Annual Report

intershop®

2017

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OVERVIEW
INTERSHOP-GROUP

REVENUE
35.8
EUR million
(in 2017)

EBIT
0.4
EUR million
(in 2017)

EBITDA
2.8
EUR million
(in 2017)

EMPLOYEES
338
(as of 12/31/2017)

EQUITY RATIO
61%
(as of 12/31/2017)

CASH AND CASH EQUIVALENTS
8.9
EUR million
(as of 12/31/2017)

KEY FIGURES FOR THE GROUP

in EUR thousand	2017	2016	Change
Revenue			
Revenues	35,807	34,188	5%
Product Revenues	14,129	13,669	3%
Services Revenues	21,678	20,519	6%
Revenue Europe	26,841	25,157	7%
Revenue USA	3,709	3,187	16%
Revenue Asia/Pacific	5,257	5,844	-10%
Earnings			
Cost of revenues	18,237	18,452	-1%
Gross profit	17,570	15,736	12%
Gross margin	49%	46%	
Operating expenses, operating income	17,157	18,118	-5%
Research and development	5,067	5,923	-14%
Sales and marketing	8,305	7,377	13%
General and administrative	3,742	3,905	-4%
Other operating income	(220)	(276)	-20%
Other operating expenses	263	1,189	-78%
EBIT	413	(2,382)	++
EBIT-Margin	1%	-7%	
EBITDA	2,833	113	++
EBITDA-Margin	8%	0%	
Earnings after tax	(664)	(2,988)	78%
Earnings per share (EUR)	(0.02)	(0.09)	78%
Net Assets			
Shareholders´equity	15,330	16,055	-5%
Equity ratio	61%	59%	
Balance sheet total	25,049	27,111	-8%
Noncurrent assets	10,221	10,493	-3%
Current assets	14,828	16,618	-11%
Noncurrent liabilities	2,010	3,120	-36%
Current liabilities	7,709	7,936	-3%
Financial Position			
Cash and cash equivalents	8,949	10,898	-18%
Net cash operating activities	1,692	(862)	++
Depreciation and amortization	2,420	2,495	-3%
Net cash used in investing activities	(2,568)	(2,433)	6%
Net cash provided by financing activities	(1,000)	(1,000)	0%
Employees	338	355	-5%

LETTER OF THE MANAGEMENT BOARD

Dear stockholders and business partners,

The year 2017 is a first stage success of our „Lighthouse 2020" strategy, which should pave the way for Intershop's sustainable and profitable growth. For the first time in four years, we were able to close a financial year with rising sales revenues. In doing so, we achieved growth not at the expense of profitability, but at a slightly positive result. The market for e-Commerce platforms is still highly competitive, where we compete with global, financially strong IT groups. But the measures set out in our „Lighthouse" roadmap are now beginning to bear fruit. Thanks to increased visibility on the market, which we were able to achieve through target group-specific marketing and sales approaches, we are clearly experiencing a tailwind. Our focus on cloud solutions and wholesale is well received. Accordingly, we will continue to pursue these strategic benchmarks. The partnership with Microsoft has also developed very well, opening up new customer contacts and consulting approaches.

The central task of the 2018 fiscal year will be the further expansion of the business with SaaS solutions, as this market promises the highest growth rates and is increasingly establishing itself as the standard. Therefore, we are putting the cloud at the center of all business activities. The basis of our „Cloud First" strategy is the continuous improvement and expansion of our cloud solution. In the first quarter, we will introduce a new complete Commerce-as-a-Service solution (CaaS), which focuses on standardization in comparison to previous SaaS offerings. As a result, the competitiveness of our cloud offering will increase significantly, which we will exploit through consistent marketing. The consistent positioning as a cloud provider also requires changes in the company itself. This concerns in particular the Services area. In order to realize this and to take account of the growing importance of this area, Markus Klahn was appointed as a new member of the Management Board.

Overall, we are confident about the new fiscal year and currently expect a slight increase in Group sales and a slightly positive operating result (EBIT) for 2018. At the same time, we do see potential for accelerating growth significantly in the coming years. Thus, after focusing on Germany in 2017, the partnership with Microsoft will be rolled out this year in other European markets as well as the US and Southeast Asia. In terms of wholesale, it is planned for 2018 to continue the measures initiated and to use the greater visibility and the newly established contacts in order to acquire additional target customers. In the medium-term, other markets and sectors could be included in the verticalization. Based on our strategic priorities, we will continue to explore new options and opportunities that will help us to continue to grow profitably.

We look forward to working with you and our committed employees and partners on the continued success of Intershop and thank you for your trust.

Best regards,

Dr. Jochen Wiechen   Axel Köhler

intershop®

Dr. Jochen Wiechen
CEO

Axel Köhler
COO

MANAGEMENT REPORT

01

CONSOLIDATED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT

THE INTERSHOP GROUP

Group structure and business activities

The Intershop Group[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 25 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 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 2017 fiscal year, revenue with European customers totaled around 75% 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, 2017, 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, Intershop Communications Ltd., Romsey, United Kingdom and two non-operating former sales companies. In Germany, INTERSHOP Communications AG has branches in Nuremberg, Hamburg, Berlin, Frankfurt am Main, Boeblingen and Ilmenau. Moreover, the Company has sales representations in the Netherlands, Italy and Denmark.

Strategic orientation and business objectives

With the „Lighthouse 2020" program adopted in October 2016, Intershop is pursuing the two strategic priorities of expanding the cloud business and focusing on the B2B market. The company has defined extensive measures which are to be implemented gradually. The goal of the roadmap is to reach sales of EUR 50 million and an EBIT margin of 5% in 2020.

[1] „Intershop", the „Company"

Expansion of the cloud business: Cloud First as of 2018

The expansion of the cloud business is closely linked to the partnership with Microsoft started in 2016. The collaboration combines the high flexibility of the Intershop Commerce Platform with the efficiency of Microsoft's Azure cloud platform. In addition, the Intershop Commerce Suite will be embedded in Microsoft's all-in-one offering for business applications, Dynamics 365. Intershop will launch its new complete Commerce as a Service (CaaS) solution in the first quarter of 2018. This is a complete standard cloud solution that combines the powerful features of the Intershop Commerce Suite with transparent and usage-based pricing. Hosted on a Microsoft Azure infrastructure with the highest security standards, Intershop ensures the uninterrupted operation and reliable performance of the e-Commerce solution. In addition, Intershop's CaaS customers have direct access to a team of experienced e-Commerce specialists for advice and support. Compared to previous cloud versions, the focus is now on standardization, which significantly improves the competitiveness of the solution. Based on this new offering, Intershop is pursuing the strategic „Cloud First" guideline as of 2018. In the future, the „Cloud First" approach will be pursued both for investments in Research and Development as well as in Marketing and Sales. Such solutions are gaining market acceptance thanks to their strategic advantages such as availability, security, flexibility, automatic updates and resource efficiency. The advantage of the Intershop Commerce Suite is that due to its high scalability it can be used in a wide range of solution variants for all sales and company sizes, from a standard cloud to a highly customized on-premise installation. In the medium term, Intershop expects significantly higher and more stable growth than with classic operating models. Developed based on the partnership with Microsoft, the CaaS offering enables Intershop to address new customers and market segments and to advise companies on their digital transformation far more comprehensively than before and assist them in digitizing or reforming their sales. To underline the importance of this new approach, an additional Management Board was appointed in February 2018 effective as of April 9, 2018. Markus Klahn will be responsible for the Service area and, among other things, promote the expansion of digital consulting at Intershop.

Focusing on the B2B market: target industry wholesale

Over the past years, Intershop has established itself as one of the leading technological omni-channel solution providers. The Lighthouse roadmap aims to address the lower visibility in the overall market compared with the large competitors by verticalization in the customer contacts. According to internal and external analysis, the wholesale sector was identified as the most promising sector with significant revenue potential. This is because B2B wholesale is faced with the great challenge of digitizing its sales channels quickly and professionally in order to assert itself against new competitors and business models. Since Intershop already has extensive experience and prominent B2B customers, the company has a know-how advantage for building a strong market position in this sector. Even in terms of technology, the Intershop platform is ideally suitable for use in the B2B market as regularly confirmed in the assessments of renowned analysts. Intershop is increasingly investing in target-group specific marketing and sales. The focus in 2017 was on the European market. Here, the first successes were achieved in the acquisition of new customers from the wholesale sector. In the medium-term, other markets and sectors should be included in the verticalization. For 2018, it is initially planned to continue the measures initiated and to use the greater visibility and newly established contacts in the wholesale sector in order to acquire additional target customers.

Sales priorities and partner network

Intershop's sales activities will continue to focus on the developed e-Commerce markets in Europe, North America and Asia, where there is high revenue potential. 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 either has its own local subsidiary or has flexible sales units and a corresponding partner network. As part of the cloud focus, the development of new partners in this area is the core of the partner strategy. The main benefit offered by the partner network consists of an optimized customer approach and increased scalability in the area of distribution activities. The cooperation with partners combines Intershop's know-how and experience with the specific knowledge of the companies in the partner network. In addition to providing the appropriate shop software solutions, Intershop also supports its partners in the high-quality implementation of their shops.

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.

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 an efficient and experienced development team. As part of the expansion of the partnership with Microsoft, Research and Development (R&D) activities in the 2017 fiscal year focused on the ongoing close integration of the cloud offering with the Microsoft solutions and the associated systems in order to offer the so-called End-to-End Solutions as a basis for digital transformations. The aim is to perfect the interplay of all components of the new offering and reduce the setup costs of new shops through the creation of standard integrations. Another aim is to increase overall efficiency through „out-of-the-box" availability of features and tools.

In addition, Intershop is continuously working on the further development of its omni-channel commerce platform, which forms the basis for all operating models. Most recently, new versions of Intershop Commerce Management (ICM) and Intershop Order Management (IOM) were released in July 2017. The new functions and improvements range from new B2B features and new tools for developers to comprehensive performance improvements. An important component of Intershop's development work is the long-term cooperation with the Chair of Business Informatics at the Friedrich Schiller University (FSU). Numerous projects have already been successfully completed.

R&D expenses fell by 14% to EUR 5.1 million in the 2017 fiscal year, taking into account the capitalization of software development costs. This represents a share of 14% of the sales (2016: 17%). The decrease resulted from lower personnel expenses, as the number of employees fell slightly. Without capitalization into account, the R&D expenses fell by 14% in 2017 fiscal year to a total of EUR 7.3 million (2016: EUR 8.3 million).

THE 2017 FISCAL YEAR

Overall Economy and Industry

According to the International Monetary Fund (IMF), the global economy developed positively in 2017, with growth of 3.7%. In the prior year, the growth drivers of the global economy, the emerging and developing countries, increased their economic output by 4.7%. With a rate of 2.3%, growth was also stronger in the industrial countries than in prior years. This was largely due to the ongoing economic recovery in the Eurozone, including Intershop's key target markets. Here, an increase of 2.4% was posted. The US economy grew by 2.3% in 2017. According to IMF information, the economic growth in Germany amounted to 2.5%.

The global e-Commerce market continues to be characterized by dynamic growth rates. According to estimates of market research company eMarketer, global B2C e-Commerce sales increased by 23.2% in 2017. Due to the high level of market maturity, the B2C online revenues in Western Europe posted double-digit growth again with 12.2%. eMarketer estimated the growth in the USA to be about 15.8%. According to the German E-Commerce and Distance Selling Trade Association e.V. (bevh), growth in Germany was around 10.9%.

The increasing digitization of various business sectors and industries and the growing acceptance of cloud-based corporate applications ensure a high degree of dynamism in the IT sector. The global enterprise software market in particular continues to experience strong growth. According to the data provided by the IT analysis firm Gartner, an increase in expenditure of 8.9% was recorded in 2017. Growth in the IT services market was estimated at 4.3%. The German software industry also remains on a grown path. The German industry association Bitkom anticipates a growth of 6.3%. According to the Bitkom forecast, the IT services market grew by 2.3%.

Business performance during the 2017 fiscal year

The business development of the Intershop Group improved significantly in 2017 compared to the prior year. For the first time since 2013, the company recorded sales growth again. Intershop generated a slightly positive operating result (EBIT) in all quarters of the fiscal year.

Targeted sales and marketing measures to implement the focus on cloud and wholesale

The „Lighthouse 2020" roadmap adopted by Intershop in fall 2016 focuses on expanding the cloud offering and focusing on customers from the wholesale sector. In order to achieve high visibility and brand awareness in both of these promising areas as quickly as possible and to generate significant growth, investments in marketing and sales were stepped up in 2017. The increased activity can be seen in many new industry-specific materials, seminars, trade fair visits and our own events, including joint measures and functions with our new partner Microsoft. For the 25th anniversary of the company, Intershop organized a well-attended customer and partner conference in Jena. Intershop's visibility in the target markets has increased substantially as a result of the intensified sales and marketing activities. In 2017, the company recorded significantly more new customers than in the prior year. Almost half of this can be attributed to the wholesale market segment.

Many existing and new customers rely on Intershop Commerce Suite

The new customers gained during the reporting period include Intergastro Handels GmbH & Co. KG, one of the leading wholesalers for catering supplies, the Dutch conglomorate Imbema, the family-run enterprise Gebrüder Limmert AG, one of the most successful electrical engineering wholesalers in Austria, as well as the global risk management Company SAI Global. The German startup repay.me also chose the Intershop platform as the basis for its new global C2C marketplace. The new customer BRITA, a world leader in drinking water optimization, chose to partner with Microsoft Azure in its decision to migrate to the Intershop Commerce Suite to promote the Group's internationalization strategy.

In addition, Intershop has seen a large number of platform upgrades for existing customers. This included the longtime customer Lechler GmbH, who migrated to the latest Intershop version. Mister Spex, Europe's largest online optician, extended its successful collaboration with Intershop to nine European web shops by rolling out the latest Intershop Commerce Suite. In 2017, Miele, the world-leading manufacturer of premium household and commercial appliances, expanded its online presence with Intershop in 18 additional markets. For this, Miele relies on the latest cloud version of the Intershop Commerce Suite based on Microsoft Azure. In 2017, the German furniture fittings specialist Häfele also changed its global B2B commerce platform to the latest version of the Commerce Suite. This migration was carried out by the long-term Intershop partner diconium.

The addition of corresponding specialists to the business and technology partner landscape is also linked to the cloud and industry focus. For example, in the first quarter of 2017, the partnership with MAC IT-Solutions GmbH was expanded. The expansion of the partnership with Blue-Zone AG, which also extends the performance scope of the Intershop solution with a comprehensive mobile solution for automating and accelerating sales processes, was announced in mid-July.

Intershop Commerce Suite among the leading B2B / B2C platforms - best B2B offering for mid-size businesses

In 2017, Intershop once again received several positive reviews from industry analysts. In March 2017, the renowned IT analyst firm Forrester Research once again ranked Intershop as a leading provider of omni-channel commerce solutions in the Forrester Wave studies, both for B2B and B2C applications. At the beginning of June, the international market research and consulting firm Quadrant Knowledge Solutions chose Intershop as 2017 Company of the Year in the global digital commerce platform market. Intershop also achieved a top rating in Forrester's „B2B Commerce Suites for Midsize Organizations, Q3 2017" industry analysis published in September. Of all participants in the „Current Offering" and „Commerce Management" categories, Intershop scored the highest. In the analysis, 11 leading providers of B2B commerce solutions for mid-size enterprises were evaluated for their ability to offer suitable functionalities for companies at lower total cost of investment and faster time to market.

Earnings, financial and asset position

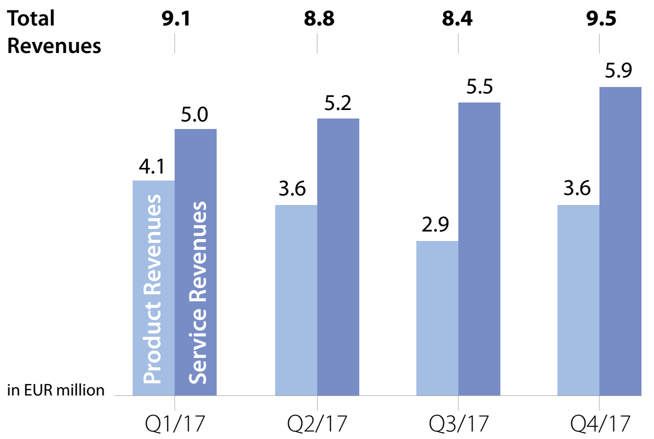
Actual development of key financial figures compared to the original forecast

The business development in 2017 was satisfactory. The initially forecast sales and earnings targets were achieved. In the financial report of the 2016 fiscal year, the Management Board forecast a slight increase in Group sales in 2017 with a slight increase in gross profit and gross margin. In addition, a balanced operating result (EBIT) was forecast. Overall, Intershop achieved sales growth of 5% in the reporting period, with an increase in gross profit of 12% and a gross margin of three percentage points. An operating result of EUR 0.4 million was achieved before taxes and interest. The development of the profit situation is discussed in detail in the sections below.

Revenue Development

Intershop generated revenues of EUR 35.8 million in the 2017 fiscal year, an increase of 5% compared to the prior year's revenue of EUR 34.2 million. Thus, for the first time since 2013, the company reported rising revenues again. The good development of license revenues and the significant increase in Full-Service revenues were decisive for the growth. Overall, product sales increased by 3% to EUR 14.1 million in the reporting period. The associated license revenues increased by 8% to EUR 6.1 million. Almost a third of sales were generated with new customers. In addition, there was a high order intake for cloud licenses in the second half of 2017. Since a cloud license can be used for several years, the monthly revenues result in corresponding ongoing income in the following quarters.

As a result, the planning reliability of product sales will be improved in the medium term. Totaling EUR 8.0 million, maintenance revenues stayed at the prior year level. The share of product sales in total sales fell slightly compared to the prior year by one percentage point to 39% (2016: 40%).



Strong start in the product area, continuously rising service revenues

Service revenues grew by 6% to EUR 21.7 million. In addition, Intershop achieved a continuous increase in service revenues from quarter to quarter over the course of the year. The consulting and training revenues included in service revenues declined slightly by 3% to EUR 15.4 million, but remain the largest revenue contributor to Intershop, accounting for 43% of total revenue. At the same time, Full-Service revenues increased significantly by 37% to EUR 6.3 million. The reason for this increase was the good development of new customers in this business sector. The share of service revenues in total revenues rose slightly to 61% (prior year: 60%).

The following overview shows the development of revenues:

in EUR thousand	2017	2016	Change
Product Revenues	**14,129**	**13,669**	**3%**
Licenses	6,108	5,657	8%
Maintenance	8,021	8,012	0%
Service Revenues	**21,678**	**20,519**	**6%**
Consulting/Training	15,403	15,934	-3%
Full Service	6,275	4,585	37%
Total Revenues	**35,807**	**34,188**	**5%**

The European market is Intershop's main business region. In the past fiscal year, revenues increased by 7% to EUR 26.8 million (prior year: EUR 25.2 million), which increased the revenue share slightly from 74% to 75%. Business in the US also developed positively, with a 16% increase in revenue to EUR 3.7 million. The US revenue share rose to 10% (2016: 9%). Revenues in the Asia-Pacific region fell by 10% to EUR 5.3 million as several consultancy contracts were completed at the beginning of 2017 and new projects started only during the course of the year. The revenue share of the Asia-Pacific region was 15% (prior year: 17%).

Revenue of INTERSHOP Communications AG as a single entity reported under German commercial law increased by 5% to EUR 27.2 million. The increase resulted from higher service revenues of 9% to EUR 15.5 million. Product revenues were at the prior year's level with EUR 11.7 million.

Earnings Development

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

in EUR thousand	2017	2016
Revenue	35,807	34,188
Costs	35,394	36,570
EBIT	413	(2,382)
EBIT-Margin	1%	-7%
EBITDA	2,833	113
EBITDA-Margin	8%	0%
Earnings after tax	(664)	(2,988)

Intershop recorded a positive earnings performance in the Group in the 2017 fiscal year. The company increased its gross result from revenues by 12% to EUR 17.6 million (2016: EUR 15.7 million). The gross margin increased by three percentage points to 49% (2016: 46%). Operating expenses and income fell by 5% to EUR 17.2 million. At the same time, it should be noted that the operating expenses of the prior year (EUR 18.1 million) were encumbered by extraordinary expenses in the fourth quarter of 2016 for restructuring measures amounting to EUR 1.0 million for implementing the „Lighthouse 2020" strategy. After deducting these extraordinary expenses, operating expenses and income in 2017 were at the same level as the prior year. Cost reductions have been effected in administrative functions in all areas to make additional investments in order to focus on the cloud and industry without increasing overall costs. As a result, administrative expenses fell by 4% to EUR 3.7 million in the reporting period. Research and development costs decreased by 14% to EUR 5.1 million. In the area of marketing and sales, costs increased by 13% to EUR 8.3 million. The percentage of operating expense was 48% (2016 before extraordinary expenditures: 50%). The total costs (cost of sales and operating expenses/income) decreased by 3% to EUR 35.4 million.

Overall, Intershop generated an operating result (EBIT) of EUR 0.4 million in the past fiscal year (prior year: EUR -2.4 million), the EBIT margin was 1% (prior year: -7%). After Intershop had concluded the fourth quarter of 2016 on a positive note before the restructuring costs, the operating result of 2017 in the quarterly review proved to be slightly positive throughout. This shows that the restructuring measures implemented as part of the „Lighthouse 2020" roadmap constitute a good basis for exploiting market potential in the cloud business and wholesale and to pursue profitable growth. The operating result before interest, taxes, depreciation and amortization (EBITDA) increased significantly from EUR 0.1 million in the prior-year period to EUR 2.8 million. The EBITDA margin was 8% (prior year: 0%). Depreciation fell by 3% to EUR 2.4 million. The financial result stayed at the prior-year level at EUR -0.3 million. Income taxes increased to EUR 0.7 million compared to EUR 0.3 million in 2016, mainly due to taxes from prior years resulting from the findings of the tax audit and the reduction of deferred tax assets. This results in consolidated earnings after taxes of EUR -0.7 million and earnings per share of EUR -0.02 (2016: EUR -3.0 million, EUR -0.09).

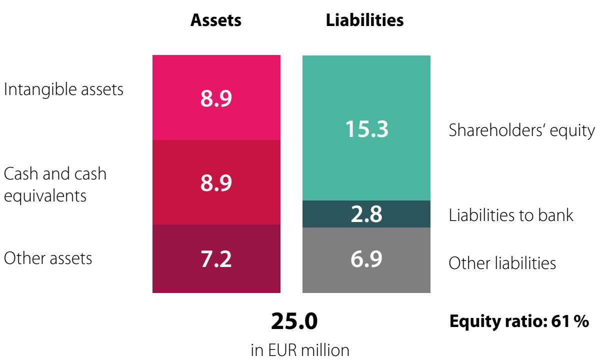
INTERSHOP Communications AG as a single entity reduced the net loss for the year under commercial law to EUR 0.6 million from EUR 1.5 million in the prior year. The main reason was higher sales and lower expenses. Personnel expenses fell by EUR 1.8 million to EUR 18.1 million due to fewer employees; in addition, restructuring costs were included in the prior year (EUR 0.6 million). Other operating expenses declined by 2% to EUR 9.1 million. After deducting the restructuring costs of EUR 0.3 million included in the prior year, other operating expenses increased by 1%, mainly due to higher marketing expenses. Purchased services increased slightly from EUR 2.1 million to EUR 2.4 million.

Amortization increased from EUR 0.4 million to EUR 1.0 million due to amortization of costs on internally generated software capitalized for the first time in 2016. Other capitalized costs, which include the capitalization of software development costs, decreased by 12% to EUR 2.0 million. Other operating income fell from EUR 1.2 million to EUR 0.8 million due to lower reversal of provisions. Other interest income of EUR 0.2 million resulted mainly from affiliated companies. The interest expenses of EUR 0.3 million include interest from the bank loan taken out in 2015 and from tax arrears. Taxes on income amounted to EUR 0.2 million and relate to taxes from prior years based on findings of the tax audit.

Presentation of the Net Assets and Financial Position

As of December 31, 2017, the balance sheet total of the Intershop Group amounted to EUR 25.0 million. This represents a decrease of 8% compared to the prior year's reporting date. On the assets side, noncurrent assets decreased by 3% to EUR 10.2 million. Intangible assets increased slightly from EUR 8.8 million to EUR 8.9 million. Deferred taxes decreased from EUR 1.1 million to EUR 0.6 million. Current assets decreased by 11% to EUR 14.8 million, mainly due to the decline in cash and cash equivalents of EUR 1.9 million to EUR 8.9 million. Of this, EUR 1.0 million relates to the scheduled repayment of a loan taken out in 2015. On the liabilities side, equity fell by 4.5% to EUR 15.3 million due to the negative result after tax. Non-current liabilities decreased from EUR 3.1 million to EUR 2.0 million, mainly as a result of the repayment of loans. In addition, current liabilities fell by 3% to EUR 7.7 million, mainly due to lower provisions. The equity ratio increased from 59% to 61% as of December 31, 2017.

Balance key figures Dec. 31, 2017



Cash flow from operating activities amounted to EUR 1.7 million in the reporting period after EUR -0.9 million in the same period of the prior year, which is mainly due to the improved earnings before taxes. Cash outflows from investing activities amounted to EUR 2.6 million, slightly above the prior-year value of EUR 2.4 million. The payments for investments in intangible assets contained therein were nearly at the prior-year level at EUR 2.2 million. The net cash outflow from financing activities was EUR 1.0 million as a result of the repayment of the loan. Overall, cash and cash equivalents fell by 18% compared with the end of 2016 to EUR 8.9 million as of December 31, 2017. Overall, Intershop continues to have a solid net assets and financial position.

The total assets of the single entity in the annual financial statements prepared in accordance with German commercial law amounted to EUR 28.6 million, a slight decrease of 1% compared to the prior year (2016: EUR 29.0 million). On the assets side, fixed assets increased by 13% to EUR 13.5 million, mainly due to the addition of self-developed software (2017: EUR 3.7 million, 2016: EUR 2.2 million). Current assets decreased by 12% to EUR 14.7 million, primarily due to the reduction in receivables from affiliated companies and the decline in cash and cash equivalents. Cash and cash equivalents declined from EUR 8.1 million to EUR 6.6 million, in particular due to the scheduled repayment of the loan in the amount of EUR 1.0 million. Equity fell by 3% to EUR 17.0 million due to the slightly higher balance sheet loss. Provisions decreased by 18% to EUR 2.2 million. Liabilities increased by 13% to EUR 8.2 million. Advance payments received increased to EUR 2.6 million from EUR 1.4 million in the prior year. Liabilities to banks fell from EUR 3.8 million to EUR 2.8 million.

Employees

On the balance sheet date (December 31, 2017), Intershop had a total of 338 employees worldwide and thus 17 full-time employees less than the prior-year period. The reduction is due in part to the implementation of the "Lighthouse 2020" strategy program adopted in October 2016, which also involved personnel adjustments.

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 workforce is above average at 83%. According to a survey by Focus Money in cooperation with Faktenkontor GmbH, Intershop is one of the most promising employers in Germany. The „Deutschland Test" study on career opportunities for engineers, published in September 2017, looked at the approximately 10,000 largest companies according to the number of employees based in Germany in terms of the three aspects of working atmosphere, innovative strength and workplace attractiveness. Among the more than 4,200 companies offering specialist careers specifically for engineers, 412 companies received the „Top Career Opportunities for Engineers" award. Intershop ranked sixth among the IT and communications service providers.

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

Employees by department*	**12/31/2017**	**12/31/2016**
Technical Departments (Service Functions and Research Development)	251	268
Sales and marketing	49	45
General administration	38	42
	338	**355**

*based on full time staff, including students and trainees

The number of employees in the European branches was 291 as of the balance sheet date. The percentage of the total workforce was 86%. In the prior-year period, this percentage was still at 87% with 309 employees. The San Francisco office in the US has 18 employees or approx. 5% of the workforce (prior year: 15 employees, 4%). The number of employees in the Asia-Pacific region fell from 31 to 29 employees, while the percentage of employees was 8%, as in the prior year.

The Aktiengesellschaft as a single entity had 286 employees as of the balance sheet date (December 31, 2016: 305 employees).

Management Board and Supervisory Board

At the Annual Stockholders' Meeting on May 9, 2017, Supervisory Board members Christian Oecking, Ulrich Prädel and Univ.-Prof. Dr. Louis Velthuis were confirmed in their current positions by a large majority. At the subsequent constituent meeting of the Supervisory Board, Christian Oecking was re-elected Chairman of the Supervisory Board. His Vice Chairman is Ulrich Prädel.

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. As a rule, the variable, annually recurring remuneration is based on various annual qualitative and quantitative as well as multi-annual quantitative objectives, the assessment of which is based on the degree of achievement 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 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 in the 2017 fiscal year amounted to EUR 736 thousand (2016: EUR 534 thousand), of which EUR 496 thousand (2016: EUR 510 thousand) relate to fixed compensation and EUR 240 thousand (2016: EUR 24 thousand) to variable components. The fixed remuneration components include EUR 460 thousand for the fixed salary component and EUR 36 thousand for additional benefits (2016: EUR 460 thousand for fixed salary and EUR 50 thousand for additional benefits). The 2017 variable remuneration includes a turnaround bonus of EUR 50 thousand for each Management Board member as a special bonus by resolution of the Supervisory Board.

The remuneration of the Management Board members is as follows:

	Fixed Remuneration		Variable Remuneration		Total Remuneration	
in EUR thousand	2017	2016	2017	2016	2017	2016
Dr. Jochen Wiechen	266	268	132	24	398	292
Axel Köhler	230	242	108	0	338	242
	496	**510**	**240**	**24**	**736**	**534**

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.

In the 2017 fiscal year, Supervisory Board members were entitled to remuneration totaling EUR 200 thousand (2016: EUR 136 thousand), of which EUR 140 thousand (2016: EUR 136 thousand) accounted for fixed remuneration and EUR 60 thousand (2016: EUR 0) for the performance-related variable portion. The fixed remuneration consists of EUR 50 thousand (2016: EUR 50 thousand) in fixed remuneration and EUR 90 thousand (2016: EUR 86 thousand) for meetings.

The remuneration of the Supervisory Board members is as follows:

	Fixed Remuneration		Variable Remuneration		Total Remuneration	
in EUR thousand	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Christian Oecking	70	39	30	0	100	39
Ulrich Prädel	35	4	15	0	50	4
Univ.-Prof. Dr. Louis Velthuis	35	19	15	0	50	19
Members who stepped down from the Supervisory Board in 2016	–	74	–	0	–	74
	140	**136**	**60**	**0**	**200**	**136**

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 and cash position. 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 Forrester. In March 2017, Intershop was once again ranked as a leading provider of omni-channel commerce solutions in the Forrester Wave studies, both for B2B and B2C applications. Intershop also achieved a top rating in Forrester's „B2B Commerce Suites for Midsize Organizations, Q3 2017" industry analysis published in September. Of all participants in the „Current Offering" and „Commerce Management" categories, Intershop scored the highest.

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. The marketing and sales activities were stepped up in 2017 in particular to achieve high visibility and brand awareness in the two strategically important areas of cloud business and wholesale focus. For marketing purposes, Intershop uses the expertise of industry analysts such as Forrester. In addition, the cooperation with Microsoft plays an essential role, as the reputation of this company supports the perception 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. The „Lighthouse 2020" strategy program established detailed marketing and sales activities. The focus here is on expanding the sales pipeline and increasing the revenue share of cloud sales. Staff reinforcements in all sales units as well as various marketing measures support sales in this process.
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 increase in employee turnover, which continued in the 2017 fiscal year. However, in order to keep the risk low, countermeasures have been taken or reinforced. For example, the company has set up a professional development program (TEC-LEAD program) that includes the promotion of key persons. The strategic staff management with staff development measures was intensified. There are also regular salary and job level reviews.

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

As of the balance sheet date, Intershop has liquidity of EUR 8.9 million and a good liquidity position. A EUR 2.8 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. 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 to hedge currency risks are taken on a case-by-case basis.
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.

As a globally operating company, Intershop is subject to national and international legislation, compliance with which must be ensured. In particular, with the increasing requirements of the EU General Data Protection Regulation, there is the risk that these requirements will not be met and that this may entail liability claims or penalty fees. To mitigate this risk, Intershop relies on the support of external consultants.

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. In the process, Intershop expects significant opportunities from the further expansion of the cloud business.

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 remains unchanged from 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 289a (1) HGB AND SECTION 315a (1) HGB PLUS EXPLANATORY REPORT AS PER SECTION 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 a.F..

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 289f OF THE HGB OR, RESPECTIVELY, SECTION 315d HGB

On February 12, 2018, the Management Board and Supervisory Board issued a Corporate Governance Declaration in accordance with section 289f and 315d 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 2017 on the relationships with affiliated companies. This report also describes the relationships with Shareholder Value Management AG and Shareholder Value Beteiligungen AG. Shareholder Value Management AG and Shareholder Value Beteiligungen AG held 67.64% of the votes present at the Annual Stockholders' Meeting on May 9, 2017 and thus held a majority of the meeting. As a precautionary measure, the Management Board therefore assumes that there is currently a dependency relationship with these companies. However, the Management Board is aware that this assessment depends on uncertainties, in particular the prognosis for future majorities at stockholders' meetings, which cannot be reliably predicted. The dependency report was issued as a precautionary measure. 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 IMF's latest forecast in January 2018, the global economy will continue to grow at a rate of 3.9% this year. In the emerging and developing countries, the increase in economic output will therefore amount to 4.9%. For the group of industrialized countries, a growth of 2.3% is expected. An increase of 2.2% is expected throughout the Eurozone and growth of 2.3% is forecast for the German economy.

The global e-Commerce market will continue to grow significantly in the years to come. According to estimates by eMarketer, the B2C market volume will double to around USD 4.5 trillion by 2021. While large growth rates are expected mainly in emerging and developing countries, growth in Western Europe will be somewhat weaker due to the advanced market maturity. Nonetheless, eMarketer forecasts online revenue growth of 36% to USD 457 billion by 2021. For 2017, the German E-Commerce and Distance Selling Trade Association expects a further increase in online sales of 9.3%.

The digital transformation of the economy continues to pose major challenges for B2B commerce, which requires substantial investment. Forrester Research estimates investments of approximately USD 2.4 billion on B2B commerce platforms by 2021. Just over USD 1 billion will be allocated for mid-sized wholesalers and B2B brand manufacturers who are upgrading and redesigning their commerce infrastructures to assert their market share in a dynamic market, or to grow as best they can and meet rising customer demands.

The growth of the past years in the global IT markets will continue further in 2019. For example, the US analyst firm Gartner expects global IT spending in 2018 to increase by 4.5%. The market for corporate software, which is to grow by almost double digits at 9.5%, will continue to rank at the top of the growth. Thus, there will continue to be a significant shift to SaaS applications. The market for IT services will also benefit from high investment growth (+5.5%).

Company outlook

For the first time in four years, Intershop generated increasing sales in 2017 as part of the implementation of the „Lighthouse 2020" strategy. In doing so, it was possible to finance additional marketing and sales expenses by adjusting the cost structures and to achieve rising sales on the basis of a slightly positive result. This path should be continued and, if possible, growth accelerated. It turns out that the B2B sector, which is now targeted, is undergoing profound digitization and Intershop has the right solutions for the challenges facing wholesalers. In addition, the good development of new customers proves that the competitiveness of the Intershop solution in combination with increasing visibility in the target markets is also reflected in the gradual operational impact. But the competition in the market for e-Commerce platforms remains intense and every new project has to be fought for hard.

In 2018, Intershop anticipates significant opportunities in particular in the further expansion of its cloud solution business, which will be the focus of all business activities based on the new „Cloud First" guideline. After focusing the activities in Germany in 2017, the partnership with Microsoft will be rolled out successively in other European markets. In conjunction with the new, comprehensive CaaS solution offering from Intershop, the number of customers which are jointly addressed and won should increase and participate significantly in the dynamic growth in the cloud market. In doing so, the customer approach by Intershop will be stronger than before in the form of consulting in the digital transformation in the run-up to a platform decision. There will also be further investments in sales and marketing in 2018. For the expansion of digitization consulting, Markus Klahn was appointed as a new member of the Management Board who will be responsible for the Service area.

The medium-term goal of the „Lighthouse" roadmap remains to achieve sales revenues of EUR 50 million in 2020 and an EBIT margin of 5%. Of course, Intershop will seize opportunities to accelerate growth when these arise.

For the fiscal year 2018, Intershop's Management Board expects increasing license revenues in the product business, combined with increasing order intakes for cloud orders. In addition, a slight increase in downstream maintenance sales is expected. In the Service business, revenue in the fiscal year 2018 is expected to be at the prior-year level. For all three target regions of the Intershop Group (Europe, USA and Asia /Pacific), new projects and customers are expected, and therefore increasing revenues.

Statement on business developments for 2018

Based on the assumptions for the respective business segments, Intershop expects a slight increase in Group sales for the 2018 fiscal year. With a slight increase in gross profit and gross margin, a slightly positive operating result (EBIT) is also forecast.

Jena, February 28, 2018

The Management Board of INTERSHOP Communications AG

Dr. Jochen Wiechen Axel Köhler

CONSOLIDATED
FINANCIAL STATEMENTS

02

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

in EUR thousand	Note No.	December 31, 2017	December 31, 2016
ASSETS			
Noncurrent assets			
Intangible assets	(1)	8,933	8,806
Property, plant and equipment	(2)	637	567
Other noncurrent assets	(4)	14	52
Deferred tax assets	(20)	637	1,068
		10,221	**10,493**
Current assets			
Trade receivables	(3)	5,181	5,129
Other receivables and other assets	(4)	698	591
Cash and cash equivalents	(5)	8,949	10,898
		14,828	**16,618**
TOTAL ASSETS		**25,049**	**27,111**
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)	(24,159)	(23,434)
		15,330	**16,055**
Noncurrent liabilities			
Liabilities to banks	(8)	1,787	2,772
Deferred revenue	(10)	223	348
		2,010	**3,120**
Current liabilities			
Other current provisions	(11)	289	690
Liabilities to banks	(8)	1,000	1,000
Trade accounts payable	(7)	1,527	1,350
Income tax liabilities	(20)	230	71
Other current liabilities	(9)	2,993	2,911
Deferred revenue	(10)	1,670	1,914
		7,709	**7,936**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**25,049**	**27,111**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand	Note No.	January 1 to December 31, 2017	2016
Revenues	(12)		
Product Revenues		14,129	13,669
Service Revenues		21,678	20,519
		35,807	**34,188**
Cost of revenues	(13)		
Cost of revenues - Product		(3,845)	(3,304)
Cost of revenues - Services		(14,392)	(15,148)
		(18,237)	**(18,452)**
Gross profit		**17,570**	**15,736**
Operating expenses, operating income			
Research and development	(14)	(5,067)	(5,923)
Sales and marketing	(15)	(8,305)	(7,377)
General and administrative	(16)	(3,742)	(3,905)
Other operating income	(17)	220	276
Other operating expenses	(18)	(263)	(1,189)
		(17,157)	**(18,118)**
Result from operating activities		**413**	**(2,382)**
Interest income	(19)	6	20
Interest expense	(19)	(338)	(279)
Financial result		**(332)**	**(259)**
Earnings before tax		**81**	**(2,641)**
Income taxes	(20)	**(745)**	**(347)**
Earnings after tax		**(664)**	**(2,988)**
Other comprehensive income			
Exchange differences on translating foreign operations		(61)	(38)
Other comprehensive income from exchange differences		**(61)**	**(38)**
Total comprehensive income		**(725)**	**(3,026)**
Earnings per share (EUR, basic, diluted)	(21)	(0.02)	(0.09)
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, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Earnings before tax		81	(2,641)
Adjustments to reconcile net profit/loss to cash used in operating activities			
Financial result		332	149
Depreciation and amortization		2,420	3,296
Other noncash expenses and income		(59)	0
Changes in operating assets and liabilities			
Accounts receivable		(129)	256
Other assets		(92)	(107)
Liabilities and provisions		(242)	(280)
Deferred revenue		(294)	(342)
Net cash provided by (used in) operating activities before income tax and interest		**2,017**	**(360)**
Interest received		6	20
Interest paid		(179)	(268)
Income taxes received		4	0
Income taxes paid		(156)	(254)
Net cash provided by (used in) operating activities		**1,692**	**(862)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Restricted cash		0	375
Payments for investments in intangible assets		(2,244)	(2,336)
Proceeds on disposal of equipment		28	1
Purchases of property and equipment		(352)	(473)
Net cash provided by (used in) investing activities		**(2,568)**	**(2,433)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Restricted cash		0	1,200
Repayments of loans		(1,000)	(2,200)
Net cash provided by (used in) financing activities		**(1,000)**	**(1,000)**
Effect of change in exchange rates on cash		(73)	(39)
Net change in cash and cash equivalents		**(1,949)**	**(4,334)**
Cash and cash equivalents, beginning of period	(5)	10,898	15,232
Cash and cash equivalents, end of period		**8,949**	**10,898**

CONSOLIDATED STATEMENT OF SHAREHOLDERS´ EQUITY

in EUR thousand	Common shares (Number shares)	Subscribed capital	Capital reserve	OTHER RESERVES Conversion reserve	Cumulative profit/loss	Cumulative currency differences	Total shareholders´equity
Balance January 1, 2017	**31,683,484**	**31,683**	**7,806**	**(93)**	**(25,421)**	**2,080**	**16,055**
Total comprehensive income					(664)	(61)	(725)
Balance December 31, 2017	**31,683,484**	**31,683**	**7,806**	**(93)**	**(26,085)**	**2,019**	**15,330**
Balance January 1, 2016	**30,183,484**	**31,683**	**7,806**	**(93)**	**(22,433)**	**2,118**	**19,081**
Total comprehensive income					(2,988)	(38)	(3,026)
Balance December 31, 2016	**31,683,484**	**31,683**	**7,806**	**(93)**	**(25,421)**	**2,080**	**16,055**

NOTES
TO THE CONSOLI-DATED FINANCIAL STATEMENTS

03

NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS

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, 2017, the Company had cash and cash equivalents of EUR 8.9 million (December 31, 2016: EUR 10.9 million). The equity ratio as of the balance sheet date was 61% (previous year: 59%). The Company's financial liabilities to banks totaled EUR 2.8 million on the balance sheet date (prior year: EUR 3.8 million). We refer to the statements in the Group Management Report.

Accounting principles (compliance statement)

In fiscal year 2017, 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 2017 (January 1, 2017 to December 31, 2017) 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 2017 fiscal year was the first year in which the adoption of the following financial reporting standards and interpretations became mandatory:

- Amendments of IAS 7 "Cash Flow Statement - Disclosure Initiative"
- Amendments of IAS 12 "Income Taxes"
- Improvements to IFRSs 2014-2016 "Amendments of IFRS 12"

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. The amendments of IAS 12 and the improvements to IFRSs 2014-2016 have no significant impact on the consolidated financial statements of the Company.

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**
IFRS 2	Classification and measurement of share-based remuneration	01/01/2018
IFRS 9	Financial instruments	01/01/2018
IFRS 15*	Revenues from contracts with customers	01/01/2018
Improvements	Improvements to IFRSs 2014-2016: Amendments of IFRS 1 and IAS 28	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 upper single-digit million EUR range. The equity ratio will decrease accordingly. Intershop is currently reviewing the impact on the EBIT resulting from the current rental expenses becoming depreciation and interest expenses in the future.

IFRS 9„Financial Instruments" includes revised requirements for the classification and measurement of financial assets, fundamental changes in the rules for the impairment of financial assets and revised rules for hedge accounting. At the present time, the impact of this standard on the Company's financial statements is considered to be minor, as no complex financial instruments are used. The new impairment model (expected loss model) will have no significant impact associated with the valuation of receivables.

The other amended standards mentioned will have no material impact on the consolidated financial statements of the Company.

Financial reporting for fiscal year 2017 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 were prepared based on the historical acquisition or production costs. 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 February 28, 2018, 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 2017, other provisions amounted to a total of EUR 289 thousand (previous year: EUR 690 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 2017 and 2016. Please refer to the "Revenues" section in the chapter entitled "Accounting Policies" for information on estimating revenues.

Basis of consolidation

As of December 31, 2017, 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, 2017:

	Interest in %	**Equity*** in EUR thousand	**Annual result**** in EUR thousand
Intershop Communications, Inc., San Francisco, USA	100	(1,044)	133
Intershop Communications Australia Pty Ltd, Melbourne, Australia	100	939	178
Intershop Communications Asia Limited, Hongkong, China	100	32	26
Intershop Communications SARL, Paris, France	100	315	283
Intershop Communications LTD, Romsey, United Kingdom	100	(170)	5
The Bakery GmbH, Berlin, Germany	100	(3,942)	(52)
Intershop Communications Ventures GmbH, Jena, Germany	100	(1,346)	(17)

* Equity as of December 31, 2017 is translated at the exchange rate as of the reporting date
** Net income/loss for fiscal year 2017 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. Non-monetary 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 -173 thousands (2016: EUR -121 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, 2017**	**Dec. 31, 2016**	**2017**	**2016**
United States	USD	1.20	1.05	1.13	1.11
Australia	AUD	1.53	1.46	1.47	1.49
Hong Kong	HKD	9.37	8.18	8.82	8.58
United Kingdom	GBP	0.89	0.86	0.87	0.82

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; which the Company defines with the compilation of the software functionalities considered as marketable to so-called PSIs and the definition of the EPICs. 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 historical 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 2017 and 2016. 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 2017 and 2016.

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, 2017: EUR 4,473 thousand). For the goodwill the relevant cash-generating unit is the Europe segment. In the prior year, the Full Service area was deducted from the Europe segment. Since Intershop will increasingly focus on the cloud and its standardization as of 2018, all business divisions will also experience changes. In future, the Full Service area will no longer be considered separately. 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 2018 to 2021 and a perpetual annuity (without growth rate) was calculated for the period beginning 2022. The calculations are based on the corporate planning for the period from 2018 to 2021 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 8.47% (WACC before tax: 12.38%). In 2017, no impairment losses on good will were reported, according to both the old or new CGU allocation. There were also no impairment losses on company values reported in the prior year. 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. Intershop derecognizes financial assets if the payment has been received or if the receivable cannot be collected. Financial liabilities are derecognized if the contractual obligations have been met, rescinded or expired.

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.

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. Furthermore, revenues from cloud offerings shall be recorded. This includes the components: setup, operation and operating services of the cloud. The setup fees are non-recurring revenues. Revenues for the operation of the cloud as well as operating services are generally booked monthly.

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, 2016	**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**
Additions	18	2,278	0	2,296
Disposals	(2)	0	0	(2)
Currency translation differences	0	0	0	0
Balance at December 31, 2017	**1,885**	**24,497**	**24,097**	**50,479**
Amortization, write-downs, and impairment losses				
Balance at January 1, 2016	**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**
Additions	9	2,160	0	2,169
Disposals	(2)	0	0	(2)
Currency translation differences	0	0	0	0
Balance at December 31, 2017	**1,870**	**20,052**	**19,624**	**41,546**
Net carrying amount at December 31, 2016	**6**	**4,327**	**4,473**	**8,806**
Net carrying amount at December 31, 2017	**15**	**4,445**	**4,473**	**8,933**

"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 2,161 thousand (2016: EUR 2,194 thousand) are included in the cost of revenues, EUR 7 thousand (2016: EUR 9 thousand) in research and development expenses as well as EUR 1 thousand (2016: EUR 23 thousand) in general and administrative costs. In the prior year, marketing and sales expenses amounted to EUR 1 thousand. 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 improvements	Total
Costs of purchase				
Balance at January 1, 2016	**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**
Additions	279	74	0	353
Disposals	(312)	(371)	0	(683)
Currency translation differences	(17)	(6)	(1)	(24)
Balance at December 31, 2017	**2,724**	**1,094**	**281**	**4,099**
Depreciation, write-downs, and impairment losses				
Balance at January 1, 2016	**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**
Additions	181	70	0	251
Disposals	(309)	(346)	0	(655)
Currency translation differences	(15)	(5)	0	(20)
Balance at December 31, 2017	**2,171**	**1,010**	**281**	**3,462**
Net carrying amount at December 31, 2016	**460**	**106**	**1**	**567**
Net carrying amount at December 31, 2017	**553**	**84**	**0**	**637**

Of depreciation, write-downs and impairment losses on property, plant and equipment recognized in the Statement of Comprehensive Income, EUR 87 thousand (2016: EUR 104 thousand) are included in the cost of revenues, EUR 73 thousand (2016: EUR 84 thousand) in research and development expenses, EUR 39 thousand (2016: EUR 34 thousand) in marketing and sales expenses as well as EUR 52 thousand (2016: EUR 46 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 5,181 thousand (2016: EUR 5,129 thousand) and due within one year (current assets). Thereof, total receivables of EUR 4,293 thousand (2016: EUR 4,246 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, 2017	Dec. 31, 2016
Due within 30 days	2,481	2,295
Due within 31 and 60 days	750	1,547
Due within 61 days and 1 year	1,062	404
	4,293	**4,246**

As of December 31, 2017, trade receivables of EUR 486 thousand were past due but were not impaired (December 31, 2016: EUR 420 thousand). The following table shows the maturity structure of receivables that are past due but not impaired:

in EUR thousand	Dec. 31, 2017	Dec. 31, 2016
Up to 30 days past due	412	420
31 to 60 days past due	23	0
61 to 90 days past due	51	0
	486	**420**

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, 2017 were collected primarily in January 2018.

As of December 31, 2017, impairment losses amounting to EUR 5 thousand (2016: EUR 61 thousand) have been recognized. Impairments changed as follows:

in EUR thousand	2017	2016
Balance at beginning of year	**61**	**41**
Impairment of receivables	5	56
Amounts derecognized due to uncollectibility	0	0
Amounts received during the fiscal year on receivables written off	(61)	(36)
Reversals of impairments	0	0
Balance at end of year	**5**	**61**

(4) OTHER RECEIVABLES AND OTHER ASSETS

Other noncurrent assets in the amount of EUR 14 thousand (2016: EUR 52 thousand) comprise rental security deposits. Other current receivables and current assets include the following items:

in EUR thousand	Dec. 31, 2017	Dec. 31, 2016
Prepayments	557	428
Other tax receivables	26	30
Other	115	133
	698	**591**

(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.

(6) EQUITY

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

Subscribed capital

As at December 31, 2017, 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. There are no restrictions on voting rights.

The following remaining shareholdings as of the balance sheet date were disclosed to the Company in accordance with sec. 21 (1) of the German Securities Trading Act (WpHG), old version (now sec. 33 (1) WpHG) and were announced by the Company pursuant to sec. 26 (1) WpHG, old version (now sec. 40 (1) WpHG): on April 19, 2016 Shareholder Value Management AG and on May 6, 2016 Shareholder Value Beteiligungen AG held 24.90% of the voting rights in the company, as can be seen from the voting rights notifications published on April 22, 2016 and May 11, 2016. As per its voting rights notification published on October 9, 2017, BNY Mellon Service Kapitalanlagegesellschaft mbH sold its voting rights in the Company effective October 1, 2017 and no longer holds any voting rights; correspondingly, as per the notification published on October, 9, 2017, Axxion S.A., Grevenmacher, Luxembourg has informed that it holds 9.20% as of October 1, 2017. Therefore, the free float of INTERSHOP Communications AG came to a total of 65.90% as of the balance sheet date. We refer to the statements in the Group Management Report in section "Disclosures according to sec. 289a (1) and sec. 315a (1) HGB with an explanatory report according to sec 176 (1) sentence 1 AktG".

Authorized capital

As at December 31, 2017, the Company had authorized capital in the amount of EUR 6,336,000 (December 31, 2016: EUR 6,336,000). 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.

(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 ACCOUNTS PAYABLE

Trade accounts payable comprise unsettled liabilities relating to the delivery of goods and services and amounted to EUR 1,527 thousand (2016: EUR 1,350 thousand).

(8) LIABILITIES TO BANKS

Liabilities to banks are broken down as follows:

in EUR thousand	**Dec. 31, 2017**	**Dec. 31, 2016**
Liabilities to banks - noncurrent	1,787	2,772
Liabilities to banks - current	1,000	1,000
	2,787	**3,772**

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, 2017	Dec. 31, 2016
Liabilities to employees	828	1,027
Other VAT and wage tax liabilities	793	628
Liabilities from outstanding vacation entitlement	552	598
Liabilities from advance payments received for fixed-price projects	212	120
Liabilities to the Occupational Health and Safety Agency	97	101
Other liabilities relating to social security benefits	71	90
Liabilities from advance payments received	17	149
Miscellaneous other liabilities	423	198
	2,993	**2,911**

Liabilities to employees mainly include liabilities from commissions and performance-based remuneration (in the prior year this also included obligations under the restructuring (EUR 400 thousand)). The item „Liabilities from advance payments received for fixed-price projects" includes an order with a total order volume of EUR 1,888 thousand, of which EUR 1,640 thousand has already been paid and EUR 1,428 thousand of which has been realized as revenue and offset against advance payments made.

(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 289 thousand (2016: EUR 690 thousand).

The following table shows the development of other current provisions:

in EUR thousand	Litigation risks	Guarantee	Other	Total
Balance at January 1, 2017	**28**	**364**	**298**	**690**
Additions	0	164	87	251
Utilization	(26)	(362)	(233)	(621)
Reversal	0	0	(25)	(25)
Currency adjustments	(2)	(4)	0	(6)
Balance at December 31, 2017	**0**	**162**	**127**	**289**

Miscellaneous other provisions mainly relate to provisions for the Stockholders' Meeting.

NOTES TO THE INDIVIDUAL ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME

(12) REVENUES

Revenues of EUR 35,807 thousand (2016: EUR 34,188 thousand) are divided into product revenues and service revenues, as follows:

in EUR thousand	2017	2016
Licenses	6,108	5,657
Maintenance	8,021	8,012
Product Revenues	**14,129**	**13,669**
Consulting/Training	15,403	15,934
Full Service	6,275	4,585
Service Revenues	**21,678**	**20,519**
Total Revenues	**35,807**	**34,188**

Fixed-price projects in 2017 generated revenues of EUR 2,859 thousand. This was measured based on the stage of completion of the project using the percentage of completion method. The costs amounted to a total of EUR 2,129 thousand and the earnings contribution to EUR 730 thousand.

(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	2017	2016
Licenses	2,249	1,672
Maintenance	1,596	1,632
Cost of revenues - Product	**3,845**	**3,304**
Consulting/Training	9,806	10,881
Full Service	4,586	4,267
Cost of revenues - Services	**14,392**	**15,148**
Total cost of revenues	**18,237**	**18,452**

The cost of revenues for licenses in the amount of EUR 2,249 thousand (2016: EUR 1,672 thousand), primarily include the amortization of software development costs.

(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 reduction in research and development costs from EUR 5,923 thousand to EUR 5,067 thousand is primarily attributable to lower personnel expenses. 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 increased by 13% from EUR 7,377 thousand to EUR 8,305 thousand, primarily due to higher marketing and personnel expenses as well as increased expenses for sales partners. The share of sales and marketing expenses to total revenue was 23% (2016: 22%).

(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 administrative costs fell by 4% from EUR 3,905 thousand to EUR 3,742 thousand. As in the prior year, the share of general administrative costs in total revenues was 11%.

(17) OTHER OPERATING INCOME

Other operating income is composed of the following items:

in EUR thousand	2017	2016
Income from currency translation gains	63	95
Gains from the disposal of fixed assets	5	1
Miscellaneous	152	180
	220	**276**

Income from currency gains of EUR 63 thousand is attributable to financial instruments.

(18) OTHER OPERATING EXPENSES

Other operating expenses relate to the following items:

in EUR thousand	2017	2016
Currency translation losses	236	216
Other taxes	0	1
Restructuring costs	0	972
Miscellaneous	27	0
	263	**1,189**

Expenses from currency translation losses of EUR 236 thousand were attributable to financial instruments.

(19) INTEREST INCOME AND INTEREST EXPENSES

Interest income of EUR 6 thousand (2016: EUR 20 thousand) consists primarily of interest on bank balances. Interest expenses amounted to EUR 338 thousand (2016: EUR 279 thousand) and result mainly from interest expenses for liabilities to banks for the 2017 fiscal year and interest from findings of the tax audit.

(20) INCOME TAXES

Income tax liabilities on the balance sheet date amounted to EUR 230 thousand (2016: EUR 71 thousand) and relate to tax arrears from an audit of the years 2007 to 2012 and foreign income taxes for the year 2017.

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, 2017 was based on a corporate income tax rate of 15% (2016: 15%) plus the solidarity surcharge of 5.5% (2016: 5.5%) and an effective expected trade tax rate of 15.691% (2016: 15.76%).

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

in EUR thousand	2017	2016
Current taxes		
Abroad	70	194
Germany	247	(11)
Deferred taxes		
Abroad	28	(10)
Germany	400	174
	745	**347**

Current tax expenses include taxes amounting to EUR 227 thousand from findings of a tax audit for 2007 to 2012. The Group tax rate of 31.517% applicable in fiscal year 2017 (2016: 31.584%) was multiplied by IFRS earnings before taxes to calculate the expected tax expense. The change in the Group tax rate results from the relocation of a permanent establishment to a location with a lower trade tax rate. 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	2017	2016
IFRS pretax income	81	(2.641)
Corporate tax rate	31.517%	31.584%
Expected tax expense/ tax income	26	(834)
Effects of changes in tax rates and different rates of foreign taxation	22	81
Effects of non-recognition of deferred taxes or utilization of tax losses	362	1,067
Permanent effects, tax refunds	105	17
Taxes of prior years	230	15
Other effects	0	1
Income taxes	**745**	**347**

The components of the deferred tax assets were as follows:

in EUR thousand	2017	2016
Taxes on eligible loss carryforwards	2,445	2,402
Inventories	398	264
Provisions/Liabilities	100	185
Deferred tax assets	**2,942**	**2,851**
Offset	(2,306)	(1,783)
Deferred tax assets after offset	**637**	**1,068**
Intangible assets	1,401	1,369
Receivables	143	0
Liabilities	762	414
Deferred tax liabilities	**2,306**	**1,783**
Offset	(2,306)	(1,783)
Deferred tax liabilities after offset	**0**	**0**
Net deferred tax assets	**637**	**1,068**

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, 2017 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 taxes on balance sheet differences, with the exception of deferred tax liabilities on intangible assets, are short-term deferred taxes that reverse in the following year. Deferred tax liabilities on intangible assets are realized over a depreciation period of three years. Deferred taxes on loss carryforwards are basically to be regarded as long-term. Deferred tax liabilities for withholding taxes on capital for subsidiaries were not recognized.

For the year ended December 31, 2017, the Company had net loss carryforwards for tax reporting purposes in various tax jurisdictions as follows:

in EUR thousand	2017	2016
U.S. Federal	107,798	111,375
U.S. State	38,527	39,022
German corporate income tax	179,325	182,886
German municipal trade tax	176,731	176,775
Other	102	449

U.S. federal and state net operating loss carryforwards expire in various fiscal periods through 2037. 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 2017. With regard to the remaining loss carryforwards, no deferred tax assets were entered for corporate tax purposes in the amount of EUR 171,865 thousand (2016: EUR 175,281 thousand) and for trade taxes in the amount of EUR 168,671 thousand (2016: EUR 169,170 thousand).

(21) EARNINGS PER SHARE

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

in EUR thousand	2017	2016
Basis for calculating basic and diluted earnings per share (earnings after tax)	(664)	(2,988)
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)	**(0.02)**	**(0.09)**

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.

NOTES TO THE CASH FLOW STATEMENT

Cash comprises exclusively the cash and cash equivalents reported in the balance sheet. 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 inflow from operating activities improved significantly to EUR 1,692 thousand in 2017 after a cash outflow of EUR 862 thousand in 2016, which is mainly due to the positive earnings before taxes. Non-cash impairment losses remained at the level of the prior year at EUR 2,420 thousand (2016: EUR 2,495 thousand). The cash outflow from investing activities increased slightly from EUR 2,433 thousand in the prior year to EUR 2,568 thousand. The payments for investments in intangible assets included therein declined by EUR 92 thousand to EUR 2,244 thousand. In the prior year, restricted cash in the amount of EUR 375 thousand was received. The cash outflow from financing activities was EUR 1,000 thousand, which resulted from scheduled loan repayments (2016: EUR 1,000 thousand). In total, there was a net outflow of EUR 1,949 thousand in the 2017 fiscal year compared to a cash outflow of EUR 4,334 thousand in the prior year. Intershop had freely available cash and cash equivalents of EUR 8,949 thousand as of the balance sheet date (December 31, 2016: EUR 10,898 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, 2017

in EUR thousand	Europe	USA	Asia/ Pacific	Consoli- dation	Group
Revenues from external customers					
Product Revenues	**11,543**	**1,268**	**1,318**	**0**	**14,129**
Licenses	4,966	553	589	0	**6,108**
Maintenance	6,577	715	729	0	**8,021**
Service Revenues	**15,298**	**2,441**	**3,939**	**0**	**21,678**
Consulting and training	11,076	1,925	2,402	0	**15,403**
Full Service	4,222	516	1,537	0	**6,275**
Total revenues from external customers	**26,841**	**3,709**	**5,257**	**0**	**35,807**
Intersegment revenues	191	0	183	(374)	**0**
Total revenues	**27,032**	**3,709**	**5,440**	**(374)**	**35,807**
Cost of revenues	13,671	1,889	2,677	0	**18,237**
Gross profit	**13,170**	**1,820**	**2,580**	**0**	**17,570**
Operating expenses, operating income	12,861	1,777	2,519	0	**17,157**
Result from operating activities	**309**	**43**	**61**	**0**	**413**
Financial result					**(332)**
Earnings before tax					**81**
Income taxes					**(745)**
Earnings after tax					**(664)**
Assets	18,777	2,595	3,677	0	**25,049**
Depreciation and amortization	1,814	251	355	0	**2,420**

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**

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 2017 and 2016, 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 16,839 thousand (2016: EUR 13,800 thousand). Revenues of EUR 18,968 thousand (2016: EUR 20,388 thousand) were recorded from external customers in other countries. The amount of EUR 5,997 thousand of the revenues relates to customers in the Netherlands (2016: EUR 6,151 thousand). In the 2017 fiscal year, a single customer generated sales of EUR 5,371 thousand in the Europe segment. In the prior year, there were no relationships with individual customers whose share of sales accounted for at least 10% of total Group sales. Total noncurrent assets excluding deferred taxes amounted to EUR 9,537 thousand (2016: EUR 9,337 thousand) in Germany and EUR 47 thousand (2016: EUR 88 thousand) in other countries. The Company does not have any assets relating to financial instruments associated with pensions or rights arising from insurance contracts.

Operating-Leasing

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, 2017	Dec. 31, 2016
Due within 1 year	2,470	2,546
Due in 1 to 5 years	2,176	2,041
Due after more than 5 years	0	0
Total	**4,646**	**4,587**

The sum of future minimum payments arising from subleases amounted to EUR 293 thousand (2016: EUR 323 thousand) as of the balance sheet date. Rental expense of EUR 2,178 thousand (2016: EUR 2,265 thousand) was recognized in the income statement. Rental income amounted to EUR 808 thousand (2016: EUR 799 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 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.

In September 2019, the company plans to move into new business premises in an office building yet to be built. The new lease was concluded in August 2017 and has a term of ten years from the move-in date. The contractually agreed payments for rent excluding bills total EUR 8.8 million over the contractual term.

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 two 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, 2017	Dec. 31, 2016	as a % of previous year
Equity	15,330	16,055	-5%
Liabilities to banks	2,787	3,772	-26%
Trade accounts payable	1,527	1,350	13%
Other liabilities	5,405	5,934	-9%
Equity ratio	61%	59%	

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, 2017	Dec. 31, 2016
Measurement	**Categories**	**Carrying amount**	**Carrying amount**
Measured at amortized cost			
ASSETS			
Other noncurrent assets	Loans and receivables	14	52
Trade receivables	Loans and receivables	5,181	5,129
Cash and cash equivalents	Loans and receivables	8,949	10,898
Other receivables and other assets		698	591

in TEUR		Dec. 31, 2017	Dec. 31, 2016
Measurement	**Categories**	**Carrying amount**	**Carrying amount**
LIABILITIES			
Trade payables	Financial liabilities measured at amortized cost	1,527	1,350
Liabilities to banks	Financial liabilities measured at amortized cost	2,787	3,772
Other current liabilities		2,993	2,911
of which financial liabilities measured at amortized cost		1,028	1,163

Carrying amount aggregated by measurement category	2017	2016
Loans and receivables	14,144	16,079
Financial liabilities measured at amortized cost	5,342	6,285

Net gain/loss per measurement category	2017	2016
Loans and receivables	43	(2)
Financial liabilities measured at amortized cost	(194)	(292)

During the reporting year, there was no regrouping between the categories. 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, 2017: EUR 2,995 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. 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 out in the 2015 fiscal year in the amount of EUR 6,000 thousand, a total of EUR 3,200 thousand has been repaid so far, of which EUR 2,000 thousand was scheduled repayment and EUR 1,200 thousand unscheduled repayment. The cash in banking accounts totaled EUR 8,949 thousand at the balance sheet date.

The change in financial liabilities in connection with financing activities is as follows:

in EUR thousand	Dec. 31, 2016	Cash-effective change	Non-cash effective change (reclassifications)	Non-cash effective change (interest effects)	Dec. 31, 2017
Liabilities to banks - noncurrent	2,772	0	(1,000)	15	1,787
Liabilities to banks - current	1,000	(1,179)	1,000	179	1,000
Total	**3,772**	**(1,179)**	**0**	**194**	**2,787**

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, 2016	Cash flow in 2017	Carrying amount at Dec. 31, 2017	Cash flow in 2018	Cash flow after 2018
Non-current liabilities to banks	2,772	0	1,787	0	1,898
Current liabilities to banks	1,000	1,179	1,000	1,126	0
Trade accounts payable	1,350	1,350	1,527	1,527	0
Other current liabilities	1,163	1,163	1,028	1,028	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. If required, 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, British pound 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	2017	2016	2017	2016
in USD	307	428	6	0
in GBP	102	0	5	0

The carrying amount of the monetary assets and debt of the Group denominated in Australian dollars total AUD 0 at the balance sheet date (2016: 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 GBP	
In EUR thousand	2017	2016	2017	2016
Change due to 10% appreciation of the euro	(5)	(5)	(9)	0
Change due to 10% depreciation of the euro	6	7	11	0

Related party disclosures

Intershop maintained business relationships with the consolidated subsidiaries. Shareholder Value Management AG together with Shareholder Value Beteiligungen AG held a total of 24.90% of the shares in the company as of the balance sheet date. We refer to the management report, section „Disclosures pursuant to sec. 289a (1) HGB and sec. 315a (1) HGB together with the explanatory report pursuant to sec. 176 (1) sentence 1 of the Stock Corporations Act". As in the prior year, there were no business relationships with these companies in the 2017 fiscal year.

With respect to the remuneration for Management Board and Supervisory 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 2017 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 2017:

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 since 12/16/2016)
Univ.-Prof. Dr. Louis Velthuis	Member of the Supervisory Board	since 06/02/2016

The total remuneration of the Management Board for its activities in the 2017 fiscal year amounted to EUR 736 thousand (2016: EUR 534 thousand), of which EUR 496 thousand (2016: EUR 510 thousand) relates to fixed remuneration and EUR 240 thousand (2016: EUR 24 thousand) to variable components. In the 2017 fiscal year, Supervisory Board members were entitled to remuneration totaling EUR 200 thousand (2016: EUR 136 thousand), of which EUR 140 thousand (2016: EUR 136 thousand) accounted for fixed remuneration and EUR 60 thousand (2016: EUR 0) for the performance-related variable portion. 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, 2017, the following members of the Company's executive bodies held Intershop ordinary bearer shares:

Name	Function	Shares
Christian Oecking	Chairman of the Supervisory Board	20,000
Ulrich Prädel	Vice Chairman of the Supervisory Board	8,000
Univ.-Prof. Dr. Louis Velthuis	Member of the Supervisory Board	5,000
Dr. Jochen Wiechen	CEO of the Board of Management	60,000
Axel Köhler	Member of the Board of Management	6,500

In the fiscal year 2017, 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)
Christian Oecking	02/06/2017	Purchase	10,000	11,700
Ulrich Prädel	02/01/2017	Purchase	8,000	9,288

EMPLOYEES

During the fiscal year 2017, Intershop Group had an average of 331 full-time employees, of whom 329 were salaried employees and 2 members of the executive bodies (2016: 373 full-time employees, of whom 371 were salaried employees and 2 members of the executive bodies).

PERSONNEL EXPENSES AND COST OF MATERIALS

Personnel expenses totaled EUR 23,325 thousand (2016: EUR 24,623 thousand); of which EUR 20,289 thousand relate to wages and salaries (2016: EUR 21,273 thousand) and EUR 3,036 thousand to social security contributions (2016: EUR 3,350 thousand). Material expenses totaled EUR 3,280 thousand (2016: EUR 2,702 thousand); of which EUR 3,187 thousand relate to expenses for purchased services (2016: EUR 3,218 thousand).

AUDITOR´S FEES

The fees incurred for the services rendered by the auditor for the 2017 fiscal year were comprised of EUR 96 thousand for audit services (2016: EUR 106 thousand), EUR 21 thousand for tax advisory services (2016: EUR 43 thousand) and EUR 1 thousand for other services (2016: EUR 1 thousand).

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On February 13, 2018, the company announced upcoming changes to the Management Board. As of April 9, 2018, Markus Klahn will join the current Management Board. Mr. Klahn will be responsible for the Service area.
There have been no other 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 18, 2017, and made this declaration permanently available to its stockholders at www.intershop.com/investors-corporate-governance.

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, February 28, 2018

The Management Board of INTERSHOP Communications AG

Dr. Jochen Wiechen

Axel Köhler

INDEPENDENT AUDITOR'S REPORT

To INTERSHOP Communications Aktiengesellschaft, Jena

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of INTERSHOP Communications Aktiengesellschaft, Jena, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of INTERSHOP Communications Aktiengesellschaft, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the group management report listed in the „Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to [§ [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]] § 315e Abs. 1 HGB, and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the „Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Recoverability of goodwill
❷ Recognition and measurement of internally generated intangible assets
❸ Revenue recognition and allocation of revenue to correct periods

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Recoverability of goodwill

① Goodwill amounting in total to EUR 4,473 thousand (representing 18% of total assets and 29% of equity) is reported under the „Intangible assets" balance sheet item in INTERSHOP Communications Aktiengesellschaft's consolidated financial statements. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating unit to which the relevant goodwill has been allocated. The carrying amount of the cash-generating unit, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The calculation of the recoverable amount generally employs the value in use. The present value of the future cash flows from the cash-generating unit normally serves as the basis of valuation. The present values are calculated using discounted cash flow models. For this purpose, the medium-term business plan adopted by the Group forms the starting point for future projections. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the cash-generating unit. The impairment test determined that no write-downs were necessary. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the cash-generating unit, the discount rate used, and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the medium-term business plan adopted by the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated using this method, we focused our testing in particular on the parameters used to determine the discount rate applied, and verified the calculation procedure. We reproduced the sensitivity analyses performed by the Company, in order to reflect the uncertainty inherent in the projections. Taking into account the information available, we determined that the carrying amount of the cash-generating unit, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures about impairment testing and the balance sheet item „Intangible assets" are contained in the section „Accounting and measurement methods" and section (1) „Intangible assets" of the notes to the consolidated financial statements.

❷ Recognition and measurement of internally generated intangible assets

① Internally generated intangible assets (software) amounting in total to EUR 4,445 thousand (representing 18% of total assets and 29% of equity) is reported under the „Intangible assets" balance sheet item in INTERSHOP Communications Aktiengesellschaft's consolidated financial statements. These internally generated intangible assets are internally developed Intershop software solutions which are recognized in accordance with the provisions of IAS 38. The eligibility of internally generated product development expenses for capitalization depends on the criteria set out in IAS 38.57, i.e., the the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset, its ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and the company's its ability to measure reliably the expenditure attributable to the intangible asset during its development. Internally generated intangible assets are initially recognized at cost. They are subsequently measured using the cost model. In our view, this matter was of particular importance for our audit because the capitalization and amortization of development costs are based to a large extent on estimates and assumptions made by the executive directors and are therefore subject to corresponding uncertainties.

② As part of our audit, we reviewed, among other things, the internal processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. Moreover, we evaluated the capitalization requirements for individual projects on a sample basis, using the criteria set out in IAS 38.57. We assessed the amount of the intangible assets capitalized and the recoverability of the development expenditure on the basis of supporting evidence made available to us. In so doing, we also inspected project records in order to verify the respective percentage of completion. In this connection, we also assessed the recoverability of the intangible assets based on internal projections as to future usability and evaluated the appropriateness of the underlying estimates and assumptions. Based on our audit procedures, we satisfied ourselves that the measurement parameters and assumptions used by the by the executive directors were justified and adequately documented.

③ The Company's disclosures on the „Intangible assets" balance sheet item are contained in the sections entitled „Accounting policies" and „(1) Intangible assets" in the notes to the consolidated financial statements.

❸ Revenue recognition and allocation of revenue to correct periods

① Revenue amounting to EUR 35,807 thousand is reported in the consolidated statement of comprehensive income in the consolidated financial statements of INTERSHOP Communications Aktiengesellschaft. The company recognizes revenue from the sale and temporary granting of licenses, the provision of installation services and advice, maintenance and operation of online shops on behalf of customers in return for a sales-based fee. The recognition of revenue from the sale of licenses depends on the existence of a binding contractual arrangement, the transfer of material rights to the buyer and the ability to reliably determine the consideration paid. Proceeds from services are realized as at the date the services are rendered, while maintenance revenue and proceeds from the temporary granting of licenses is realized over the performance period. These various services rendered by the company can be the object of agreements with customers, either individually or in various constellations. In this connection, the company must also identify contracts relating to multiple components and account for agreed individual services individually. In light of the complexity of the customer agreements underpinning revenue recognition, these significant items are subject to particular risk. Against this background, the correct application of the accounting standards is considered to be complex and is based in some respects on estimates, assumptions and discretion used by the executive directors, with the result that this matter was of particular importance for our audit.

② As part of our audit, we assessed, among other things, the correct presentation of revenue in the consolidated financial statements on the basis of the accounting policies applied by INTERSHOP Communications Aktiengesellschaft in relation to the recognition of software revenue in accordance with the relevant IFRSs.

To do so, we first identified the material controls implemented by the Group to ensure the correct identification of contracts, specifically contracts covering multiple components, and individual services and the recognition of revenue, assessed their appropriateness and tested their effectiveness with respect to avoiding and/or identifying errors. Moreover, we assessed in detail the recognition of revenue from individual material transactions, as well as further transactions on a test basis, in light of contracts, proof of performance and payments, as well as assessing in particular the proper allocation of such transactions to the correct periods. In addition, we verified the consistency of the methods used by the Company to recognize revenue.

In this connection, we also assessed the appropriateness and mathematical accuracy of individual assumptions made by the executive directors when determining the fee to be allocated to the respective individual services under multiple-component contracts, as well as the accounting treatment applied. Based on our audit procedures, we satisfied ourselves that the estimates and assumptions relating to revenue recognition made by the executive directors were adequately documented and justified.

③ The Company's disclosures on revenue recognition are contained in sections (10) Deferred revenue and (12) Revenues of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in a separate section of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism during the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the annual general meeting on May 09, 2017. We were engaged by the supervisory board on October 20, 2017. We have been the group auditor of INTERSHOP Communications Aktiengesellschaft, Jena, without interruption since financial year 2007.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Andreas Kremser.

Erfurt, March 1, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

FINANCIAL STATEMENTS

04

BALANCE SHEET INTERSHOP COMMUNICATIONS AG

in EUR	December 31, 2017	December 31, 2016
ASSETS		
Fixed Assets		
Intangible assets		
Internally developed software	3,725,640	2,202,514
Purchased software licenses	14,754	5,661
Property and equipment		
Other facilities, furniture, and equipment	603,795	531,471
Financial Assets		
Investments in affiliated companies	9,173,962	9,173,962
	13,518,151	**11,913,608**
Current Assets		
Inventories		
Work in process	1,262,267	835,113
	1,262,267	835,113
Receivables and other assets		
Accounts receivable	3,556,220	3,430,540
Receivables from affiliated companies	3,158,296	4,198,180
Other assets	126,981	141,299
	6,841,497	7,770,019
Cash-in-hand, bank balances	6,555,667	8,136,325
	14,659,431	**16,741,457**
Prepaid expenses	**428,076**	**346,570**
TOTAL ASSETS	**28,605,658**	**29,001,635**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' Equity		
Common stock	31,683,484	31,683,484
Capital reserves	6,595,281	6,595,281
Accumulated deficit	(21,235,233)	(20,648,661)
	17,043,532	**17,630,104**
Accrued Liabilities		
Provisions for taxes	227,373	339
Other accrued liabilities	2,009,518	2,741,400
	2,236,891	**2,741,739**
Liabilities		
Bank loans	2,800,000	3,800,000
Advance payments received	2,616,746	1,422,942
Accounts payable	685,598	220,491
Liabilities to affiliated companies	1,141,712	1,270,336
Other liabilities	947,110	515,988
thereof from taxes: EUR 630,340 (prior year: EUR 442,427)		
thereof from social security benefits: EUR 27,614 (prior year EUR 19,023)		
	8,191,166	**7,229,757**
Deferred income	**1,134,069**	**1,400,035**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**28,605,658**	**29,001,635**

STATEMENT OF OPERATIONS INTERSHOP COMMUNICATIONS AG

	January 1 to December 31,	
in EUR	**2017**	**2016**
Revenues	27,236,764	26,039,436
Increase in inventories of work in progress	427,154	819,515
Other own work capitalized	2,044,489	2,333,965
Other operating income	802,194	1,205,667
Cost of Materials		
Cost of purchased merchandise	(88,115)	(58,724)
Cost of purchased services	(2,436,489)	(2,130,577)
Personnel Costs		
Salaries	(15,530,480)	(17,043,211)
Social security contribution	(2,569,968)	(2,873,198)
Depreciation and amortization		
of intangible fixed assets and property and equipment	(992,879)	(407,396)
Other operating expenses	(9,102,949)	(9,311,494)
Other interest and similar income	160,054	182,810
thereof from affiliated companies EUR 158,815 (prior year: EUR 170,454)		
Interest and similar expenses	(288,872)	(207,140)
Taxes on income	(247,475)	(50,033)
Net loss after tax/Net loss for the year	**(586,572)**	**(1,500,380)**
Accumulated deficit carried forward	(20,648,661)	(19,148,281)
Accumulated Deficit	**(21,235,233)**	**(20,648,661)**

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 2017 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

The accounting policies presented below remained the same as in the prior year.

For internally generated intangible fixed assets, the capitalization option was exercised in accordance with sec. 248 (2) HGB.

Internally generated intangible assets classified as development costs of newly developed software products were measured at cost of production less depreciation. The cost of production includes the compulsory parts according to sec. 255 (2) HGB. Capitalization of software development costs generally begins when the technological feasibility of the product is established, which the Company defines with the compilation of the software functionalities considered as marketable to so-called PSIs and the definition of the EPICs. 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.

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. Payments already received for these services are identified as payments received.

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

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

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.

Liabilities are stated at their settlement value. Payments received are reported at face 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 tax rate of 31.517% 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, 2017	**2,334**	**1,869**	**4,142**	**41,504**	**49,849**
Additions	2,278	18	324	0	**2,620**
Disposals	0	(2)	(582)	0	**(584)**
Balance at December 31, 2017	**4,612**	**1,885**	**3,884**	**41,504**	**51,885**
Depreciation, write-downs, and impairment losses					
Balance at January 1, 2017	**131**	**1,863**	**3,611**	**32,330**	**37,935**
Additions	755	9	229	0	**993**
Disposals	0	(2)	(559)	0	**(561)**
Balance at December 31, 2017	**886**	**1,870**	**3,281**	**32,330**	**38,367**
Net carrying amount at December 31, 2016	**2,203**	**6**	**531**	**9,174**	**11,914**
Net carrying amount at December 31, 2017	**3,726**	**15**	**603**	**9,174**	**13,518**

The addition to internally generated software results from the first-time capitalization of software development costs. Overall, development costs of EUR 7,345 thousand were incurred in the 2017 fiscal year. The capitalization of the software development costs led to a restricted amount of EUR 3,726 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.

As in the prior year, receivables from affiliated companies amount to EUR 1,900 thousand from Group financing and have a remaining term of more than one year. 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 20,649 thousand.

The tax provisions relate to taxes from prior years based on findings of the tax audit.

Other provisions mainly relate to variable remuneration components (EUR 654 thousand, prior year: EUR 520 thousand), outstanding invoices (EUR 483 thousand, prior year: EUR 626 thousand) and provisions for holiday entitlements (EUR 262 thousand, prior year: EUR 237 thousand). Other provisions relate to the costs of the annual financial statements and the Annual Stockholders' Meeting, remuneration for the Supervisory Board, as well as imminent losses from continuing obligations and pending transactions.

Liabilities comprise the following:

in EUR thousand	**Remaining term of up to one year**	**Remaining term of more than one year**	**Total December 31, 2017**	**Total December 31, 2016**
Bank loans	1,000	1,800	2,800	3,800
Advance payments received	2,617	–	2,617	1,423
Accounts payable	685	–	685	221
Liabilities to affiliated companies	1,142	–	1,142	1,270
Other liabilities	947	–	947	516
	6,391	**1,800**	**8,191**	**7,230**

In the prior year, the bank loans amounted to EUR 2,800 thousand with a remaining term of more than one year.

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. Other liabilities mainly include liabilities from current payroll accounting and from advance sales tax returns. Receivables from affiliated companies relate to deliveries of goods and services, as in the prior year.

STATEMENT OF OPERATIONS

The following table shows a breakdown of revenues by region:

in EUR thousand	2017	2016
Germany	16,049	13,300
Rest of Europe	10,002	11,378
Rest of the world excluding Europe	1,186	1,361
	27,237	**26,039**

Revenues of EUR 11,733 thousand (prior year: EUR 11,764 thousand) relate to product revenues (Licenses and Maintenance) and EUR 15,504 thousand (prior year: EUR 14,275 thousand) to revenues from services (Consulting and Training, Full Service and Other).

Other operating income includes income from currency translation of EUR 24 thousand (prior year: EUR 70 thousand). Of the other operating income, EUR 428 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 63 thousand (prior year: EUR 64 thousand) and expenses of EUR 88 thousand (prior year: EUR 147 thousand) from currency translation. Of the other operating expenses, EUR 315 thousand relate to previous periods, mainly due to additional receivables from the provision of goods and services.

Interest and similar expenses amount to EUR 140 thousand and taxes on income to EUR 227 thousand from prior years based on findings of the tax audit.

Other Disclosures

AUTHORIZED CAPITAL

As at December 31, 2017, the Company had authorized capital in the amount of EUR 6,336,000 (December 31, 2016: EUR 6,336,000). 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.

The following remaining shareholdings as of the balance sheet date were disclosed to the Company in accordance with sec. 21 (1) of the German Securities Trading Act (WpHG), old version (now sec. 33 (1) WpHG) and were announced by the Company pursuant to sec. 26 (1) WpHG, old version (now sec. 40 (1) WpHG): on April 19, 2016 Shareholder Value Management AG and on May 6, 2016 Shareholder Value Beteiligungen AG held 24.90% of the voting rights in the company, as can be seen from the voting rights notifications published on April 22, 2016 and May 11, 2016. As per its voting rights notification published on October 9, 2017, BNY Mellon Service Kapitalanlagegesellschaft mbH sold its voting rights in the Company effective October 1, 2017 and no longer holds any voting rights; correspondingly, as per the notification published on October, 9, 2017, Axxion S.A., Grevenmacher, Luxembourg has informed that it holds 9.20% as of October 1, 2017. Therefore, the free float of INTERSHOP Communications AG came to a total of 65.90% as of the balance sheet date. We refer to the statements in the Group Management Report in section "Disclosures according to sec. 289a (1) and sec. 315a (1) HGB with an explanatory report according to sec 176 (1) sentence 1 AktG".

DISCLOSURES PURSUANT TO SECTION 285 NO. 3 OF THE HGB, CONTINGENT LIABILITIES AND OTHER FINANCIAL LIABILITIES

Other financial obligations of EUR 15,669 thousand (prior year: EUR 4,146 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. The financial obligations under lease agreements essentially relate to the leases for the company's business premises at the company headquarters. The lease for the current business premises runs indefinitely and can be terminated by Intershop at any time subject to a notice period of 18 months to the end of the quarter. In September 2019, the company plans to move into new business premises in an office building yet to be built. The new lease agreement was concluded in August 2017 and has a term of ten years from the move-in date. The rental and leasing agreements contain the typical benefits and risks. The maturities of the other financial liabilities are broken down as follows:

in TEUR	due 2018	due 2019 to 2022	due after 2022	Total Dec.31, 2017	Total Dec.31, 2016
Rental agreements*	2,189	5,436	7,755	**15,380**	3,808
Leases	135	154	0	**289**	338
Total	**2,324**	**5,590**	**7,755**	**15,669**	**4,146**

*including ancillary rental expenses

The company has provided a guarantee for the subsidiary Intershop Communications LTD from the UK according to sec. 479C of the Companies Act 2006 - exempting a subsidiary from an audit. Utilization thereof is not expected.

EMPLOYEES

The Company had an average of 282 employees (salaried employees only) during fiscal year 2017 (prior year: 322 employees).

EXECUTIVE BODIES OF THE COMPANY

The Supervisory Board comprised the following members in fiscal year 2017:

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
NextiraOne, Paris / Den Haag

ULRICH PRÄDEL

Vice Chairman of the Supervisory Board since 12/16/2016
Member since 12/01/2016
Executive Advisor

UNIV.-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
Further Supervisory Board mandate:
SMT Scharf AG (Chairman, interim)

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 the 2017 fiscal year amounted to EUR 736 thousand (2016: EUR 534 thousand), of which EUR 496 thousand (2016: EUR 510 thousand) relate to fixed remuneration and EUR 240 thousand (2016: EUR 24 thousand) to variable components. In the 2017 fiscal year, Supervisory Board members were entitled to remuneration totaling EUR 200 thousand (2016: EUR 136 thousand), of which EUR 140 thousand (2016: EUR 136 thousand) accounted for fixed remuneration and EUR 60 thousand (2016: EUR 0) for the performance-related variable portion. 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, 2017, in addition to the ultimate 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, 2017:

	Interest in %	**Equity*** in EUR thousand	**Annual result**** in EUR thousand
Intershop Communications, Inc., San Francisco, USA	100	(1,044)	133
Intershop Communications Australia Pty Ltd, Melbourne, Australia	100	939	178
Intershop Communications Asia Limited, Hong Kong, China	100	32	26
Intershop Communications SARL, Paris, France	100	315	283
Intershop Communications LTD, Romsey, United Kingdom	100	(170)	5
The Bakery GmbH, Berlin, Germany	100	(3,942)	(52)
Intershop Communications Ventures GmbH, Jena, Germany	100	(1,346)	(17)

* Equity as of December 31, 2017 is translated at the exchange rate as of the reporting date

** Net income/loss for fiscal year 2017 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 18, 2017 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

On February 13, 2018, the company announced upcoming changes to the Management Board. As of April 9, 2018, Markus Klahn will join the current Management Board. Mr. Klahn will be responsible for the Service area.
There have been no other 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 21,235,233 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, February 28, 2018

The Management Board of INTERSHOP Communications AG

Dr. Jochen Wiechen　　　　Axel Köhler

INDEPENDENT AUDITOR'S REPORT

To INTERSHOP Communications Aktiengesellschaft, Jena

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of INTERSHOP Communications Aktiengesellschaft, Jena, which comprise the balance sheet as at December 31, 2017, and the statement of profit and loss for the financial year from January 1 to December 31, 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of INTERSHOP Communications Aktiengesellschaft, which is combined with the group management report, for the financial year from January 1 to December 31, 2017. We have not audited the content of those parts of the management report listed in the „Other information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2017 and of its financial performance for the financial year from January 1 to December 31, 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of those parts of the management report listed in the „Other information" section of our auditor's report.

Pursuant to [§ [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code]], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2017.

These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Recognition and measurement of internally generated intangible fixed assets
❷ Revenue recognition and allocation of revenue to correct periods

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Recognition and measurement of internally generated intangible fixed assets

① Internally generated intangible fixed assets amounting in total to EUR 3,726 thousand (representing 13% of total assets and 21% of equity) is reported under the „intangible fixed assets" balance sheet item in INTERSHOP Communications Aktiengesellschaft's annual financial statements. These internally generated intangible fixed assets are internally developed Intershop software solutions. The recognition of an internally generated intangible fixed asset depends significantly on the nature of the asset being such that it is highly probably that the intangible fixed asset to be recognized will be created and it will be possible to reliably allocate the development costs to the intangible fixed asset to be recognized. Internally generated intangible fixed assets are measured at cost less amortization and impairment charges. In our view, this matter was of particular importance for our audit since the capitalization of development costs is based to a large extent on the executive directors' estimates and assumptions, and is therefore subject to corresponding uncertainties.

② As part of our audit, we reviewed, among other things, the internal processes and controls for recording intangible fixed assets as well as the methodology adopted for the determination, accounting treatment and measurement of incurred development costs. Moreover, we evaluated the capitalization requirements for individual projects on a sample basis. We assessed the amount of the capitalized development costs and the recoverability of the intangible fixed assets based on internal projections as to future usability and evaluated the appropriateness of the underlying estimates and assumptions. Based on our audit procedures, we satisfied ourselves that the estimates and assumptions made by the executive directors were justified and adequately documented.

③ The Company's disclosures on internally generated intangible fixed assets are contained in the balance sheet disclosures in the notes to the financial statements.

❷ Revenue recognition and allocation of revenue to correct periods

① Revenue amounting to EUR 27,237 thousand is reported in the income statement in the annual financial statements of INTERSHOP Communications Aktiengesellschaft. The company recognizes revenue from the sale and temporary granting of licenses, the provision of installation services and advice, maintenance and operation of online shops on behalf of customers in return for a sales-based fee. The recognition of revenue from the sale of licenses depends in particular on the transfer of beneficial ownership to the purchaser. Proceeds from services are recognized as at the date the services are rendered, while maintenance revenue and proceeds from the temporary granting of licenses is recognized over the performance period. These various services can be the object of agreements with customers, either individually or in various constellations.

In light of the complexity of the customer agreements underpinning revenue recognition, these significant items are subject to particular risk. Against this background, the correct application of the accounting standards is considered to be complex and is based in some respects on estimates and assumptions made by management, with the result that this matter was of particular importance for our audit.

② With regard to the correct presentation of revenue in the annual financial statements, we have assessed the accounting policies applied by NTERSHOP Communications Aktiengesellschaft in relation to the recognition of software revenue against the backdrop of German with commercial law.

To do so, we first identified the material controls implemented to ensure the correct identification of contracts and individual services and the recognition of revenue, assessed their appropriateness and tested their effectiveness with respect to avoiding and/or identifying errors. Moreover, we assessed in detail the recognition of individual material transactions, as well as further transactions on a test basis, in light of contracts, proof of performance and payments, as well as assessing in particular the proper allocation of such transactions to the correct periods. In addition, we verified the consistency of the methods used by the Company to recognize revenue.

In this connection, we also reviewed the appropriateness of individual assumptions relating to the allocation of portions of revenue to individual services in the case of contracts with several primary services offered, and assessed their mathematical accuracy and the accounting treatment used. Based on our audit procedures, we satisfied ourselves that the estimates and assumptions relating to revenue recognition made by the executive directors were adequately documented and justified.

③ The Company's disclosures on revenue recognition are contained in the income statement disclosures in the notes to the financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in a separate section of the management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company’s position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and of the management report.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation as well as German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism during the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 9, 2017. We were engaged by the supervisory board on October 20, 2017. We have been the auditor of INTERSHOP Communications Aktiengesellschaft, Jena, without interruption since financial year 2007.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Andreas Kremser.

Erfurt, March 1, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

REPORT OF THE SUPER- VISORY BOARD

05

REPORT OF THE SUPERVISORY BOARD

Dear stockholders,

the focus of the 2017 fiscal year was the implementation of the „Lighthouse 2020" strategy program. With the achievement of the sales growth and profitability goals set for 2017, the Supervisory Board considers the company to be on the right track.

In the 2017 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

The Supervisory Board met for a meeting or a telephone conference on a monthly basis. In total, eight Supervisory Board meetings and five telephone conferences were held in the 2017 fiscal year. The Supervisory Board was fully represented at all meetings. In addition, the members of the Supervisory Board took part in a strategy workshop on the topic of the cloud. The Management Board attended the meetings on a regular basis. Six of the meetings took place in Jena and two in Berlin. The Supervisory Board dealt with all topics relevant to Intershop, with the focus of the meetings being on the current sales and earnings performance as well as the further development of the corporate strategy. The focus was on the measures introduced from the „Lighthouse 2020" roadmap, which was adopted in autumn 2016, as well as their impact. Strategic developments, in particular the expansion of the cloud business and its opportunities and risks, were discussed at length in the meetings.

At the meeting on February 21, 2017, the Management Board presented the planned sales measures and marketing activities for the 2017 fiscal year. The sales pipeline and the achievement of the sales target for 2017 were discussed in detail. In addition, the Management Board informed the Supervisory Board on the status of the Lighthouse project and presented the preliminary financial figures for 2016 as well as the revenue forecast and outlook for the first quarter of 2017. Furthermore, with respect to the appointment of the annual auditor for the 2017 fiscal year, the Supervisory Board dealt with the selection procedure of two candidates and preferred the previous auditing company as a nomination for the 2017 Annual Stockholders' Meeting. The Supervisory Board also approved the report on corporate governance. During the telephone conference on January 24, 2017 the Management Board informed the Supervisory Board of the preliminary results for the 2016 fiscal year and the preview for the first quarter.

At the meeting on March 7/8, 2017 the Management Board presented the further strategic approach with respect to the Lighthouse program focusing on wholesale and cloud and presented the status of the implementation so far. This was discussed intensively with the Supervisory Board and the next steps were defined. In the presence of the auditors, the Supervisory Board dealt with and approved the 2016 annual and consolidated financial statements. In addition, risk management and the 2016 risk report were discussed. The Management Board presented the current sales pipeline and provided information on the expected earnings performance for the first quarter. The meeting also discussed the agenda for the ordinary Annual Stockholders' Meeting and the measures for employee retention. The agenda of the Annual Stockholders' Meeting was subsequently approved by way of circulation procedure.

In the telephone conference of April 28, 2017, the Management Board presented the results for the first quarter. In the meeting which took place shortly after on May 8/9, 2017, the Supervisory Board discussed topics of the ordinary Annual Stockholders' Meeting and upon conclusion of the Annual Stockholders' Meeting re-elected Christian Oecking as Chairman of the Supervisory Board and Ulrich Prädel as Vice Chairman. Another focus of the meeting was the economic performance, especially of the Australian and American subsidiaries. The Supervisory Board was briefed by the responsible executives on the sales pipeline and earnings forecast of the APAC and US regions. The Management Board presented the forecast for the Intershop Group for the second quarter.

The Supervisory Board meeting of June 21, 2017 focused on the Service areas, the Research and Development area, as well as Sales and Marketing. The Supervisory Board was informed about current and expected order backlogs with service customers and alternative pricing models discussed. The Management Board reported on the status of implementation of the Lighthouse project in R&D and marketing activities. In addition, the Management Board and the Supervisory Board discussed the forecast for the second quarter and the expected economic development for the second half of 2017. Furthermore, the project for the relocation of company headquarters in Jena to a new building was presented and the redefining of the women's percentage for the Management Board and the Supervisory Board was adopted.

The main topics of the Supervisory Board meeting of July 20, 2017 were the sales region EMEA and the new company headquarters. The person responsible for the sales region EMEA reported to the Supervisory Board on the sales concept for this region regarding customers, partners and growth strategy. With regard to the planned move to a new company headquarters, the opportunities and risks as well as the draft lease agreement were explained to the Supervisory Board. The Supervisory Board then decided to approve the conclusion of the lease agreement. Other topics at this meeting included the half-year results, the earnings forecast for the second half of the year and the progress of the Lighthouse program.

At the telephone meeting on September 1, 2017, the Management Board gave an overview of the sales and earnings forecasts for the third quarter as well as the sales pipeline for the remainder of the fiscal year. The main topic of the following meeting on September 19/20, 2017 was the cloud model. Together with the responsible executives the Management Board presented the technical details, scenarios, positioning and price models of a cloud solution in-depth and discussed these in detail with the Supervisory Board.

At the meeting on October 20, 2017 in Berlin, the focus was on the 2018 budget and the sales organization. The Management Board presented a detailed plan for 2018 and discussed this with the Supervisory Board. Furthermore, the Management Board showed the current sales organization with the corresponding effects of the Lighthouse program as well as the results for the third quarter and the forecast for the last quarter of 2017. Subsequently, there were two telephone conferences about the budget (November 8 and November 13, 2017). In connection with this, the 2018 budget was approved by means of the circulation procedure.

The last meeting of the year took place on December 18, 2017 in Berlin. The Management Board reported on the forecast for the fourth quarter and the sales pipeline for the first quarter of 2018. It also discussed the cloud solution and various HR issues, such as executive remuneration. The Supervisory Board also approved the targets for the variable remuneration of the Management Board for 2018/2019 and the 2017 declaration of compliance.

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 2017 fiscal year.

The new Declaration of Conformity with the German Corporate Governance Code was issued by the Management Board and Supervisory Board in December 18, 2017. 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 2017 fiscal year elected at the Annual Stockholder's Meeting held on May 9, 2017 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 19, 2018. The annual financial statements of INTERSHOP Communications AG were thus adopted. Since the Company did not generate retained earnings during the 2017 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 no personnel changes to the company's Supervisory Board and Management Board during the reporting period. At the Annual Stockholders' Meeting on May 9, 2017, Supervisory Board members Christian Oecking, Ulrich Prädel and Univ.-Prof. Dr. Louis Velthuis were confirmed in their current positions by a large majority. At the subsequent constituent meeting of the Supervisory Board, Christian Oecking was re-elected Chairman of the Supervisory Board. His Vice Chairman is Ulrich Prädel.

THE SUPERVISORY BOARD SAYS THANKS

The Supervisory Board would like to thank the Management Board and all employees of the Intershop Group for their dedication and achievements in the 2017 fiscal year. We thank our shareholders for their trust.

Jena, March 2018

On behalf of the Supervisory Board

Christian Oecking
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT WITH CORPORATE GOVERNANCE DECLARATION

06

CORPORATE GOVERNANCE REPORT WITH CORPORATE GOVERNANCE DECLARATION

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 289f and section 315d 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 February 2017. The recommendations of the German Corporate Governance Code were largely complied with in fiscal year 2017; 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 18, 2017:

Since the declaration of conformity dated December 16, 2016 to April 23, 2017 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, and as of April 24, 2017 to the time of this declaration with the recommendations of the Government Commission on the German Corporate Governance Code in the version dated February 7, 2017 („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) The Management Board ensures that measures suitable for the risk profile of the company are put into place; however, it does not have a stand-alone compliance system (Code paragraph 4.1.3, sentence 2) as the company believes that the measures implemented within the framework of the internal control and risk management system are sufficient based on the size of the company. For this reason, a whistleblower system in accordance with Code paragraph 4.1.3, sentence 3 will also not be set up by the company.

c) 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.

d) The Supervisory Board has not determined a time limit for Supervisory Board membership, a competency profile, or a required number of independent Supervisory Board members in accordance with Code paragraph 5.4.1. The Supervisory Board believes that a time limit for Supervisory Board membership would not be appropriate since, in general, there is no necessary correlation between term of office, independence of the members of the Supervisory Board, and the occurrence of potential conflicts of interest. Furthermore, due to the small number of Supervisory Board members, the Supervisory Board believes that a precise definition of objectives and a competency profile would limit the selection of suitable Supervisory Board members. The Supervisory Board would like to be able to freely and flexibly decide on proposals for the composition of the Board in each specific situation and, when making nominations, will take the length of service of the Board members and their independence into account on a case-by-case basis. Currently, all 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

Pursuant to section 111 (5) of the AktG, the resolution of the Supervisory Board dated June 21, 2017 set the target percentage of women on the Management Board and the Supervisory Board at 0% by June 30, 2021 according to the actually existing percentage and the rate previously applicable until June 30, 2017. However, the Supervisory Board is endeavoring to give priority to women with the same qualifications in order to increase the percentage of women on the Supervisory Board and the Management Board. Given that the target percentage was 0%, this was met in the reporting year.

The target figures for women on the two executive tiers below the Management Board set by the Management Board in accordance with section 76 (4) of the AktG amounted to 29.63% by June 30, 2017 according to the existing percentage in September 2015 and was limited until June 30, 2021 at a rate of 26.92% through the resolution of June 21, 2017. Due to the ongoing restructuring measures, the actual average monthly rate in the first half of 2017 of 25.87% for INTERSHOP Communications AG and 28.35% in the Intershop Group was below the previous target figure. Thus, effective as of July 1, 2017, the target figure was reset according to the existing percentage as per June 2017 at 26.92% for a period of four years. At the end of 2017, at 23.33% for INTERSHOP Communications AG and 26.47% for the Intershop Group, the rate was below the new target figure, as the total number of executives had changed since the date the rate was reset, at which the restructuring measures had not been completed yet. 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, competency profile 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.

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 12, 2018

INTERSHOP Communications AG

For the Management Board

Dr. Jochen Wiechen

Axel Köhler

For the Supervisory Board

Christian Oecking
Chairman of the Supervisory Board

STOCK MARKET DATA

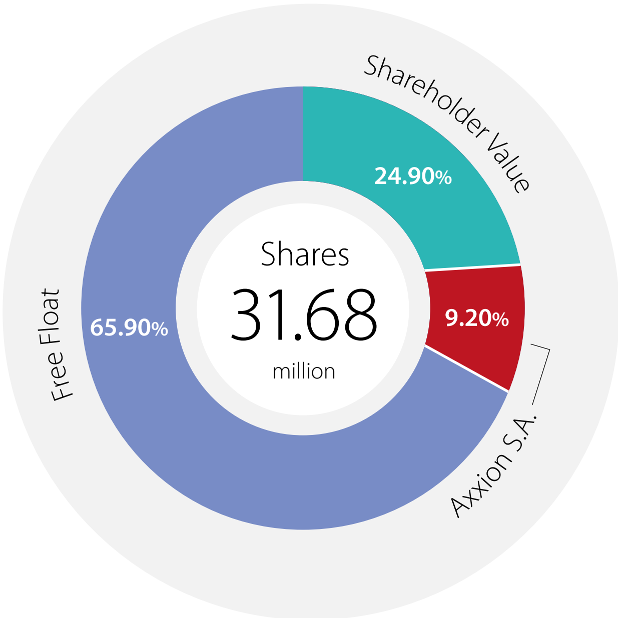
ISIN	DE000A0EPUH1
WKN	A0EPUH
Stock market symbol	ISH2
Admission segment	Prime Standard / Regulated market
Sector	Software
Membership of Deutsche Börse indices	CDAX, Prime All Share, Technology All Share

INTERSHOP SHARES

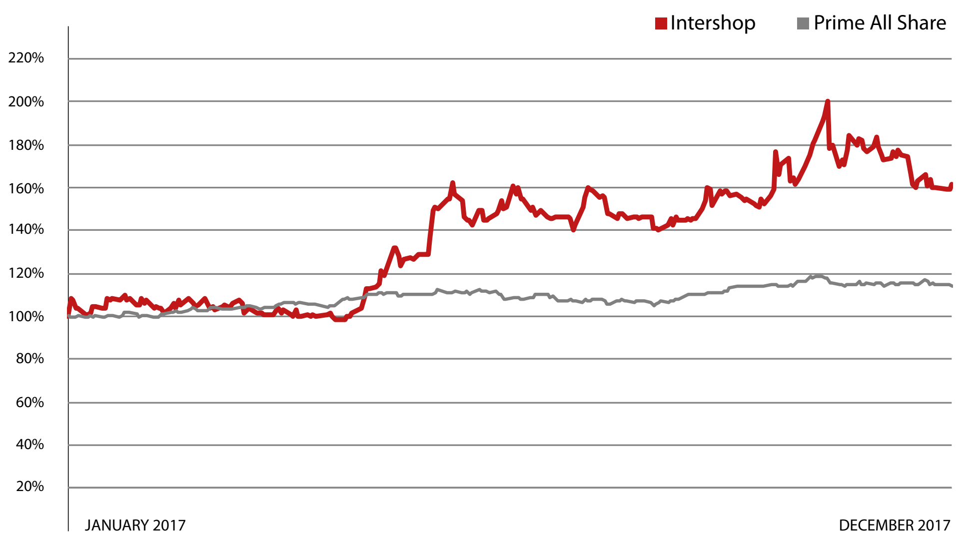
Key Figures for Intershop Shares		**2017**	**2016**
Closing price*	in EUR	1.78	1.24
Number of shares outstanding (as of Dec. 31)	in million shares	31.68	31.68
Market capitalization	in EUR million	56.40	34.85
Earnings per share	in EUR	(0.02)	(0.09)
Cashflow per share	in EUR	0.05	(0.03)
Carrying amount per share	in EUR	0.48	0.51
Average trading volume per day **	Number	53,028	39,139
Free float	in %	66	66

* Basis: Xetra
** Basis: all stock exchanges

SHAREHOLDER STRUCTURE



SHARE PRICE



FINANCIAL CALENDAR 2018

Date	Event
February 21, 2018	Release of Q4 and FY financials 2017
April 25, 2018	Release of Q1 financials 2018
May 9, 2018	Ordinary Annual Stockholders´ Meeting 2018
August 1, 2018	Release of Q2 and 6-month financials 2018
October 30, 2018	Release of Q3 and 9-month financials 2018

The current financial calendar can be found at www.intershop.com/financial-calendar.

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