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. The relevant amount is amortized using the unit of production method over the planned useful life of three years beginning from the time when the software release concerned is made available to customers. The capitalized costs are subject to the impairment test.
Research costs may not be capitalized in accordance with IAS 38 and are therefore recognized directly as an expense in the income statement.

Property, plant, and equipment

Property, plant, and equipment is measured at cost less accumulated depreciation, taking into account accumulated impairment losses and reversals of impairment losses. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation is based primarily on the following useful lives:

Computer equipment	3 years
Office furniture/ Presentation equipment	4–5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease terms or their estimated useful lives. When items of property, plant, and equipment are decommissioned, sold, or abandoned, the gain or loss from the difference between the sale proceeds and the carrying amount is reported in "other operating income" or "other operating expenses".

Impairment of assets

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

If such indications exist, the recoverable amount of the asset is determined so that the impairment loss can be calculated. The recoverable amount is the higher of fair value less costs to sell and value in use. The fair value less costs to sell is defined as the amount that could be generated by the sale of an asset in an arm's length transaction between willing parties. The value in use is determined on the basis of discounted future cash flows using a market rate of interest that reflects the risks of the asset that are not yet included in the estimated future cash flows. If the recoverable amount of an asset is lower than its carrying amount, the asset must be written down to its recoverable amount. Impairment losses are recognized immediately in profit or loss. No extraordinary write-downs were applied in years 2016 and 2015. In the case of reversals of impairment losses in a subsequent period, the carrying amount of the asset is adjusted to reflect the identified recoverable amount; however, the value of the asset may only be increased to the carrying amount that would have arisen if no impairment loss had previously been charged. Reversals of impairment losses must be recognized immediately in profit or loss. No such reversals were performed in 2016 and 2015. An annual impairment test is performed for goodwill and not yet amortized software development costs.

The goodwill impairment test is to be performed on cash generating units. The goodwill impairment test is to be performed on the cash generating unit to which goodwill is allocated. Goodwill comprises the intellectual property incorporated in the software obtained from previous acquisitions (net carrying amount at December 31, 2016: EUR 4,473 thousand). For the goodwill the relevant cash-generating unit is the Europe segment excluding full-service business areas. As a first step, the carrying amount of the cash generating unit is compared with their value in use. The total of the carrying amount is also compared with the fair value of the Company. For this purpose, the fair value is derived from the Company's market capitalization. The impairment write-down required is determined in a second step, but only if the value in use or fair value is less than the carrying amount. To determine the value in use of the cash generating unit, the net cash flows were calculated for 2017 to 2020 and a perpetual annuity (without growth rate) was calculated for the period beginning 2021. The calculations are based on the corporate planning for the period from 2017 to 2020 approved by Intershop's management; this planning builds on a market forecast and reflects parameters including customer retention, market share, and sector growth. When determining the value in use, present values were calculated on the basis of a discount rate after tax of 8.35% (WACC before tax: 12.02%). No impairment losses on goodwill were reported in 2016 and 2015. Impairment losses on goodwill are not reversed. A change in the discount rate by one percentage point or a reduction in cash flows by up to 50% compared to the budget would not have any effect on the result of the test.

Leases

IAS 17 requires leases to be classified into financing leases and operating leases. Leases are classified as financing leases if the terms and conditions of the lease transfer substantially all risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases. Under a finance lease, the leased assets are capitalized at fair value on initial recognition and depreciated over their useful lives. Lease payments under an operating lease are expensed over the term of the lease using the straight-line method. Intershop only has operating leasing arrangements.

Financial instruments

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

Financial instruments are recognized at fair value on acquisition. Financial assets are initially recognized at fair value plus transaction costs. Financial instruments are recognized at fair value on acquisition and are subsequently measured on the basis of the following categories: a) financial assets and liabilities at fair value through profit or loss, classified as "held for trading" and "designated", b) held-to-maturity financial assets, c) loans and receivables, d) available-for-sale financial assets, and e) liabilities measured at amortized cost.

Financial assets are classified as **"at fair value through profit or loss"** if they have been acquired with the intention of being sold in the short term or are held for trading. Derivatives are classified as "held for trading" if they are not designated as being included in a hedging relationship. If their fair value is negative, this leads to a financial liability. In this category, financial assets are subsequently measured at fair value. Transaction costs are recognized in income. Any gain or loss resulting from subsequent measurement is reported in the income statement under other operating income or expenses. **Held-to-maturity financial assets** are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity. Following initial recognition, they are measured at amortized cost. Gains and losses are reported in profit or loss for the period if the asset in question is derecognized or impaired. **Loans and receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortized cost using the effective interest method. **Available-for-sale financial assets** are non-derivative financial assets that are either attributable to this category or have not been allocated to any of the other categories presented. They are subsequently measured at fair value, with any unrealized gains or losses being recognized directly in equity.

Following initial recognition, financial liabilities are generally measured at amortized cost using the effective interest method, with the exception of financial liabilities at fair value through profit or loss.

Currently, Intershop's financial assets are trade receivables. Financial liabilities are comprised of liabilities to banks in the form of interest-bearing bank loans. As of the balance sheet date, Intershop did not hold any financial instruments that are classified as "held to maturity" or that are measured at fair value on initial recognition in accordance with IAS 39. Intershop also did not have any securities that are classified as available-for-sale.

Trade receivables, other receivables and other assets

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

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

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

The Company makes judgments as to its ability to collect outstanding receivables and recognizes allowances for the portion of receivables where collection becomes doubtful. Allowances are recognized based on a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, allowances are recognized at differing rates, based on the age of the receivable. In determining these percentages, Intershop analyzes its historical collection experience and current economic trends. If the historical data the Company uses to calculate the allowances recognized for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional allowances for doubtful accounts may be needed and the future results of operations could be materially affected.

Cash and cash equivalents

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

Other provisions and contingent liabilities

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

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

Trade accounts payable

Trade accounts payable are accounted at their amortized cost. Trade accounts payable are classified into current and noncurrent trade accounts payable. Trade accounts payable within one year are current liabilities, and trade accounts payable after one year are noncurrent liabilities.

Financial liabilities

When they are first recognized, financial liabilities are entered at the fair value less transaction costs. They are subsequently measured at amortized cost using the effective interest method.

Income and expense recognition

Revenues are divided into the main groups product revenues and service revenues. Product revenues include licensing revenues and sales revenue from maintenance. Service revenues include revenues from consulting and training and full-service revenue.

Intershop assesses whether fees are fixed or determinable at the time of sale and recognizes revenue if all other revenue recognition requirements are met. For software license arrangements that do not require significant modification or customization of the underlying software, the Company recognizes the resulting revenue when: (1) it enters into a legally binding arrangement with a customer for the license of software; (2) it delivers the products and, (3) the amount of income can be reliably determined. Substantially, all of the Company's license revenues are recognized in this manner. Intershop also enters revenues from the provision of SaaS products (software as a services products) as license income. In that case, customers may only use the software over the contractually agreed contract term. The resulting revenues are realized over the term of the contract.

Some of the Company's software arrangements additionally include implementation services sold separately under consulting engagement contracts. Revenues from these arrangements are generally accounted for separately from the license revenue. The more significant factors considered in determining whether the revenue should be accounted for separately include the nature of services (i.e., consideration of whether the services are essential to the functionality of the licensed product), degree of risk, availability of services from other vendors, timing of payments, and impact of milestones or acceptance criteria on the collectibility of the software license fee.

Intershop's license arrangements generally do not include acceptance provisions. However, if acceptance provisions exist within previously executed terms and conditions that are referenced in the current agreement, the Company then applies judgment in assessing the significance of the provision. If the Company determines that the likelihood of non-acceptance of these arrangements is remote, it then recognizes revenue once all of the criteria described above have been met. If such a determination cannot be made, revenue is recognized upon the earlier of receipt of written customer acceptance or expiration of the acceptance period.

Revenue for consulting services is generally recognized as the services are performed. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is sufficiently resolved.

The determination of the amount of revenues to be recognized is partly based upon the use of estimates. The Company estimates, for example, the percentage of completion on contracts with fixed or "not to exceed" fees on a monthly basis, utilizing hours incurred to date as a percentage of total estimated hours to complete the project. This is used for fixed-price projects in the consulting area and full service area. If Intershop does not have a sufficient basis to measure progress towards completion, revenue is recognized when the Company receives final acceptance from the customer. When total cost estimates exceed the contractually agreed upon revenues, Intershop sets aside valuation allowances or reserves for the estimated losses, using cost estimates that are based upon an average burdened daily rate and all expenses applicable to the organization delivering the services.

The complexity of the estimation process and issues related to the assumptions, risks, and uncertainties inherent in the application of the percentage-of-completion method of accounting affect the amounts of revenues and related expenses reported in the Company's consolidated financial statements. A number of internal and external factors can affect Intershop's estimates, including costs for employees, utilization and efficiency variances, and specification and testing requirement changes.

Revenues from maintenance are recognized ratably over the period in which the services are provided.

Revenue-based billing models are used in the full-service business area. Revenues are recognized on the basis of agreed percentages of the sales generated by the relevant online shop.

Cost of revenues

The cost of revenues includes the costs incurred in generating revenues. They include in particular all costs for maintenance, consulting, training and full-service. The cost of revenues for licenses also includes the amortization of capitalized software development costs.

Cost of debt

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

Income taxes

In accordance with IAS 12, deferred taxes are recognized for all temporary differences between the carrying amount of assets and liabilities in the IFRS balance sheet and their tax base at the balance sheet date using the balance sheet liability method. Deferred tax assets are recognized for all deductible temporary differences, unused tax loss carryforwards, and unused tax credits to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the unused tax loss carryforwards and tax credits can be utilized.

Deferred taxes are measured at the tax rates that have been enacted or substantively enacted for the period in which an asset is realized or a liability settled. The effect of changes in the tax rate on deferred taxes is recognized as of the effective date of the legal changes.

Operating segments

The segments have been presented in accordance with IFRS 8, Operating Segments. The structure and content of segment reporting reflects the internal reports provided to management. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose results are regularly reviewed by management, and for which financial information is available. An operating segment becomes a reportable segment if it can be identified and exceeds certain quantitative thresholds. Expenses are generally allocated on the basis of the percentage revenue breakdown.

Earnings per share

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

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

Notes to the Individual Balance Sheet Items

(1) INTANGIBLE ASSETS

in EUR thousand	Software/ other intangible assets	Internally developed software	Goodwill	Total
Costs of purchase				
Balance at January 1, 2015	**2,946**	**17,976**	**24,097**	**45,019**
Additions	35	2,133	0	2,168
Disposals	(42)	0	0	(42)
Currency translation differences	0	0	0	0
Balance at December 31, 2015	**2,939**	**20,109**	**24,097**	**47,145**
Additions	2	2,334	0	2,336
Disposals	(1,072)	(224)	0	(1,296)
Currency translation differences	0	0	0	0
Balance at December 31, 2016	**1,869**	**22,219**	**24,097**	**48,185**
Amortization, write-downs, and impairment losses				
Balance at January 1, 2015	**2,843**	**13,101**	**19,624**	**35,568**
Additions	55	2,826	0	2,881
Disposals	(1)	0	0	(1)
Currency translation differences	0	0	0	0
Balance at December 31, 2015	**2,897**	**15,927**	**19,624**	**38,448**
Additions	38	2,189	0	2,227
Disposals	(1,072)	224	0	(1,296)
Currency translation differences	0	0	0	0
Balance at December 31, 2016	**1,863**	**17,892**	**19,624**	**39,379**
Net carrying amount at December 31, 2015	**42**	**4,182**	**4,473**	**8,697**
Net carrying amount at December 31, 2016	**6**	**4,327**	**4,473**	**8,806**

"Internally developed software" includes capitalized software development costs for continued development of Intershop's software. Of the amortization, write-downs and impairment losses on intangible assets recognized in the Statement of Comprehensive Income, EUR 2,194 thousand (2015: EUR 2.834 thousand) are included in the cost of revenues, EUR 9 thousand (2015: EUR 22 thousand) in research and development expenses, EUR 1 thousand (2015: EUR 1 thousand) in the Sales and Marketing costs as well as EUR 23 thousand (2015: EUR 24 thousand) in general and administrative costs. With the exception of goodwill there are no intangible assets with indefinite useful lives.

(2) PROPERTY, PLANT, AND EQUIPMENT

in EUR thousand	**Computer equipment**	**Office and operating equipment**	**Leasehold improve-ments**	**Total**
Costs of purchase				
Balance at January 1, 2015	**2,423**	**1,637**	**282**	**4,342**
Additions	129	18	0	147
Disposals	(125)	(60)	0	(185)
Currency translation differences	15	5	0	20
Balance at December 31, 2015	**2,442**	**1,600**	**282**	**4,324**
Additions	431	41	0	472
Disposals	(105)	(247)	0	(352)
Currency translation differences	6	3	0	9
Balance at December 31, 2016	**2,774**	**1,397**	**282**	**4,453**
Depreciation, write-downs, and impairment losses				
Balance at January 1, 2015	**2,147**	**1,300**	**264**	**3,711**
Additions	222	178	15	415
Disposals	(122)	(59)	0	(181)
Currency translation differences	13	4	0	17
Balance at December 31, 2015	**2,260**	**1,423**	**279**	**3,962**
Additions	153	113	2	268
Disposals	(105)	(247)	0	(352)
Currency translation differences	6	2	0	8
Balance at December 31, 2016	**2,314**	**1,291**	**281**	**3,886**
Net carrying amount at December 31, 2015	**182**	**177**	**3**	**362**
Net carrying amount at December 31, 2016	**460**	**106**	**1**	**567**

Of depreciation, write-downs and impairment losses on property, plant and equipment recognized in the Statement of Comprehensive Income, EUR 104 thousand (2015: EUR 171 thousand) are included in the cost of revenues, EUR 84 thousand (2015: EUR 96 thousand) in research and development expenses, EUR 34 thousand (2015: EUR 36 thousand) in marketing and sales expenses as well as EUR 46 thousand (2015: EUR 112 thousand) in general and administrative expenses.

(3) TRADE RECEIVABLES

Trade receivables as of the balance sheet date include receivables from the sale of software licenses and the performance of services amounting to EUR 5,129 thousand (2015: EUR 5,338 thousand) and due within one year (current assets). Thereof, total receivables of EUR 4,246 thousand (2015: EUR 4,477 thousand) are not yet due. The following table shows the maturity structure of the trade receivables that are not yet due:

in EUR thousand	Dec. 31, 2016	Dec. 31, 2015
Due within 30 days	2,295	2,776
Due within 31 and 60 days	1,547	1,059
Due within 61 days and 1 year	404	642
	4,246	**4,477**

As of December 31, 2016, trade receivables of EUR 420 thousand were past due but were not impaired (December 31, 2015: EUR 166 thousand). The following table shows the maturity structure of receivables that are past due but not impaired:

in EUR thousand	Dec. 31, 2016	Dec. 31, 2015
Up to 30 days past due	420	75
31 to 60 days past due	0	29
61 to 90 days past due	0	62
	420	**166**

Specific allowances are recognized after 90 days. As regards the trade receivables due or not yet due at the balance sheet date, it is not expected that the customers will fail to fulfill their payment obligations. Overdue, non-impaired receivables as at December 31, 2016 were collected in January 2017.

As of December 31, 2016, impairment losses amounting to EUR 61 thousand (2015: EUR 41 thousand) have been recognized. Impairments changed as follows:

in EUR thousand	2016	2015
Balance at beginning of year	**41**	**82**
Impairment of receivables	56	24
Amounts derecognized due to uncollectibility	0	(19)
Amounts received during the fiscal year on receivables written off	(36)	(46)
Reversals of impairments	0	0
Balance at end of year	**61**	**41**

(4) OTHER RECEIVABLES AND OTHER ASSETS

Other noncurrent assets in the amount of EUR 52 thousand (2015: EUR 50 thousand) comprise rental security deposits.
Other current receivables and current assets include the following items:

in EUR thousand	Dec. 31, 2016	Dec. 31, 2015
Prepayments	428	320
Other tax receivables	30	33
Gross amount due from customers for contract work	0	9
Receivables from employees and former employees	0	1
Other	133	121
	591	**484**

(5) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise current cash and cash equivalents which include balances at various banks that are available at any time, as well as cash and checks.
The noncurrent restricted cash to date of EUR 1.2 million was repaid as a special repayment of the loan.

(6) EQUITY

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

SUBSCRIBED CAPITAL

As at December 31, 2016, the subscribed capital amounted to EUR 31,683,484, the same as at the balance sheet date of the prior year, and is divided into 31,683,484 no-par value bearer shares, all of which have been fully paid.

As of the balance sheet date, Shareholder Value Management AG, together with Shareholder Value Beteiligungen AG, held 24.90%, and BNY Mellon Service Kapitalanlage-Gesellschaft mbH held another 9.33% of the shares in INTERSHOP Communications AG. Information regarding the participating interests is based on the notifications pursuant to section 21 (1) WpHG (German Securities Trade Act) submitted by the Company according to section 26 (1) WpHG regarding changes to voting rights during the 2016 fiscal year. As of the balance sheet date, the free float of INTERSHOP Communications AG came to a total of 65.77%. We refer to the statements in the Management Report in the section "Disclosures according to sec. 289 (4) and sec. 315 (4) HGB with explanatory report according to sec 176 (1) p.1 AktG."

AUTHORIZED CAPITAL

As at December 31, 2016, the Company had authorized capital in the amount of EUR 6,336,000 (December 31, 2015: EUR 6,000,000). The Annual Stockholders' Meeting on June 2, 2016 newly created the authorized capital revoking the previous approval by way of resolutions modifying the articles of association. The new authorized capital, together with the change to the articles of association, was entered in the commercial register on June 23, 2016. According to the articles of association of INTERSHOP Communications AG, the Management Board is authorized, subject to approval by the Supervisory Board, to increase the capital stock by issuing new ordinary stocks as follows:

- By a total of EUR 6,336,000 by issuing up to 6,336,000 new bearer shares against cash contributions and/or non-cash capital contributions (Authorized Capital I). The Management Board's authorization applies until June 23, 2021. The Management Board is authorized, subject to approval of the Supervisory Board, to suspend the stockholders' subscription rights in certain cases.

CONDITIONAL CAPITALL

As of the balance sheet date, the Company did not have any conditional capital.

(6.1) CAPITAL RESERVE

The capital reserve includes expenses from stock options from previous years as well as amounts in excess of the par value generated from the issue of shares, less the transaction costs for capital increases. Please see Statement of Change in Equity for details.

(6.2) OTHER RESERVES

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

(7) TRADE PAYABLES

Trade accounts payable comprise unsettled liabilities relating to the delivery of goods and services and amounted to EUR 1,350 thousand (2015: EUR 2,066 thousand).

(8) LIABILITIES TO BANKS

Liabilities to banks are broken down as follows:

in EUR thousand	Dec. 31, 2016	Dec. 31, 2015
Liabilities to banks - noncurrent	2,772	4,949
Liabilities to banks - current	1,000	1,000
	3,772	**5,949**

In 2015, the Company concluded a loan agreement for EUR 6,000 thousand with Sparkasse Jena-Saale-Holzland. The term of the loan is six years, with a fixed interest rate of 4.5% p.a. over the entire term. The contractually agreed repayment amount is EUR 1,000 thousand annually. It was also agreed that annual unscheduled payments would not incur a prepayment penalty. In the 2016 fiscal year, a special repayment in the amount of EUR 1,200 thousand was made from the pledged portion of the loan. The loan is secured with an indemnity bond covering 80% of the loan amount from the state of Thuringia, a blanket assignment of customer receivables from deliveries and services, and the approval of a distribution license for the Intershop software.

(9) OTHER LIABILITIES

Other liabilities consist only of current liabilities and comprise:

in EUR thousand	Dec. 31, 2016	Dec. 31, 2015
Liabilities to employees	1,027	1,095
Other VAT and wage tax liabilities	628	465
Liabilities from outstanding vacation entitlement	598	559
Liabilities from advance payments received	149	36
Liabilities from advance payments received for fixed-price projects	120	0
Liabilities to the Occupational Health and Safety Agency	101	104
Other liabilities relating to social security benefits	90	87
Miscellaneous other liabilities	198	307
	2,911	**2,653**

The item "Liabilities from advance payments received for fixed-price projects" includes an order with a total order volume of EUR 2,692 thousand, of which EUR 1,405 thousand have already been paid. In 2016, revenue of EUR 1,285 thousand was realized, which was offset against payments on account. These were measured based on the stage of completion of the project using the percentage of completion method. The costs amounted to EUR 769 thousand. The fixed-price projects result in a contribution to results of EUR 516 thousand.

Liabilities to employees mainly include liabilities from commissions and performance-related compensation as well as obligations from restructuring in 2016 (EUR 400 thousand).

(10) DEFERRED REVENUE

Deferred revenue relates to prepayments by customers, primarily in the form of revenue from maintenance agreements. Deferred revenue is reversed and revenue is recognized in the period in which the service was provided by Intershop. In the case of current deferred revenue, reversal and recognition take place within a year.

(11) OTHER PROVISIONS

Other current provisions amounted to EUR 690 thousand (2015: EUR 497 thousand).

The following table shows the development of other current provisions:

in EUR thousand	Litigation risks	Guarantee	Other	Total
Balance at January 1, 2016	**0**	**219**	**278**	**497**
Additions	27	313	178	518
Utilization	0	(169)	(147)	(316)
Reversal	0	0	(11)	(11)
Currency adjustments	1	1	0	2
Balance at December 31, 2016	**28**	**364**	**298**	**690**

Miscellaneous other provisions relate to provisions for the Stockholders' Meeting and pending losses from projects.

Notes to the Individual Items of the Statement of Comprehensive Income

(12) REVENUES

Revenues of EUR 34,188 thousand (2015: EUR 42,721 thousand) are divided into product revenues and service revenues, as follows:

in EUR thousand	2016	2015
Licenses	5,657	9,328
Maintenance	8,012	8,071
Product Revenues	**13,669**	**17,399**
Consulting/Training	15,934	19,340
Full Service	4,585	5,982
Service Revenues	**20.519**	**25,322**
Total Revenues	**34,188**	**42,721**

(13) COST OF REVENUES

Cost of revenues is divided into cost of product revenues and cost of service revenues analogous to revenues; these costs are broken down as follows:

in EUR thousand	2016	2015
Licenses	1,672	3,444
Maintenance	1,632	1,811
Cost of revenues - Product	**3,304**	**5,255**
Consulting/Training	10,881	12,843
Full Service	4,267	5,518
Cost of revenues - Services	**15,148**	**18,361**
Total cost of revenues	**18,452**	**23,616**

The cost of revenues for licenses in the amount of EUR 1,672 thousand (2015: EUR 3,444 thousand), primarily include the amortization of software development costs as well as gains from the reversal of a liability that was not incurred (EUR 580 thousand).

(14) RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses comprise all expenses attributable to R&D activities, with personnel expenses accounting for the majority of this item. The increase in research and development expenses from EUR 5,801 thousand to EUR 5,923 thousand is primarily attributable to the one-off effect resulting from reduced working hours at the beginning of 2015. Please see section "Research and Development" in the Group Management Report.

(15) SALES AND MARKETING EXPENSES

Sales and marketing expenses consist mainly of personnel costs for sales and marketing employees, sales commissions, expenditures for sales partners, and costs associated with advertising and exhibitions for various trade shows. Sales and marketing expenses fell by 13% from EUR 8,504 thousand to EUR 7,377 thousand due to lower personnel expenses and a decrease in expenses for distribution partners. The share of sales and marketing expenses to total revenue was 22% (2015: 20%).

(16) GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses mainly comprise personnel and non-personnel expenses as well as depreciation and amortization that relates to administration. They include the cost of investor relations activities and expenses relating to the Stockholders' Meeting, as well as all legal expenses. General and administrative expenses dropped by 21% from EUR 4,962 thousand to EUR 3,905 thousand, primarily as a result of lower personnel expenses and consulting fees. The share of general and administrative expenses as a proportion of total revenues increased from 12% to 11%.

(17) OTHER OPERATING INCOME

Other operating income is composed of the following items:

in EUR thousand	2016	2015
Income from currency translation gains	95	346
Gains from the disposal of fixed assets	1	0
Miscellaneous	180	343
	276	**689**

Income from currency gains of EUR 95 thousand is attributable to financial instruments.

(18) OTHER OPERATING EXPENSES

Other operating expenses relate to the following items:

in EUR thousand	2016	2015
Currency translation losses	216	166
Other taxes	1	62
Income from the disposal of consolidated companies	0	1
Restructuring costs	972	0
Miscellaneous	0	130
	1,189	**359**

Expenses from currency translation losses of EUR 216 thousand were attributable to financial instruments. The restructuring costs primarily comprise personnel expenses. For additional explanatory comments, see the statements in the Management Report.

(19) INTEREST INCOME AND INTEREST EXPENSES

Interest income of EUR 20 thousand (2015: EUR 30 thousand) consists primarily of interest on bank balances. Interest expenses amounted to EUR 279 thousand (2015: EUR 179 thousand), and are mainly the result of interest expenses for liabilities to banks for the 2016 fiscal year.

(20) INCOME TAXES

Income tax liabilities on the balance sheet date amounted to EUR 71 thousand (2015: EUR 141 thousand) and relate to foreign income taxes for 2016.
The Company recognizes and measures income taxes using the balance sheet liability method in accordance with IAS 12. Deferred taxes are calculated at the respective national income tax rates. The calculation of deferred taxes for the domestic companies for December 31, 2016 was based on a corporate income tax rate of 15% (2015: 15%) plus the solidarity surcharge of 5.5% (2015: 5.5%) and an effective expected trade tax rate of 15.76% (2015: 15.76%).

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

in EUR thousand	2016	2015
Current taxes		
Abroad	194	292
Germany	(11)	2
Deferred taxes		
Abroad	(10)	(19)
Germany	174	(261)
	347	**14**

The Group tax rate of 31.584% applicable in fiscal year 2016 (2015: 31.584%) was multiplied by IFRS earnings before taxes to calculate the expected tax expense. Tax rates in a bandwidth from 16% to 40% were taken into account for the foreign subsidiaries.

The tax rate reconciliation contains the following details:

in EUR thousand	2016	2015
IFRS pretax income	(2,641)	19
Corporate tax rate	31.584%	31.584%
Expected tax expense/ tax income	(834)	6
Effects of changes in tax rates and different rates of foreign taxation	81	214
Effects of non-recognition of deferred taxes or utilization of tax losses	1,067	(601)
Permanent effects, tax refunds	17	374
Taxes of prior years	15	30
Effects of changes in basis of consolidation and others	1	(9)
Income taxes	**347**	**14**

The components of the deferred tax assets were as follows:

in EUR thousand	2016	2015
Taxes on eligible loss carryforwards	2,402	2,402
Inventories	264	0
Provisions/Liabilities	185	149
	2,851	**2,551**
Offset	(1,783)	(1,321)
Deferred tax assets after offset	**1,068**	**1,230**
Intangible assets	1,369	1,321
Provisions/Liabilities	414	0
Offset	(1,783)	(1,321)
Deferred tax liabilities after offset	**0**	**0**
Net deferred tax assets	**1,068**	**1,230**

Deferred tax assets are recognized for temporary differences and for tax loss carryforwards in the amount of the expected reduction in tax expense in subsequent fiscal years to the extent that it is probable that they will be used. As of December 31, 2016 and in accordance with IAS 12.24, deferred tax assets were only recognized in the amount of taxable profit probably available in the future. Deferred tax assets are predominantly noncurrent. Of the recognized deferred taxes, EUR 138 thousand are deemed current. Deferred tax liabilities for withholding taxes on capital for subsidiaries were not recognized.

For the year ended December 31, 2016, the Company had net loss carryforwards for tax reporting purposes in various tax jurisdictions as follows:

in EUR thousand	2016	2015
U.S. Federal	111,375	110,616
U.S. State	39,022	99,220
German corporate income tax	182,886	179,509
German municipal trade tax	176,775	173,629
Other	449	425

U.S. federal and state net operating loss carryforwards expire in various fiscal periods through 2036. The change in the US taxes primarily results from the change in legislation in the State of New York and the currency translation and utilization. Deferred taxes on foreign loss carryforwards were not recognized. The loss carryforwards for German income taxes relate to corporate income taxes and trade taxes, and can be carried forward indefinitely. The change in German loss carryforwards results from the findings of the company audit 2007-2012, and from ongoing losses of the year 2016. With regard to the remaining loss carryforwards, no deferred tax assets were entered for corporate tax purposes in the amount of EUR 175,281 thousand (2015: EUR 171,932 thousand) and for trade taxes in the amount of EUR 169,170 thousand (2015: EUR 166,053 thousand).

(21) EARNINGS PER SHARE

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

in EUR thousand	**2016**	**2015**
Basis for calculating basic and diluted earnings per share (earnings after tax)	(2,988)	5
Weighted average number of ordinary shares used to calculate basic and diluted earnings per share	31,683	31,683
Earnings per share (basic/diluted) (in EUR)	**(0.09)**	**0.00**

If the diluted earnings reduce the loss per share or increase earnings per share, an adjustment is made to the amount of basic earnings per share (antidilutive effect) in accordance with IAS 33.43. If a basic result and diluted result are the same, this may be disclosed in one row as per IAS 33.67. In accordance with IAS 33.64 the calculation of the number of shares was adjusted retrospectively for the prior year.

Notes to the Cash Flow Statement

Cash comprises exclusively the cash and cash equivalents reported in the balance sheet. Restricted cash was not included. In the cash flow statement, cash flows are classified into net cash provided by/used in operating, investing, and financing activities. Cash flows from operating activities are calculated on the basis of earnings before tax, adjusted for noncash income and expenses, and of the changes in operating assets and liabilities compared with last year's balance sheet.

The cash used for ongoing business activities totaled EUR 862 thousand in 2016 compared to a cash inflow of EUR 4,967 thousand in 2015. This decline is mainly due to the loss for the year. Non-cash impairment losses decreased to EUR 2,495 thousand (2015: EUR 3,296 thousand). Cash outflows from investing activities increased slightly from EUR 2,303 thousand in the prior year to EUR 2,433 thousand. The payments for investments in intangible assets included in this figure increased by EUR 168 thousand to EUR 2,336 thousand. The restricted cash of EUR 375 thousand are released cash funds from the collateral in connection with the subsidiary SoQuero GmbH sold in 2014. The cash used for financing activities amounted to EUR 1,000 thousand (2015: cash inflow of EUR 6,258 thousand due to the bank loan and a capital increase). The cash from the repayment of loans totaled EUR 2,200 thousand. This includes an amount of EUR 1,000 thousand for the scheduled repayment and the one-off effect in the amount of EUR 1,200 thousand resulting from the repayment of restricted cash. We refer to the statements in the sections „(8) Liabilities to banks". In total, there was a net cash outflow of EUR 4,334 thousand in the 2016 fiscal year compared to a cash inflow of EUR 8,874 thousand in the prior year. On the balance sheet date, Intershop had freely available cash and cash equivalents of EUR 10,898 thousand (December 31, 2015: EUR 15,232 thousand).

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

Other Disclosures

Segment reporting

Segment reporting as of December 31, 2016

in EUR thousand	Europe	USA	Asia/ Pacific	Consoli- dation	Group
Revenues from external customers					
Product Revenues	**11,638**	**757**	**1,274**	**0**	**13,669**
Licenses	4,969	164	524	0	**5,657**
Maintenance	6,669	593	750	0	**8,012**
Service Revenues	**13,519**	**2,430**	**4,570**	**0**	**20,519**
Consulting and training	10,548	2,147	3,239	0	**15,934**
Full Service	2,971	283	1,331	0	**4,585**
Total revenues from external customers	**25,157**	**3,187**	**5,844**	**0**	**34,188**
Intersegment revenues	177	12	151	(340)	**0**
Total revenues	**25,334**	**3,199**	**5,995**	**(340)**	**34,188**
Cost of revenues	13,581	1,716	3,155	0	**18,452**
Gross profit	**11,576**	**1,471**	**2,689**	**0**	**15,736**
Operating expenses, operating income	13,435	1,777	2,906	0	**18,118**
Result from operating activities	**(1,859)**	**(306)**	**(217)**	**0**	**(2,382)**
Financial result					**(259)**
Earnings before tax					**(2,641)**
Income taxes					**(347)**
Earnings after tax					**(2,988)**
Assets	19,954	2,521	4,636	0	**27,111**
Depreciation and amortization	1,836	232	427	0	**2,495**

Segment reporting as of December 31, 2015

in EUR thousand	Europe	USA	Asia/ Pacific	Consoli- dation	Group
Revenues from external customers					
Product Revenues	**11,948**	**4,250**	**1,201**	**0**	**17,399**
Licenses	5,703	3,068	557	0	**9,328**
Maintenance	6,245	1,182	644	0	**8,071**
Service Revenues	**15,994**	**4,776**	**4,552**	**0**	**25,322**
Consulting and training	11,738	4,249	3,353	0	**19,340**
Full Service	4,256	527	1,199	0	**5,982**
Total revenues from external customers	**27,942**	**9,026**	**5,753**	**0**	**42,721**
Intersegment revenues	310	82	484	(876)	**0**
Total revenues	**28,252**	**9,108**	**6,237**	**(876)**	**42,721**
Cost of revenues	15,445	4,983	3,188	0	**23,616**
Gross profit	**12,497**	**4,043**	**2,565**	**0**	**19,105**
Operating expenses, operating income	12,385	3,996	2,556	0	**18,937**
Result from operating activities	**112**	**47**	**9**	**0**	**168**
Financial result					**(149)**
Earnings before tax					**19**
Income taxes					**(14)**
Earnings after tax					**5**
Assets	21,561	6,956	4,451	0	**32,968**
Depreciation and amortization	2,156	695	445	0	**3,296**

The segment reporting is prepared in accordance with IFRS 8, Operating Segments. Segmentation reflects the internal management and reporting by the Company's management. The operating segments were determined mainly by the different geographical regions in which business activities take place. In this context, Intershop distinguishes between the Europe, USA, and Asia-Pacific segments. The business segments that must be reported generated their revenues on the one hand from product revenues, which also include the sale of software licenses and associated maintenance. They also generated service revenues from the provision of various services that are divided into consulting and training and full service.

The operating segments are broken down as follows:
The segment "Europe" includes the sales activities of INTERSHOP Communications AG, Intershop Communications LTD and Intershop Communications SARL. The segment "USA" includes the sales activities of Intershop Communications Inc. mainly in North America as well as the sales activities of INTERSHOP Communications AG in this region. The segment "Asia/Pacific" includes the sales activities of the Group in that region, including the sales activities of INTERSHOP Communications Australia Pty Ltd. and Intershop Communications Asia Limited. The segment "Consolidation" includes all transactions in the individual segments.

Notes to the content of the individual line items:

- Revenues from external customers represent revenues from the segments with third parties outside the Group.
- Intersegment revenues include revenues from intersegment relationships. These revenues are recognized in the same way as those from external third parties.
- The cost of revenues comprises the costs attributed to each operating segment for generating its revenues.
- Gross profit, which is calculated as the difference between segment revenues and the cost of revenues, is the first assessment level for management decisions.
- Operating expenses and income comprise research and development expenses, sales and marketing costs, general and administrative expenses, and other operating expenses and income that are attributable to the relevant segments. Other operating expenses and income also include the effects of one-time expenses and income such as Restructuring costs in 2016, and currency losses and gains.
- The result from operating activities (EBIT), which is the gross profit or loss less operating expenses and income, forms the basis for assessing the performance of the segments.
- Interest income and income taxes are not allocated to the segments as the relevant transactions are managed by the Group.
- Segment assets comprise the Intershop Group's noncurrent and current assets that are allocated to the respective segment on the basis of the percentage revenue breakdown. No other measurement of segment assets is used.
- Depreciation and amortization relates to the depreciation and amortization of the segment assets allocated to the individual regions.
- In 2016 and 2015, there were no significant non-cash income and expenses.

All amounts reported in the "Group" column in the segment reporting reflect the Group figures from the statement of comprehensive income or the balance sheet. Adding together the amounts for the operating segments produces the Group figures.

The Company is domiciled in Germany. Revenues from external customers that were generated in Germany amounted to EUR 13,800 thousand (2015: EUR 16,279 thousand). Revenues of EUR 20,388 thousand (2015: EUR 26,442 thousand) were recorded from external customers in other countries. The amount of EUR 6,151 thousand of the revenues relates to customers in the Netherlands (2015: EUR 8,853 thousand to customers in the United States). Total noncurrent assets excluding deferred taxes amounted to EUR 9,337 thousand (2015: EUR 10,214 thousand) in Germany and EUR 88 thousand (2015: EUR 95 thousand) in other countries. The Company does not have any assets relating to financial instruments associated with pensions or rights arising from insurance contracts. During the fiscal year and prior year, there were no relations with individual customers whose percentage of total sales was at least 10% of the group's total revenues.

Operating-leases

Office space and furniture and fixtures are leased within the scope of „operating leases." The minimum long-term lease payments relate mainly to rental obligations for the Company's headquarters in Jena, whose lease agreement has an indefinite term and may be terminated by Intershop at any time, giving notice of 18 months as per the end of the respective quarter.
The cumulated minimum lease payments to be paid from non-cancellable operating lease arrangements are as follows:

in EUR thousand	Dec. 31, 2016	Dec. 31, 2015
Due within 1 year	2,546	2,438
Due in 1 to 5 years	2,041	1,906
Due after more than 5 years	0	7
Total	**4,587**	**4,351**

The sum of future minimum payments arising from subleases amounted to EUR 323 thousand (2015: EUR 319 thousand) as of the balance sheet date. Rental expense of EUR 2,265 thousand (2015: EUR 2,454 thousand) was recognized in the income statement. Rental income amounted to EUR 799 thousand (2015: EUR 796 thousand), which was offset in full against rental expenses in both years.

Litigations/contingent liabilities

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

The Company is asserting claims for payment from a contractual agreement from the year 2013. The contractual partner has filed a counter claim. The Company is defending itself against this and is of the opinion that the claims asserted by the contractual partner have no foundation based on the merits of the case and that the amount is also without justification. At this time, the proceedings have been suspended pursuant to section 240 ZPO due to the insolvency of the contractual partner. The receivables were fully removed from the books in previous years.

In July 2014, the Company was served with an annulment and rescission lawsuit by the shareholder GSI Commerce Solutions, Inc. who filed the suit before the Regional Court of Gera against the resolution of item 6 (special audit) which was adopted at the regular Stockholders' Meeting of June 12, 2014. The proceedings ended with a court settlement by way of conciliation proceedings pursuant to section 278 (6) ZPO on July 13, 2015. After an intervenor objected to the validity of the settlement established by the court decision and submitted an application to continue the proceedings before the Gera Regional Court, this intervenor withdrew the applications in April 2016.

In addition to the litigations 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.

Financial instrument disclosures

Intershop is exposed to certain risks with regard to its assets, liabilities, and transactions, in particular liquidity and default risk. The Company's risk management system is explained in detail in the management report.

The Company manages its capital structure with the aim of achieving its corporate goals through financial flexibility. The Group's overall strategy is unchanged compared to the prior year. The partial repayment of debt has increased the equity ratio by one percentage point over the prior year. In total, the capital structure has changed as follows, and is within the planning range:

in EUR thousand	Dec. 31, 2016	Dec. 31, 2015	Change
Equity	16,055	19,081	-16%
Liabilities to banks	3,772	5,949	-37%
Trade accounts payable	1,350	2,066	-35%
Other liabilities	5,934	5,872	1%
Equity ratio	59%	58%	

The equity ratio is the ratio of equity to total assets.

CATEGORIES OF FINANCIAL INSTRUMENT

The following table shows the classification of financial instruments required by IFRS 7 as well as the fair values of the financial instruments that are recognized in the balance sheet at amortized cost and their carrying amounts:

in EUR thousand		Dec. 31, 2016	Dec. 31, 2015
Measurement	**Categories**	**Carrying amount**	**Carrying amount**
Measured at amortized cost			
ASSETS			
Other noncurrent assets	Loans and receivables	52	50
Trade receivables	Loans and receivables	5,129	5,338
Restricted cash	Loans and receivables	0	1,575
Cash and cash equivalents	Loans and receivables	10,898	15,232
Other receivables and other assets		591	484
of which gross amount due from customers for contract work		0	9

in EUR thousand		Dec. 31, 2016	Dec. 31, 2015
Measurement	**Categories**	**Carrying amount**	**Carrying amount**
LIABILITIES			
Trade payables	Financial liabilities measured at amortized cost	1,350	2,066
Liabilities to banks	Financial liabilities measured at amortized cost	3,772	5,949
Other current liabilities		2,911	2,653
of which financial liabilities measured at amortized cost		1,163	1,275

Carrying amount aggregated by measurement category	**2016**	**2015**
Loans and receivables	16,079	22,195
Financial liabilities measured at amortized cost	6,285	9,290

Net gain/loss per measurement category	**2016**	**2015**
Loans and receivables	(2)	18
Financial liabilities measured at amortized cost	(292)	(170)

With regard to the existing financial instruments, with the exception of liabilities to banks, the contractual maturities of most of the existing financial instruments are within one year of the balance sheet date. Therefore their book values on the balance sheet date correspond to the fair values. With regard to the liabilities to banks, the fair values are calculated as the present values of the payments associated with the liabilities, using market interest rates (on December 31, 2016: EUR 4,025 thousand). The calculation of the fair value of the financial liability for the purpose of providing information in the Notes was performed on the basis of Level 2 of the Fair Value Hierarchy (recognized DCF measurement method, using observable market parameters, in particular market interest rates).

NON-PAYMENT RISKS

The Company is exposed to a potential default risk mainly from its trade receivables. The Company performs ongoing creditworthiness checks on its customers. The default risk with regard to trade receivables is also mitigated by the fact that the Company has a broad customer base. In addition, the Company does not demand collateral for its receivables. In the case of larger contracts, this risk is reduced by agreements on advance payments or partial payments based on the stage of completion of the contract. Appropriate allowances are also recognized. The value adjustments are particularly due to late payments or problems with the customer's creditworthiness as well as legal disputes with the customer. The value adjustment is measured based on the assessment and evaluation of the chances of success. Particularly in the case of legal disputes with customers, there is an increased residual risk of further value adjustments in the following fiscal years, since the management's assessment of the outcome of the proceedings may deviate from the judicial decision.

The Company's cash and cash equivalents are largely invested with German, U.S. American banks and Australian banks in secure investments. There is no significant default risk here. The Company regularly monitors current and future returns. The maximum default risk relating to financial assets is their carrying amounts in the balance sheet.

LIQUIDITY RISK

The Company monitors the liquidity risk with regularly updated short- and medium-term financial planning activities. Of the bank loan taken up in the 2015 fiscal year in the amount of EUR 6,000 thousand, a total amount of EUR 2,200 thousand has been repaid in 2016, EUR 1,000 thousand of which was scheduled repayment and EUR 1,200 thousand was special repayment. The cash in banking accounts totaled EUR 10,898 thousand at the balance sheet date.
The following table shows the future undiscounted cash flows of financial liabilities that will affect the Company's future liquidity situation:

Financial liabilities in EUR thousand	**Carrying amount at Dec. 31, 2015**	**Cash flow in 2016**	**Carrying amount at Dec. 31, 2016**	**Cash flow in 2017**	**Cash flow after 2017**
Noncurrent liabilities to banks	4,949	0	2,772	0	3,023
Current liabilities to banks	1,000	1,296	1,000	1,179	0
Trade accounts payable	2,064	2,064	1,350	1,350	0
Other current liabilities	1,275	1,275	1,163	1,163	0

INTEREST RATE RISK

An interest rate risk could arise from a change in market interest rates for medium- or long-term liabilities. Intershop does not incur an interest risk since the Company has a bank loan with a fixed interest rate over the term of the loan.

CURRENCY RISK

Certain transactions in the Intershop Group are denominated in foreign currencies. This leads to risks from exchange rate fluctuations. In general, Intershop hedges invoices in foreign currencies with currency options. As of the balance sheet date, there were no currency options. Intershop is primarily exposed to exchange rate risk relating to the U.S. dollar and the Australian dollar. The carrying amount of the Group's monetary assets and liabilities denominated in these currencies was as follows at the balance sheet date:

	Assets		**Liabilities**	
in EUR thousand	**2016**	**2015**	**2016**	**2015**
in USD	428	968	0	23

The carrying amount of the monetary assets and debt of the Group denominated in Australian dollars total AUD 0 at the balance sheet date (2015: AUD 0).
The following table shows the sensitivity of a 10% rise or fall in the euro against the two currencies from the Group's perspective. The sensitivity analysis merely comprises outstanding monetary items denominated in foreign currency and adjusts their translation at the end of the period to reflect a 10% change in the exchange rates.

	Earnings after tax USD		**Earnings after tax AUD**	
in EUR thousand	**2016**	**2015**	**2016**	**2015**
Change due to 10% appreciation of the euro	(5)	(11)	0	0
Change due to 10% depreciation of the euro	7	14	0	0

Related party disclosures

Intershop maintained business relationships with the consolidated subsidiaries. The Company's largest individual stockholder, eBay Enterprises Inc., with whom business relationships were maintained, sold its participating interest of 24.9% in April 2016. The participating interest is now held by Shareholder Value Management AG and Shareholder Value Beteiligungen AG; no business relationships are maintained with these parties. We refer to the section on „Disclosures according to section 289 (4) and section 315 (4) HGB with an explanatory report according to sec 176 (1) p. 1 AktG" in the Management Report.

With respect to the remuneration for Supervisory Board and Management Board members, please refer also to the remuneration report in the management report.

Disclosure requirements under German law

MEMBERS OF THE EXECUTIVE BODIES

The Management Board comprised in 2016 the following members:

Name	Function	Term of office
Dr. Jochen Wiechen	CEO	since 08/01/2013 (CEO since 09/01/2015)
Axel Köhler	Member of the Management Board	since 09/01/2015

The Supervisory Board comprised the following members in 2016:

Name	Function	Term of office
Christian Oecking	Chairman of the Supervisory Board	since 06/02/2016
Ulrich Prädel	Vice Chairman of the Supervisory Board	since 12/01/2016 (Vice Chairman of the Supervisory Board since 12/16/2016)
Prof. Dr. Louis Velthuis	Member of the Supervisory Board	since 06/02/2016
Dr. Herbert May	Chairman of the Supervisory Board	10/19/2010 – 06/02/2016 (Chairman 11/17/2010 – 06/02/2016)
Dr. Kai Hudetz	Vice Chairman of the Supervisory Board	06/12/2013 – 06/02/2016 (Vice Chairman 05/13/2015 – 06/02/2016)
Dr. Harald Schrimpf	Vice Chairman of the Supervisory Board	05/01/2015 – 11/30/2016 (Vice Chairman 06/02/2016 – 11/30/2016)

Total remuneration paid to the Management Board for its activities for fiscal year 2016 amounted to EUR 534 thousand (2015: EUR 838 thousand), of which EUR 510 thousand (2015: EUR 637 thousand) relate to fixed remuneration and EUR 24 thousand (2015: EUR 201 thousand) to variable components. In fiscal year 2016, the members of the Supervisory Board were entitled to a total remuneration of EUR 136 thousand (2015: EUR 180 thousand; actual remuneration payable EUR 140 thousand due to relinquishment), which exclusively includes fixed compensation (prior year: fixed remuneration of EUR 120 thousand and variable portion of EUR 60 thousand, thereof waived remuneration of EUR 40 thousand). The payments of the Management Board and Supervisory Board consist exclusively of benefits due in the short term. The particulars regarding the remuneration of the Management Boards and Supervisory Boards are outlined in the remuneration reports as part of the combined Group management report and management report of INTERSHOP Communications AG.

DIRECTORS' HOLDINGS AND SECURITIES TRANSACTIONS SUBJECT TO REPORTING REQUIREMENTS

As of December 31, 2016, the following members of the Company's executive bodies held Intershop ordinary bearer shares:

Name	Function	Shares
Christian Oecking	Chairman of the Supervisory Board	10,000
Prof. Dr. Louis Velthuis	Member of the Supervisory Board	5,000
Dr. Jochen Wiechen	CEO of the Management Board	60,000
Axel Köhler	Member of the Management Board	6,500

The Chairman of the Supervisory Board Mr. Christian Oecking acquired another 10,000 shares in the Company on February 6, 2017; the Deputy Chairman Mr. Ulrich Prädel acquired 8,000 shares on February 1, 2017.

In the fiscal year 2016, the members of the company's executive bodies made the following purchases of Intershop ordinary bearer shares.

Name	Date	Type of transaction	Amount	Total value (EUR)
Dr. Jochen Wiechen	11/30/2016	Purchase	10,000	10,800
Dr. Jochen Wiechen	05/11/2016	Purchase	20,000	29,260
Axel Köhler	05/20/2016	Purchase	6,500	9,483
Prof. Dr. Louis Velthuis	06/06/2016	Purchase	5,000	7,600
Dr. Harald Schrimpf	06/16/2016	Purchase	2,000	2,920

EMPLOYEES

During the fiscal year 2016, Intershop Group had an average of 373 full-time employees, of whom 371 were salaried employees and 2 members of the executive bodies (2015: 385 full-time employees, of whom 382 were salaried employees and 3 members of the executive bodies).

PERSONNEL EXPENSES AND COST OF MATERIALS

Personnel expenses totaled EUR 24,623 thousand (2015: EUR 26,931 thousand); of which EUR 21,273 thousand relate to wages and salaries (2015: EUR 23,381 thousand) and EUR 3,350 thousand to social security contributions (2015: EUR 3,550 thousand). Material expenses totaled EUR 2,702 thousand (2015: EUR 5,443 thousand); of which EUR 3,218 thousand relate to expenses for purchased services (2015: EUR 4,783 thousand).

AUDITOR´S FEES

The fees incurred for the services rendered by the auditor for the 2016 fiscal year were comprised of EUR 106 thousand for audit services (2015: EUR 106 thousand), EUR 43 thousand for tax advisory services (2015: EUR 78 thousand) and EUR 1 thousand for other services (2015: EUR 1 thousand).

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There have been no significant reportable events after the balance sheet date.

DECLARATION OF CONFORMITY

The Company has issued a declaration of conformity as required by section 161 of the Aktiengesetz by the annual deadline on December 16, 2016, and made this declaration permanently available to its stockholders.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Jena, March 1, 2017

The Management Board of INTERSHOP Communications AG

Dr. Jochen Wiechen

Axel Köhler

AUDITOR´S REPORT

We have audited the consolidated financial statements prepared by INTERSHOP Communications Aktiengesellschaft, Jena, comprising the balance sheet, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report of INTERSHOP Communications Aktiengesellschaft, Jena, which is combined with the management report of the Company, for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB [„Handelsgesetzbuch”: German Commercial Code] are the responsibility of the Company’s Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany - IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and in the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company’s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements, meets the statutory regulations, and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Erfurt, March 1, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Andreas Kremser)	(sgd. ppa. Carl Erik Daum)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FINANCIAL STATEMENTS

04

04

Balance Sheet INTERSHOP Communications AG

in EUR	December 31, 2016	December 31, 2015
ASSETS		
Fixed Assets		
Intangible assets		
Internally developed software	2,202,514	0
Purchased software licenses	5,661	41,196
Property and equipment		
Other facilities, furniture, and equipment	531,471	317,043
Financial Assets		
Investments in affiliated companies	9,173,962	8,873,962
	11,913,608	**9,232,201**
Current Assets		
Inventories		
Work in process	835,113	15,598
Payments on account	0	9,600
	835,113	25,198
Receivables and other assets		
Accounts receivable	3,430,540	3,902,111
Receivables from affiliated companies	4,198,180	6,214,672
Other assets	141,299	116,506
	7,770,019	10,233,289
Cash-in-hand, bank balances	8,136,325	11,734,090
	16,741,457	**21,992,577**
Prepaid expenses	**346,570**	**275,613**
TOTAL ASSETS	**29,001,635**	**31,500,391**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' Equity		
Common stock	31,683,484	31,683,484
Capital reserves	6,595,281	6,595,281
Accumulated deficit	(20,648,661)	(19,148,281)
	17,630,104	**19,130,484**
Accrued Liabilities		
Provisions for taxes	339	17,300
Other accrued liabilities	2,741,400	3,458,457
	2,741,739	**3,475,757**
Liabilities		
Bank loans	3,800,000	6,000,000
Advance payments received	1,422,942	48,100
Accounts payable	220,491	145,743
Liabilities to affiliated companies	1,270,336	770,110
Other liabilities	515,988	387,709
thereof from taxes: EUR 442,427 (prior year: EUR 277,446)		
thereof from social security benefits: EUR 19,023 (prior year EUR 18,569)		
	7,229,757	**7,351,662**
Deferred income	**1,400,035**	**1,542,488**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**29,001,635**	**31,500,391**

Statement of Operations of INTERSHOP Communications AG

in EUR	January 1 to December 31, 2016	2015
Revenues	26,039,436	33,468,980
Increase or decrease in inventories of work in progress	819,515	(119,677)
Other own work capitalized	2,333,965	0
Other operating income	1,205,667	2,357,292
Cost of Materials		
Cost of purchased merchandise	(58,724)	(692,267)
Cost of purchased services	(2,130,577)	(2,973,720)
Personnel Costs		
Salaries	(17,043,211)	(18,038,090)
Social security contribution	(2,873,198)	(2,948,783)
Depreciation and amortization		
of intangible fixed assets and property and equipment	(407,396)	(400,508)
Other operating expenses	(9,311,494)	(10,254,070)
Other interest and similar income	182,810	190,793
thereof from affiliated companies EUR 170,454 (prior year: EUR 172,846)		
Interest and similar expenses	(207,140)	(131,054)
Taxes on income	(50,033)	(56,191)
Net loss/net income after tax	**(1,500,380)**	**402,705**
Other taxes	0	0
Net loss/net income for the year	**(1,500,380)**	**402,705**
Accumulated deficit carried forward	(19,148,281)	(19,550,986)
Accumulated Deficit	**(20,648,661)**	**(19,148,281)**

INTERSHOP Communications AG ("Intershop") is an Aktiengesellschaft (German stock corporation) under German law. The Company's registered office is at Intershop Tower, Leutragraben 1 in 07743 Jena, Germany. INTERSHOP Communications AG is entered in the commercial register of the Jena Local Court under number HRB 209419.

The annual financial statements of INTERSHOP Communications Aktiengesellschaft for fiscal year 2016 are prepared in accordance with the provisions of the HGB (German Commercial Code) and the AktG (German Stock Corporation Act). The Company is a large listed corporation as defined by sec. 267 (3) HGB. The fiscal year corresponds with the calendar year. The income statement is prepared using total expenditure format.

ACCOUNTING POLICIES

In the course of modification of the HGB due to the Bilanzrichtlinien-Umsetzungsgesetz (BilRUG) (German Accounting Directive Implementation Act), the classification of the income statement was modified and the sales revenues were reclassified. It is not necessary to adjust the prior year's figures and thus such adjustment was not made.

The accounting policies presented below basically remained the same as in the prior year. For internally generated intangible assets and property, the capitalization election set forth in sec. 248 para. 2 HGB was invoked for the first time in the 2016 fiscal year since this ensures conformity with the consolidated financial accounting and the Company's financial and earnings position is presented in a more clear and meaningful manner.

Internally generated intangible assets classified as development costs of newly developed software products were measured at cost of production less depreciation. The items were written off over the intended estimated useful life of three years from the time when the software was made available; the straight-line method was used. If required, impairment losses are recorded.

Acquired intangible fixed assets and property, plant and equipment are carried at cost, less scheduled, straight-line depreciation and any required non-scheduled write-downs. The scheduled depreciation is made over the average useful life of the fixed assets.

Low-value assets are written off in full in the year in which they are acquired as long as the cost does not exceed EUR 410. Up until 2015, a collective item was created for low-value assets with a value ranging from EUR 150 to EUR 1,000, which is depreciated over a period of five years.

Financial assets are entered at acquisition cost, reduced by the required value adjustments for impairments that are expected to be of a permanent duration.

Inventories (work in process) are measured at cost. In addition to direct materials and labor costs, they include an appropriate share of the necessary indirect materials and labor costs.

Cash is measured at its nominal value or at the mean spot rate at the balance sheet date.

Receivables and other assets are carried at their principal amounts, less any necessary valuation allowances.

Prepaid expenses and deferred charges are measured using the portion of expenses or income before the balance sheet date that represent expenses or income for a particular period after the balance sheet date.

Common stock are stated at par value.

Accrued liabilities cover all recognizable risks and are measured in the amount dictated by prudent business practice. They are measured at the settlement value deemed necessary by prudent business practice. Future price and cost increases are taken into consideration when accounting for provisions.

Liabilities are stated at their settlement value.

Current receivables and liabilities in a foreign currency were translated at the mean spot rate at the balance sheet date.

Differences between trade balance and tax balance as well as accumulated deficits carried forward result in deferred tax assets. Deferred taxes from temporary differences as specified in sec. 274 HGB resulted from the application of the Group's tax rate of 31.584% on the intangible assets and the other accrued liabilities. The Company did not make use of the option to account for the deferred tax assets pursuant to section 274(1) sentence 2 of the HGB (German Commercial Code).

NOTES TO THE ITEMS IN THE ANNUAL FINANCIAL STATEMENTS

Balance Sheet

Fixed assets changed as follows:

	Intangible Assets		Tangible Assets	Financial Assets	Total
in EUR thousand	Internally developed Software	Purchased Software licenses	Other equipment, operating and office equipment	Shares in affiliated companies	
Costs of purchase					
Balance at January 1, 2016	**0**	**1,870**	**4,038**	**41,204**	**47,112**
Additions	2,334	3	452	300	**3,089**
Disposals	0	(4)	(348)	0	**(352)**
Balance at December 31, 2016	**2,334**	**1,869**	**4,142**	**41,504**	**49,849**
Depreciation, write-downs, and impairment losses					
Balance at January 1, 2016	**0**	**1,829**	**3,721**	**32,330**	**37,880**
Additions	131	38	238	0	**407**
Disposals	0	(4)	(348)	0	**(352)**
Balance at December 31, 2016	**131**	**1,863**	**3,611**	**32,330**	**37,935**
Net carrying amount at December 31, 2015	**0**	**41**	**317**	**8,874**	**9,232**
Net carrying amount at December 31, 2016	**2,203**	**6**	**531**	**9,174**	**11,914**

The addition to internally generated software results from the first-time capitalization of software development costs. Overall, development costs of EUR 8,257 thousand were incurred in the 2016 fiscal year. The capitalization of the software development costs led to a restricted amount of EUR 2,334 thousand as set forth in sec. 268 (8) HGB. Out of the financial assets, EUR 8,863 thousand are allocated to Intershop Communications Inc. There were non-scheduled impairment losses at the lower fair value on the shares in Intershop Communications Inc. in the prior years. Due to the results that followed as well as after the current corporate planning, there are currently no indications for further write-downs with Intershop Communications Inc.

The receivables from affiliated companies in the amount of EUR 1,900 thousand (prior year: EUR 2,200 thousand) relate to Group financing and have a remaining term of more than one year (prior year: EUR 1,100). The other receivables from affiliated companies relate to current business service relationships. All other receivables and other assets have a remaining maturity of up to one year, as in the prior year.

The share capital in the amount of EUR 31,683,484 consists of 31,683,484 no-par value bearer shares.

The capital reserve totaled EUR 6,595 thousand, just like at the prior year's balance sheet date. The accumulated deficit contains a loss carryforward from previous years in the amount of EUR 19,148 thousand.

Other provisions primarily consist of outstanding invoices (EUR 626 thousand; prior year: EUR 945 thousand), commissions (EUR 520 thousand; prior year: EUR 880 thousand) as well as provisions for restructuring (EUR 400 thousand; prior year: EUR 0 thousand). The remaining provisions consist expenses relating to the preparation of the financial statements and the Annual Stockholders' Meeting, vacation entitlements, pending losses from ongoing rental obligations and executory contracts, and license fees.

Liabilities comprise the following:

in EUR thousand	**Remaining term of up to one year**	**Remaining term of more than one year**	**Total December 31, 2016**	**Total December 31, 2015**
Bank loans	1,000	2,800	3,800	6,000
Advance payments received	1,423	-	1,423	48
Accounts payable	221	-	221	146
Liabilities to affiliated companies	1,270	-	1,270	770
Other liabilities	516	-	516	388
	4,430	**2,800**	**7,230**	**7,352**

Liabilities to banks are secured with an indemnity bond covering 80% of the loan amount from the state of Thuringia, a blanket assignment of customer receivables from deliveries and services and the approval of a distribution license for the Intershop software. The other liabilities mainly include liabilities from ongoing payroll accounting. Receivables from affiliated companies relate to deliveries of goods and services, as in the prior year.

Statement of Operations

Due to first-time adoption of the BilRUG in the 2016 fiscal year, the revenues reported in 2016 are not directly comparable to those in 2015. Applying the new definition of revenues in the 2015 fiscal year, the turnover would total EUR 34,506 thousand. The reason for this is the reclassification of income from subletting (EUR 778 thousand) and income from head office charges (EUR 259 thousand) from other operating income to sales revenues.

The following table shows a breakdown of revenues by region:

in EUR thousand	2016	2015
Germany	13,300	16,394
Rest of Europe	11,378	11,810
Rest of the world excluding Europe	1,361	5,265
	26,039	**33,469**

Revenues of EUR 11,764 thousand (prior year: EUR 16,564 thousand) relate to product revenues (Licenses and Maintenance) and EUR 14,275 thousand (prior year: EUR 16,905 thousand) to revenues from services (Consulting and Training, Full Service and Other).

Other operating income includes income from currency translation of EUR 70 thousand (prior year: EUR 77 thousand).

Of the other operating income, EUR 826 thousand is related to previous periods. They are mainly the result of the reversal of provisions.

Other operating expenses include impairment losses on receivables from affiliated companies of EUR 64 thousand (prior year: EUR 81 thousand) and expenses of EUR 147 thousand (prior year: EUR 58 thousand) from currency translation.

The expenses comprise costs for restructuring measures in the amount of EUR 862 thousand, with EUR 571 thousand relating to personnel expenses and EUR 291 thousand relating to other operating expenses.

OTHER DISCLOSURES

Authorized capital

As at December 31, 2016, the Company had authorized capital in the amount of EUR 6,336,000 (December 31, 2015: EUR 6,000,000). The Annual Stockholders' Meeting on June 2, 2016 newly created the authorized capital revoking the previous approval by way of resolutions modifying the articles of association. The new authorized capital, together with the change to the articles of association, was entered in the commercial register on June 23, 2016. According to the articles of association of INTERSHOP Communications AG, the Management Board is authorized, subject to approval by the Supervisory Board, to increase the capital stock by issuing new ordinary stocks as follows:

- By a total of EUR 6,336,000 by issuing up to 6,336,000 new bearer shares against cash contributions and/or non-cash capital contributions (Authorized Capital I). The Management Board's authorization applies until June 23, 2021. The Management Board is authorized, subject to approval of the Supervisory Board, to suspend the stockholders' subscription rights in certain cases.

Conditional capital

As of the balance sheet date, the Company did not have any conditional capital.

As of the balance sheet date, Shareholder Value Management AG, together with Shareholder Value Beteiligungen AG, held 24.90%, and BNY Mellon Service Kapitalanlage-Gesellschaft mbH held another 9.33% of the shares in INTERSHOP Communications AG. Information regarding the participating interests is based on the notifications pursuant to section 21 (1) WpHG (German Securities Trade Act) submitted by the Company according to section 26 (1) WpHG regarding changes to voting rights during the 2016 fiscal year. As of the balance sheet date, the free float of INTERSHOP Communications AG came to a total of 65.77%.

Disclosures pursuant to section 285 No. 3 of the HGB, contingent liabilities and other financial liabilities

Other financial obligations of EUR 4,146 thousand (prior year: EUR 3,917 thousand) exist from rental agreements and from leasing agreements for vehicles and office equipment. The term of the agreement or the earliest possible termination dates were used as a basis for the calculation. Financial obligations from rental agreements relate mainly to the rental agreement for the business premises of the Company at the head office. The rental and leasing agreements contain the typical benefits and risks. The maturities of the other financial liabilities are broken down as follows:

in EUR thousand	due 2017	due 2018 to 2021	due after 2021	Total Dec.31,2016	Total Dec.31,2015
Rental agreements	2,154	1,654	0	**3,808**	3,588
Leases	129	209	0	**338**	329
Total	**2,283**	**1,863**	**0**	**4,146**	**3,917**

Employees

The Company had an average of 322 employees (salaried employees only) during fiscal year 2016 (prior year: 332 employees).

Executive bodies of the Company

The Supervisory Board comprised the following members in fiscal year 2016:

CHRISTIAN OECKING

Chairman of the Supervisory Board since 06/02/2016
Senior Advisor
Other supervisory board mandates:
Sepicon AG, Düsseldorf (Vice Chairman)
Hexaware Technologies, India

ULRICH PRÄDEL

Vice Chairman of the Supervisory Board since 12/16/2016
Member since 12/01/2016
Executive Advisor
Other supervisory board mandate:
Matrix42 AG, Frankfurt am Main

PROF. DR. LOUIS VELTHUIS

Member since 06/02/2016
Professor to the Chair for controlling at the Faculty of Law, Management and Economics at the Johannes Gutenberg University in Mainz

DR. HERBERT MAY

Chairman of the Supervisory Board from 11/17/2010 to 06/02/2016
Member from 10/19/2010 to 06/02/2016
Dipl.-Ingenieur (Engineer), Managing Partner of Dr. May Management Beratungs- und Beteiligungs GmbH, Berlin
Other supervisory board mandate:
brainloop AG, Munich

DR. KAI HUDETZ

Vice Chairman of the Supervisory Board from 05/13/2015 to 06/02/2016
Member 06/12/2013 to 06/02/2016
Managing Director of IFH Institut für Handelsforschung GmbH, Cologne

DR.-ING. HARALD SCHRIMPF

Vice Chairman of the Supervisory Board from 06/02/2016 to 11/30/2016
Member from 05/01/2015 to 11/30/2016
CEO of the PSI AG, Berlin

The Management Board included the following persons:

DR. JOCHEN WIECHEN

Dipl.-Physiker
CEO
Responsibilities: technical departments, administrative departments, including Finance and Communication
CEO of the Management Board since 09/01/2015
Member of the Management Board since 08/01/2013

AXEL KÖHLER

Dipl.-Ingenieur
COO
Responsibilities: Sales, Marketing, and Professional Services
Member of the Management Board since 09/01/2015

COMPENSATION OF THE MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Total remuneration paid to the Management Board for its activities for fiscal year 2016 amounted to EUR 534 thousand (2015: EUR 838 thousand), of which EUR 510 thousand (2015: EUR 637 thousand) relate to fixed remuneration and EUR 24 thousand (2015: EUR 201 thousand) to variable components. In fiscal year 2016, the members of the Supervisory Board were entitled to a total remuneration of EUR 136 thousand (2015: EUR 180 thousand; actual remuneration payable EUR 140 thousand due to relinquishment), which exclusively includes fixed compensation (prior year: fixed remuneration of EUR 120 thousand and variable portion of EUR 60 thousand, thereof waived remuneration of EUR 40 thousand). The payments of the Management Board and Supervisory Board consist exclusively of benefits due in the short term. The particulars regarding the remuneration of the Management Boards and Supervisory Boards are outlined in the remuneration reports as part of the combined Group management report and management report of INTERSHOP Communications AG.

Intershop Group

As a listed company, INTERSHOP Communications AG prepares consolidated financial statements in accordance with IFRS and according to the provisions of section 315a of the HGB (German Commercial Code). The consolidated financial statements will be submitted to the Bundesanzeiger (German Federal Gazette). As of December 31, 2016, in addition to the parent company, the consolidated companies included the subsidiaries Intershop Communications, Inc., Intershop Communications Australia Pty Ltd., Intershop Communications Asia Limited, The Bakery GmbH, Intershop Communications Ventures GmbH, Intershop Communications SARL and Intershop Communications LTD.

The following list shows the subsidiaries of Intershop Communications AG and the Company's respective interest as of December 31, 2016:

	Interest in%	**Equity*** in EUR thousand	**Annual result**** in EUR thousand
Intershop Communications, Inc., San Francisco, USA	100	(1,179)	88
Intershop Communications Australia Pty Ltd, Melbourne, Australia	100	807	183
Intershop Communications Asia Limited, Hong Kong, China	100	9	(35)
Intershop Communications SARL, Paris, France	100	32	(5)
Intershop Communications LTD, Romsey, United Kingdom	100	(161)	68
The Bakery GmbH, Berlin, Germany	100	(3,890)	(47)
Intershop Communications Ventures GmbH, Jena, Germany	100	(1,328)	(17)

* Equity as of December 31, 2016 is translated at the exchange rate as of the reporting date

** Net income/loss for fiscal year 2016 is translated at the average annual rate

The expenses for auditors' fees are included in the notes to the Company's consolidated financial statements.

Declaration of Conformity in accordance with section 161 of the German Stock Corporation Act

The Company issued a declaration of conformity as required by section 161 of the Aktiengesetz on December 16, 2016 and made this declaration publicly available on the Company's website at http://www.intershop.com/investors-corporate-governance.

Events subsequent to the balance sheet date

There have been no significant reportable events after the balance sheet date.

Appropriation of net income/loss

The Management Board of Intershop Communications AG proposes to carry forward the accumulated deficit of EUR 20,648,661 to new account.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of INTERSHOP Communications AG, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company for the remaining months of the financial year.

Jena, March 1, 2017

The Management Board of INTERSHOP Communications AG

Dr. Jochen Wiechen   Axel Köhler

AUDITOR´S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which is combined with the group management report, of INTERSHOP Communications Aktiengesellschaft, Jena, for the business year from January 1 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law are the responsibility of the Company’s Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB [„Handelsgesetzbuch“: „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company’s Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The combined management report is consistent with the annual financial statements, meets the statutory regulations and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Erfurt, March 1, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

(sgd. Andreas Kremser)	(sgd. ppa. Carl Erik Daum)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD

CORPORATE GOVERNANCE REPORT

05

intershop®

Dear stockholders,

The 2016 fiscal year was marked by changes and economic development that did not meet our expectations. With our "Lighthouse 2020" strategy program, which was adopted in early October and clearly defines the strategic objectives of Intershop, we are optimistic about the new fiscal year.

In the 2016 fiscal year, the Supervisory Board properly performed its assigned tasks as per the applicable laws, the Articles of Association, as well as the by-laws. We consistently monitored and supported the management of the business by the Management Board and were involved in all corporate decisions of fundamental significance. The Management Board provided the Supervisory Board with information regarding business development, significant business transactions, as well as the most recent sales and earnings of the Company on a regular basis and in a timely and comprehensive manner, both verbally and in writing.

SUPERVISORY BOARD MEETINGS AND CONTENT

In the 2016 fiscal year, the Supervisory Board met in seven board meetings. In addition, the Board held eight conference calls. Furthermore, a strategy workshop was held in which we discussed the strategic direction of the Intershop Group. The Supervisory Board was fully represented at all meetings. The Management Board attended the meetings on a regular basis. The contents of these meetings focused on the Company's current financial situation, in particular the development related to sales and earnings as well as the corporate strategy.

In the meeting on January 18, 2016, the Supervisory Board approved the 2016 budget. In addition, the Management Board reported on the preliminary 2015 results and the forecast for the first quarter. In the conference call on February 12, 2016, the Management Board provided information regarding the results of the 2015 fiscal year and presented the press release for the public disclosure of the figures for the fiscal year that they planned to issue. Furthermore, the schedule of responsibilities for the Management Board was modified. In the meeting on March 9, 2016, the Supervisory Board discussed and approved the 2015 annual and consolidated financial statements in the presence of the auditor. Additionally, the Supervisory Board also discussed the agenda for the Annual Stockholders' Meeting. The Management Board presented the sales pipeline and provided information on the expected earnings development in the current quarter. In the conference call on March 23, 2016, the Supervisory Board discussed with the Management Board the service functions, in particular their current and expected order situation. During the conference call on April 22, 2016, the Supervisory Board discussed questions relating to the new stockholder structure of Intershop due to the sale of 24.9% of the shares in eBay Enterprise Inc. The conference call on April 25, 2016 focused on the Q1 results and the sales and earnings forecast for the first half of 2016. On June 1, 2016, the day before the Company's Annual Stockholders' Meeting, the participants did not only focus on the Q2 forecast, but also the preparation of the Annual Stockholders' Meeting. In the constituent meeting of the Supervisory Board on June 2, 2016, the newly structured Supervisory Board appointed Mr. Christian Oecking as the Chairman and Dr.-Ing. Harald Schrimpf as the Deputy Chairman of the Supervisory Board. The purpose of the meeting on July 8, 2016 was the business situation in the first half of the fiscal year as well as the outlook for the entire year. In the meeting on September 29, 2016, the Supervisory Board discussed the strategy program presented by the Management Board and the corresponding plans, in particular the 2017 budget. The Supervisory Board passed a resolution in the conference call on October 10, 2016 to implement the "Lighthouse 2020" strategy program and adopted the 2017 budget. The meeting on December 15 and 16, 2016 focused on the progress of the implementation of the strategy program as well as the expected earnings for the entire 2016 fiscal year. In addition, the 2016 declaration of conformity was passed and Mr. Ulrich Prädel was appointed by the Supervisory Board as the Deputy Chairman of the Supervisory Board. In the remaining conference calls (June 16, July 27 and November 1, 2016), the Supervisory Board discussed the quarterly results, the strategic development, as well as HR matters. In addition to the resolutions that were adopted at the meetings, the Board also adopted resolutions regarding HR matters and the agenda of the regular Annual Stockholders' Meeting as part of a circulation procedure.

The Management Board submitted all transactions requiring Supervisory Board approval under its Rules of Procedure to the Supervisory Board for approval. The Supervisory Board examined the relevant draft resolutions in detail and took the appropriate decisions. Business transactions of importance to the Company were discussed in detail and carefully monitored by the Supervisory Board on the basis of Management Board reports. In addition to the Supervisory Board meetings, the Supervisory Board was in regular contact with the Management Board and was informed of the current developments at the Company, the risk situation and risk management, as well as the related measures required.

No committees were established because the Supervisory Board only comprises three members.

CORPORATE GOVERNANCE

Conflicts of interest by Supervisory Members in terms of para. 5.5 of the German Corporate Governance Code, which must be immediately disclosed to the Supervisory Board and of which the Annual Stockholders' Meeting must be informed, did not occur during the 2016 fiscal year.

The new Declaration of Conformity with the German Corporate Governance Code was issued by the Management Board and Supervisory Board in December 16, 2016. The remuneration of the respective Supervisory Board members, individualized and broken down by component, is shown in the consolidated Group management report and management report of INTERSHOP Communications AG.

ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS, DEPENDENT COMPANY REPORT, ANNUAL AUDIT

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, the auditor for the 2016 fiscal year elected at the Annual Stockholder's Meeting held on June 2, 2016 and engaged by the Supervisory Board, thoroughly reviewed the annual financial statements, the consolidated financial statements, the combined management report of INTERSHOP Communications AG and issued unqualified audit opinions in each case.

In addition, the auditors reviewed the dependent company report prepared by the Company pursuant to section 312 of the German Stock Corporation Act (AktG), reported on it pursuant to section 313 (3) of the AktG, and issued the following unqualified audit opinion:
„Based on our audit and assessment in accordance with professional standards, we confirm that (1) the actual disclosures contained in the report are correct, (2) the payments made by the Company in connection with transactions detailed in the report were not unreasonably high."

Following its own thorough examination, in particular after inspecting the auditor's reports, as well as discussing the key points of the audit in detail with the auditor and the material findings of the audit, the Supervisory Board did not raise any objections with respect to the financial statements or the dependent company report. The Supervisory Board concurs with the result of the audit and the audit of the dependent company report. The Supervisory Board does not raise any objections against the declaration given by the Management Board at the end of the dependent company report and approved the separate financial statements and consolidated financial statements prepared by the Management Board at its meeting on March 8, 2017. The annual financial statements of INTERSHOP Communications AG were thus adopted. Since the Company did not generate retained earnings during the 2016 fiscal year due to the remaining loss carryforwards under German commercial law, there was no need to examine a recommendation for the appropriation of profits.

PERSONNEL CHANGES IN THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

There were three changes to the Supervisory Board of INTERSHOP Communications AG during the reporting period. There were no changes to the Management Board.

Supervisory Board members Dr. Herbert May and Dr. Kai Hudetz resigned their mandates at the end of the regular Annual Stockholders' Meeting on June 2, 2016. Dr. May had been a member of the Supervisory Board since October 2010 and had been the Chairman of the Supervisory Board since November 2010. Dr. Hudetz was appointed by the Annual Stockholders' Meeting as a member of the Supervisory Board in June 2013 and had been the Deputy Chairman of the Board since May of last year. The Annual Stockholders' Meeting appointed Christian Oecking and Prof. Dr. Louis Velthuis as new members of the Supervisory Board for the period until the end of the Annual Stockholders' Meeting resolving on discharging the management from their responsibility for the 2016 fiscal year. In the following constituent meeting, the Supervisory Board appointed Mr. Oecking as its Chairman and Mr. Schrimpf as the Deputy Chairman. Dr. Schrimpf resigned from his office effective November 30, 2016 for personal reasons. The Supervisory Board would like to thank Dr. Schrimpf for his commitment to Intershop. The District Court of Jena appointed Ulrich Prädel as a new member of the Supervisory Board until the next regular Annual Stockholders' Meeting effective December 1, 2016. In the meeting in December the Supervisory Board appointed Mr. Prädel as its Deputy Chairman.

THE SUPERVISORY BOARD SAYS THANKS

We would like to thank our stockholders for the trust they have placed in Intershop. We would also like to thank the Management Board and all employees of the Intershop Group for their commitment and their services in the 2016 fiscal year.

Jena, March 2017

On behalf of the Supervisory Board

Christian Oecking
Chairman of the Supervisory Board

The activities of the Management Board and Supervisory Board are determined by the principles of responsible corporate governance. This report comprises the Corporate Governance Report as per section 3.10 of the German Corporate Governance Code as well as the joint Corporate Governance Declaration as set out in section 289a and section 315 (5) HGB (German Commercial Code).

1. DECLARATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD PURSUANT TO SECTION 161 OF THE AKTIENGESETZ (AKTG – GERMAN STOCK CORPORATION ACT)

The Management Board and the Supervisory Board of INTERSHOP Communications AG ("Intershop") welcomes the German Corporate Governance Code presented by the Government Commission and most recently updated in May 2015. The recommendations of the German Corporate Governance Code were largely complied with in fiscal year 2016; any departures were explained in the Declaration of Conformity. The Supervisory Board and the Management Board issued the following joint Declaration of Conformity in accordance with section 161 of the Aktiengesetz (AktG – German Stock Corporation Act) on December 16, 2016:

Since the declaration of conformity dated January 22, 2016 to the time of this declaration INTERSHOP Communications AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version dated May 5, 2015 („Code"), with the following exceptions and will comply with them in the future with the following exceptions:

a) The existing D&O insurance does not include a deductible for the members of the Supervisory Board (section 3.8 of the Code) since the Company has not been offered a policy with comparatively more favorable terms. Furthermore, the Management Board and Supervisory Board hold the view that the members of the Supervisory Board also exercise their obligations responsibly without a deductible.

b) In the remuneration reports, remuneration of the Management Board was continued and will continue to be individualized and shown based on fixed and variable components in accordance with the applicable accounting standards under the German Commercial Code. In the opinion of the Management Board and the Supervisory Board there is no requirement for an additional breakdown of remuneration components and costs or reporting of the overall achievable variable remuneration pursuant to section 4.2.5 of the Code, since the statutory individualized data already offers sufficient information about the remuneration structure and amount, and the noting of merely a maximum and minimum amount of variable remuneration in the required form - without the context of the underlying remuneration provisions - is misleading and can thus lead to incorrect conclusions.

c) The Supervisory Board did not specify a limit for membership on the Supervisory Board according to section 5.4.1 of the Code. The Supervisory Board does not consider limiting the period of membership to be appropriate as there is no compelling general connection between the length of time on the board and whether any conflicts of interest may arise or the independence of the Supervisory Board member. In individual cases the Supervisory Board takes the members' duration of membership into account when proposing elections.

d) The Supervisory Board has not determined the number of independent Supervisory Board members in the meaning of section 5.4.2 of the Code. The Supervisory Board is also of the opinion that due to its small number of members, a concrete determination of goals restricts the selection of suitable members for the Supervisory Board. Instead, the Supervisory Board wishes to make its decisions with regard to recommendations about its composition independently based on the respective situation. However, at present the three Supervisory Board members are independent.

This declaration of conformity and all previous declarations have been made permanently available on the Company's website at http://www.intershop.com/investors-corporate-governance

2. CORPORATE GOVERNANCE PRACTICES

The Company has not implemented any **business practices** exceeding the recommendations of the German Corporate Governance Code, e.g. a company Code of Conduct. The Company takes into consideration the suggestions of the Corporate Governance Code to the greatest possible extent.

3. INFORMATION ON THE MANAGEMENT BOARD'S AND SUPERVISORY BOARD'S PRINCIPLES OF WORK, AS WELL AS THEIR COMPOSITION

In accordance with the fundamental principle of German company law, Intershop is subject to the dual management system, which requires the separation of the management body (Management Board) and the supervisory body (Supervisory Board). Both bodies cooperate in the management and supervision of the Company.

The **Management Board** is responsible for managing the Company with the goal of creating sustainable value. The Management Board jointly develops the Company's strategy and ensures that it is implemented in consultation with the Supervisory Board. The Management Board must manage the Company's business in accordance with the law, the Articles of Association, and the by-laws. The principle of joint responsibility applies; this means that the members of the Management Board are jointly responsible for the management of the entire Company. The principles of the Management Board's work are summarized in the By-laws of the Management Board. In particular, these by-laws govern the adoption of resolutions and the allocation of responsibilities. The By-laws of the Management Board also include a list of transactions for which the Management Board requires the Supervisory Board's approval.

The Management Board currently comprises two members. There is a Chief Executive Officer for the Management Board. The number of members of the Management Board is determined by the Supervisory Board, which can also appoint a Chairman or a Spokesperson and Deputy Chairman of the Management Board.

The Management Board provides the Supervisory Board with regular, timely, and comprehensive information about all aspects of business development that are material for the Company, significant transactions, and the current earnings situation, including the risk situation and risk management. Where business developments deviate from earlier forecasts and targets, these deviations are discussed and the reasons given in detail. The Management Board also reports regularly on compliance, i.e., the measures taken to meet legal requirements and internal guidelines, which is also the responsibility of the Management Board.

The **Supervisory Board** advises the Management Board on the management of the Company and monitors the Management Board's activities. It appoints and dismisses the members of the Management Board, resolves the compensation system for the Management Board members, and sets their total compensation. It is involved in all decisions that are of fundamental importance for the Company.

The Articles of Association stipulate that the Supervisory Board must comprise three members. Its regular term of office is five years and ends at the Annual Stockholders' Meeting that resolves the approval of the Supervisory Board's activities for the fourth fiscal year after the beginning of its term of office. The Supervisory Board regularly monitors and advises the Management Board in its management of the Company. It must perform its duties in accordance with the provisions of the law, the German Corporate Governance Code, the Articles of Association, and its By-laws. The Supervisory Board must be consulted on all decisions of fundamental importance for the Company. The By-laws of the Management Board therefore stipulate certain transactions – such as major investment projects, acquisitions, and employment contracts above a certain amount – that require the Supervisory Board's approval. The Chairman of the Supervisory Board represents

the Supervisory Board externally and in dealings with the Management Board. He chairs the Supervisory Board meetings. No committees were established because the Supervisory Board only comprises three members. In addition to its reports at the Supervisory Board meetings, the Management Board regularly informs the Supervisory Board about current key developments at the Company and the related measures required, as well as about the forecast for future quarters.
D&O insurance has been taken out for all members of the Management Board and the Supervisory Board; a deductible of 10% was agreed upon for Management Board members in accordance with section 93(2) sentence 3 of the AktG.

4. INFORMATION ON SETTING THE WOMEN'S QUOTA

The target figures for women on the Management Board and the Supervisory Board were set according to the existing percentage of 0% by the Supervisory Board in accordance with Article 111 Section 5 of the AktG through June 30, 2017. However, the Supervisory Board shall endeavor to give priority to women with the same qualifications in order to increase the percentage of women on both the Supervisory Board and the Management Board. Given that the target percentage was 0%, this was met in the reporting year.

The Management Board set the target figures for women on the two executive tiers below the Management Board according to the existing percentage of 29.63% in accordance with section 76 (4) AktG (German Stock Corporation Act) until June 30, 2017; this target was reached by September 2016. Due to the restructuring measures, the percentage of 29.03% as at the end of the year was slightly lower than the target figure for INTERSHOP Communications AG. In the Intershop Group, the percentage of 29.73% exceeded the defined target. Intershop only has one management level below the Management Board, which is why only one target was defined for this management level.

5. FURTHER INFORMATION – CORPORATE GOVERNANCE REPORT

Since the Management Board and Supervisory Board have stated in their Declaration of Conformity that they will not follow the Code's recommendations on appointing members in terms of the limit to be set for the length of membership nor on appointing independent members, information on implementing this objective in terms of section 5.4.1 of the Code is also unnecessary in this report. However, it should be pointed out that the three Supervisory Board members have been independent since the Annual Stockholder's Meeting in 2013.

The total number of Intershop shares owned by all members of the Management Board and the Supervisory Board is less than 1% of the shares issued by Intershop. Details on the security holdings of the Company's executive bodies will be shown in the notes to the consolidated financial statements.

There are no stock option plans; the only security-based incentive program is that one of the many aims agreed with the members of the Management Board for their variable remuneration takes into account price development of the Intershop shares.

The particulars regarding the remuneration of the Management Boards and Supervisory Boards are outlined in the remuneration reports as part of the combined Group management report and management report of INTERSHOP Communications AG.

Jena, February 21, 2017

INTERSHOP Communications AG

For the Management Board

Dr. Jochen Wiechen

Axel Köhler

For the Supervisory Board

Christian Oecking
Chairman of the Supervisory Board

INTERSHOP Shares

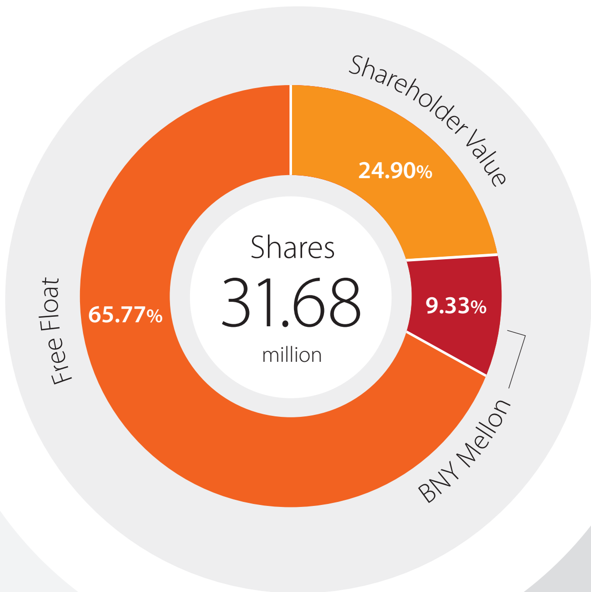
Key Figures for Intershop Shares		2016	2015
Closing price*	in EUR	1.10	1.24
Number of shares outstanding (as of Dec. 31)	in million shares	31.68	31.68
Market capitalization	in EUR million	34.85	39.29
Earnings per share	in EUR	(0.09)	0.00
Cashflow per share	in EUR	(0.03)	0.16
Carrying amount per share	in EUR	0.51	0.60
Average trading volume per day **	Number	39,139	43,764
Free float	in %	66	66

* Basis: Xetra
** Basis: all stock exchanges

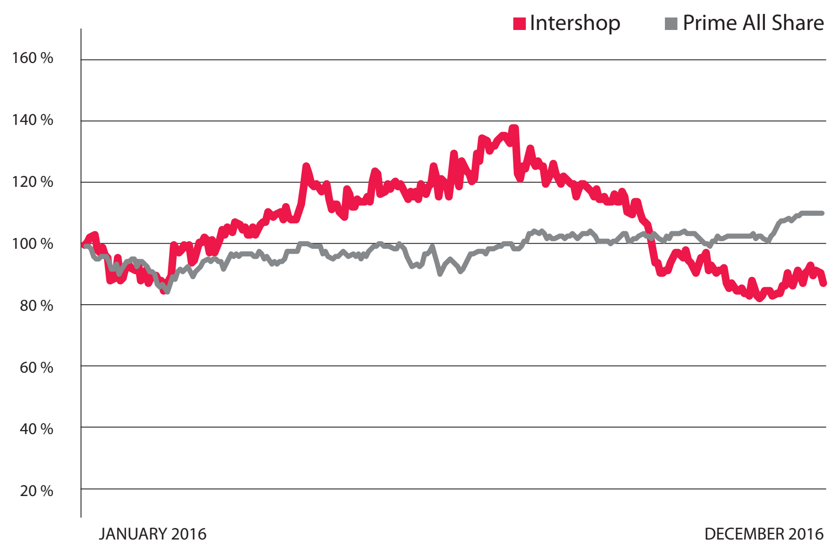
Stock Market Data

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 Shareholder structure



INTERSHOP Share Price



Financial Calendar 2017

Date	Event
March 15, 2017	Release of FY financials 2016 and Annual Report 2016
May 3, 2017	Release of Q1 financials 2017
May 9, 2017	Ordinary Annual Stockholders´ Meeting 2017
August 2, 2017	Release of Q2 and 6-month financials 2017
November 2, 2017	Release of Q3 and 9-month financials 2017

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