Annual Report

2018

intershop®

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Overview Intershop-Group

Employees

339

(as of 12/31/2018)

Cash and Cash Equivalents

7.2

EUR million
(as of 12/31/2018)

Revenue

31.2

EUR million
(in 2018)

Balance Sheet total

22.7

EUR million
(as of 12/31/2018)

Cloud order entry

7.2

EUR million
(in 2018)

EQUITY RATIO

60%

(as of 12/31/2018)

EBIT

(5.9)

EUR million
(in 2018)

Key Figures for the Group

in EUR thousand	2018	2017	Change
Revenues			
Revenues	31,199	35,807	-13%
Software and Cloud Revenues	15,967	17,795	-10%
Services Revenues	15,232	18,012	-15%
Revenues Europe	22,883	26,841	-15%
Revenues USA	3,822	3,709	3%
Revenues Asia/Pacific	4,494	5,257	-15%
Cloud order entry	7,227	2,136	238%
Earnings			
Cost of revenues	19,278	18,237	6%
Gross profit	11,921	17,570	-32%
Gross margin	38%	49%	
Operating expenses, operating income	17,836	17,157	4%
Research and development	4,663	5,067	-8%
Sales and marketing	9,627	8,305	16%
General and administrative	3,526	3,742	-6%
Other operating income	(205)	(220)	-7%
Other operating expenses	225	263	-14%
EBIT	(5,915)	413	++
EBIT-Margin	-19%	1%	
EBITDA	(3,704)	2,833	++
EBITDA-Margin	-12%	8%	
Net result	(6,742)	(664)	++
Earnings per share (EUR)	(0.20)	(0.02)	++
Net Assets			
Shareholders´equity	13,646	15,330	-11%
Equity ratio	60%	61%	
Balance sheet total	22,657	25,049	-10%
Noncurrent assets	10,350	10,221	1%
Current assets	12,307	14,828	-17%
Noncurrent liabilities	1,693	2,010	-16%
Current liabilities	7,318	7,709	-5%
Financial Position			
Cash and cash equivalents	7,224	8,949	-19%
Net cash operating activities	(4,142)	1,692	++
Depreciation and amortization	2,211	2,420	-9%
Net cash used in investing activities	(2,867)	(2,568)	12%
Net cash provided by financing activities	5,351	(1,000)	++
Employees	339	338	0%

Dear stockholders and business partners,

Looking back, 2018 was a year of ups and downs. Our transition from a license provider to a provider of cloud-based omni-channel commerce solutions has clearly had an impact on the sales and earnings development. However, the very positive response from the market to our new highly scalable Commerce-as-a-Service offering in the ongoing implementation of the „cloud first" strategy is encouraging. For example, the transition process gained substantial momentum in sales towards the end of the year. Overall, incoming orders increased in the final quarter compared to the third quarter by EUR 3.0 million to EUR 4.0 million; these figures support the positive trend.

Important developments in 2018 also included further intensifying the partnership with Microsoft by our integration into the Microsoft Solution Map, winning the Runner-up of the Year Award and achieving ISV Gold Standard. Collaborating with the world's leading cloud provider is increasing Intershop's impact and range, particularly in the international markets of Asia and the United States. Sales were further boosted when Forrester Research ranked the B2B platform as the global leading solution for the first time – outranking the platforms of our many well-known competitors. This makes us proud and also ensures greater visibility of our omni-channel solution.

We also received very positive feedback in the course of the capital increase in February 2019 aiming at accelerating the reorganization of our business model. A subscription rate of more than 70% is a very strong indication that our existing shareholders support the strategic course taken by the Management. We would like to thank all those involved for their support. The takeover bid issued in mid-February shows that our long-standing anchor investors have confidence in our strategy as well. We also expanded our basis for potential new investors at the capital increase roadshow. Typically, such raised awareness among investors has a positive effect on the liquidity of Intershop shares.

After the year of transition, we will be fully implementing our cloud approach in 2019. The objective is to expand the cloud customer basis so that we create a solid foundation for achieving our 50/5 goal for 2020 according to our Lighthouse Strategy - EUR 50 million in sales at a 5% EBIT margin.

We are dedicated to working towards this goal with our highly motivated team.

Best regards,

Jochen Wiechen　　M. Klahn

DR. JOCHEN WIECHEN　　MARKUS KLAHN

intershop® Management Board

Dr. Jochen Wiechen

CEO

Markus Klahn

COO

Management Report

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. As part of focusing more on the cloud segment, the main business areas and their revenue groups were divided into „Service" and „Software and Cloud" at the beginning of the 2018 financial year. The license revenues and the associated maintenance revenues, and the cloud and subscription revenues are included in „Software and Cloud" revenues.

At an international level, Intershop is a leader among independent providers of omni-channel commerce solutions. Over 300 customers worldwide from commerce and industry with B2B, B2C, and B2X business models 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 2018 fiscal year, revenue with European customers totaled around 73% 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, 2018, 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 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 and Denmark.

[1] „Intershop"

Strategic orientation and business objectives

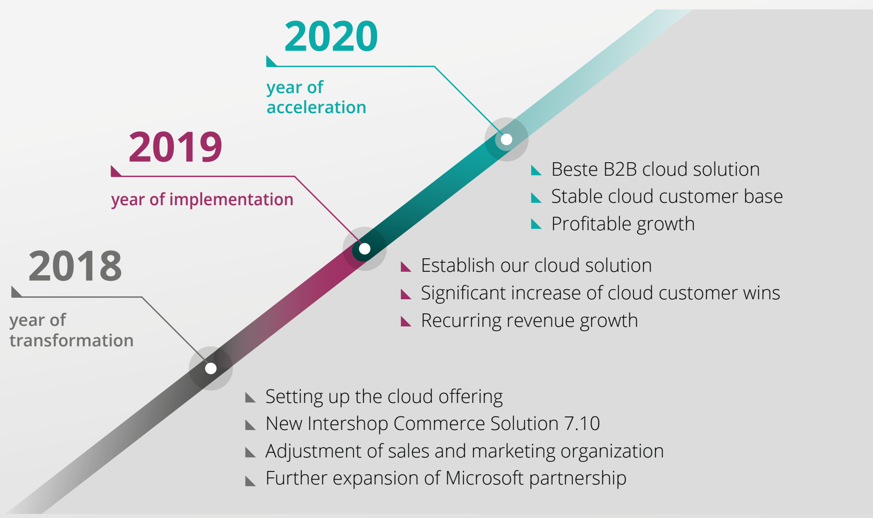
With the „Lighthouse 2020“ program adopted in 2016, Intershop is pursuing the strategic priorities of **expanding the cloud business** und **focusing on the B2B market**. The strategy was supplemented in March 2018 by the „cloud first“ policy, which goes hand in hand with the systematic transition from a license provider to a provider of Commerce-as-a-Service via the cloud. The objective is to establish Intershop as the leading provider of a digital B2B commerce platform by 2020 and to achieve revenues of EUR 50 million and an EBIT margin of 5%.

„Cloud first“: Expanding the cloud business in partnership with Microsoft

In March 2018, Intershop decided to focus even more on the cloud as part of the strategic „cloud first“ policy and to make the cloud approach the center of its activities, both for investments in research and development and in marketing and sales. The decision is based on the increasing willingness of companies to use cloud-based systems and programs. This growing market acceptance is the result of strategic advantages such as availability, security due to automatic updates, and resource efficiency. At the same time, the pressure on small and medium-sized companies to establish or expand their own digital distribution channels is mounting. 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 anticipates significantly stronger and more steady growth in comparison with traditional business models.

The expansion of the cloud business is closely linked to the strategic partnership with Microsoft started in 2016. In early September 2018, both parties agreed to further expand this partnership. In the future, Intershop will be supported by a team at the corporate headquarters in Redmond, and the commerce solution will become an integral part of the Microsoft Azure Cloud solution portfolio. The collaboration combines the high degree of 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. Developed based on the partnership with Microsoft, the CaaS offering enables Intershop to approach new

Steps in Cloud Transformation



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.

For 2019, the Company is planning to accelerate the transition to the cloud business and significantly increase the number of cloud customers. The basis for this is enhanced global visibility and the excellent technological market position.

Focusing on the B2B market

Over the past years, Intershop has established itself as one of the leading technological omni-channel solution providers. The Intershop strategy aims to address the lower visibility in the overall market compared with the large competitors by verticalization in the customer contacts. The biggest opportunities here are in B2B commerce due to the size of the target market and the number of customers who can be contacted, as well as the high skills and performance of the Company in this segment. 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 has extensive experience and prominent B2B customers already, 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. For example, Forrester Research ranked the Intershop solution as the world's best B2B solution for the first time in fall of 2018.

Sales priorities and partner network

Intershop's sales activities 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.

In the course of the expansion of the Microsoft partnership, the focus of Research and Development (R&D) activities in the past financial year was on the ongoing, close interconnection of the cloud offering with the Microsoft solutions and related systems. The goal is to perfect the interrelation of all components of the new offering to reduce the setup costs relating to new shops by way of standard interfaces.

The newest version of the Intershop standard solution - Intershop Commerce Management 7.10 - was introduced in September 2018. A new version of Intershop Order Management was also launched. The current release is geared towards the cloud strategy and the partnership with Microsoft. A highlight of the latest version is the integration of the Intershop Commerce Suite into the applications for Microsoft Dynamics 365 for Finance and Operations. This is achieved by means of the Intershop standard connectors, which are the reason for seamless integration of the Intershop Commerce Suite in the ERP system of Microsoft Dynamics 365. The microservice architecture used can be flexibly adapted to customer projects and ensures quick integration. This allows orders and inventory data between the Intershop Commerce Suite and Microsoft Dynamics 365 to be swiftly and easily synchronized, making, for example, double entries of data or inconsistent inventories a thing of the past.

R&D expenditures (expenses and investments) in 2018 amounted to EUR 7.2 million, a decline of around 2% compared to the previous year. Taking into account the capitalization of software development costs, R&D expenses fell by 8% to EUR 4.7 million (2017: EUR 5.1 million), as a higher number of staff were involved in software development projects. This accounts for 15% of the sales (2017: 14%).

The 2018 fiscal year

Overall Economy and Industry

In 2018, the global economy grew overall by 3.7% despite a surprising downturn in the second half of the year. According to the International Monetary Fund (IMF), the emerging and developing countries remained the growth drivers and increased their economic output in the previous year by 4.6%. At a rate of 2.3%, growth was also strong in the industrial countries. The U.S. economy grew by 2.9% in 2018. In Europe, which includes many target markets of significance for Intershop, the economy grew by 1.8%. According to IMF, the economic growth in Germany amounted to 1.5%.

The dynamic growth in online trade continued in the reporting period. According to estimations of the market research company eMarketer, the global B2C e-Commerce sales grew in 2018 by 21.1% to a market volume of USD 2.8 trillion. Due to the high level of market maturity, the B2C online revenues in Western Europe increased by 9.8% to a market volume of around USD 370 billion. According to the German e-Commerce and Distance Selling Trade Association (*Bundesverband E-Commerce und Versandhandel e.V. ;bevh*), Germany once again experienced double-digit growth to a volume of EUR 65.1 billion (11.4%). What is significantly larger than the B2B market is the B2B e-Commerce market. Forrester estimates that in the United States alone, USD 1 trillion worth of goods in B2B commerce were sold in 2018, which is double the sales in the U.S. online retail sector (2018: USD 505 billion according to eMarketer).

The increasing digitization of various business sectors and industries and the growing acceptance of cloud-based corporate applications ensure the continuing high degree of dynamism in the IT sector. The enterprise software business, and particularly the Software-as-a-Service (SaaS) segment, experienced the strongest growth. According to estimations by the IT analyst company Gartner, expenses in the enterprise software market grew by 9.9% in 2018. According to Gartner, the growth in the IT services segment of 5.9% is also mainly due to the cloud transition, as the Company is focusing more on cloud services instead of its own IT structures in order to better address the fast and ongoing digital shift. Germany also experienced growth in these areas during the past financial year. The German software market grew by 6.3% in 2018 according to the industry association Bitkom. According to Bitkom estimations, revenues in the IT services market increased by 2.3%.

Business performance during the 2018 fiscal year

The development of the Intershop Group during the reporting period was marked by the strategic transition to the cloud business. As a result, the new sales structure under the „cloud first" approach led to declines in revenues and earnings in the short term, particularly in licenses segment. At the same time, the shift stabilized revenues in the medium term in the following quarters due to recurring cloud sales.

„Cloud first" strategy bears first fruit

In spring of 2018, Intershop announced that the cloud approach will be the focus of activities, both for investments in research and development and in marketing and sales („cloud first"). This initiated a fundamental transition process from a license provider to a provider of Commerce-as-a-Service solutions (Caas) via the cloud. Intershop's new complete CaaS solution offers a comprehensive and efficient cloud solution, which forms the perfect foundation for the success of this transition. The focus on „cloud first" brought about a variety of changes in all areas of the Company during 2018, particularly in marketing and sales. The transition process also gained substantial momentum in sales at the end of the year. Overall, incoming cloud orders increased in the final quarter by EUR 3.0 million to EUR 4.0 million compared to the third quarter. For 2018 as a whole, incoming orders in the cloud business increased from EUR 2.1 million in the previous year to EUR 7.2 million, a plus of 238%.

Strategic partnership with Microsoft is further expanded

A key component of the new cloud strategy is the partnership with Microsoft existing since 2016. The collaboration combines the high performance of the Intershop Commerce solution with the highest security standards of Microsoft's Azure platform. The partnership was reinforced in July 2018 when Intershop received the „Runner-up of the Year" award at the Microsoft partner conference Inspire in Las Vegas. In early September, Microsoft and Intershop agreed on further strengthening their partnership by bringing in a Microsoft team to the corporate headquarters in Redmond (U.S.A.). The Intershop Commerce solution was also incorporated in the Microsoft Azure Cloud ('Microsoft Global Solution Maps') solution portfolio and integrated in the business applications of the Microsoft Dynamics 365 product family. In January, Intershop achieved „ISV Competency" Gold status in Microsoft's global partner ecosystem as an independent software vendor (ISV). In order to be awarded this status, partner companies must successfully demonstrate their technological knowledge by passing tests in order to become a „Microsoft Certified Professional". Furthermore, companies must provide customer references with successful projects, comply with a performance agreement, and provide technology and sales analyses. Gold-certified competency is a testimony to Intershop's skill, quality, reliability, and dedication and will lead to greater reach and visibility of the offering.

Forrester analysts name Intershop „Leader" in the sector

For the first time in the history of the world-renowned Forrester Wave study, Intershop, with its B2B platform, was ranked at the top of international competition in the „Leader" category in fall of 2018. „Intershop has a clearly defined vision of the future of B2B commerce, and the Company's skills to implement this vision are even more impressive." This positive assessment is based on the high customer satisfaction of Intershop users verified by the analysts, particularly due to the flexibility of the B2B solution in complex organizational structures. The classification of the e-Commerce experts further boosts Intershop's sales and marketing initiatives and strengthens the international reputation of the Intershop Omni-Commerce Suite in particular.

New CaaS customers and increased partner involvement in cloud sales
In the 2018 financial year, Intershop acquired 15 new customers, particularly for its CaaS solution, and was able to migrate many existing customers to the new version of the Intershop Commerce Suite. For example, the long-established company Trumpf, known for high technology, from lasers to digitally networked machine tools, relies on the Intershop software solution for its new customer experience management system. VBH Holding GmbH, the world‘s largest wholesale group for fittings and accessories for the production and assembly of windows, doors and facades, will also drive the digital transition with Intershop as a strategic partner. A sales-based cloud-commerce platform for all brands and company affiliates forms the basis of the five-year partnership. Intershop also supports ShipSupport.com, a start-up company of Royal IHC, an international shipbuilder and service provider with a cloud-based B2B trading platform, which delivers spare parts for dredging and offshore vessels all over the world. Another new customer Intershop acquired was the Rockwool Group, which employs approx. 11,000 employees in 39 countries and is the global market leader of stone wool products and other customized products for industrial applications. The company decided to replace its existing e-Commerce solution with the Intershop Commerce-as-a-Service.

Another large B2B new customer project is the service portal for ISS Germany, a world leading facility services provider that allows for the booking of customized services of companies in the automotive industry. With the experiences gained in this project, the solution shall be rolled out to other service areas around the world in the future. Other new customers in the reporting period included the leading Romanian retailer elefant.ro, elero GmbH, a B2B company in the field of drives and controls for building technology, as well as Spinner GmbH, a technology company steeped in tradition from Southern Germany. The online shop of Netto, the food discount store, was migrated to Intershop 7, which was successfully implemented with the partner dotSource in a record time of three months. In addition to Netto, other customers also went live with the latest version of the Intershop Commerce Suite during the reporting period, including our long-standing customer Häfele as well as Block Foods AG.

The focus of our collaboration with partners is also shifting towards cloud-based applications. For example, Intershop and the platinum partner ModusLink launched a new joint offering, „eStarter Storefront,“ which is based on the Intershop Commerce Suite and provides a secure, scalable, and cost-effective cloud solution to companies that wish to expand their digital distribution channel in just four weeks. Since August 2018, Intershop has also been applying its API approach to give digital agencies the option of making its Commerce-as-a-Service offering available to their customers. In fall of 2018, Intershop entered into an important new partnership with the international software and business consulting company ORBIS AG to contact existing customers and new customers from the Microsoft environment. Intershop also intends to enter into a new partnership with the consulting company Capptoo to increase its visibility in the growing Swiss e-Commerce market.

Earnings, financial and asset position

Reclassification of revenues into software and cloud revenues and service revenues

Since Intershop is increasingly focusing all its business activities on the cloud and its standardization starting in the 2018 financial year, revenues were reclassified into the main groups software and cloud revenue and service revenue at the beginning of the 2018 financial year. The license revenues and the associated maintenance revenues and the cloud and subscription revenues will be assigned to software and cloud revenues. This change does not have any impact on the applied accounting policies.

Actual development of key financial figures compared to the original forecast

Business development was not satisfactory as the Company did not meet its original sales and earning targets set for the 2018 financial year. In early 2018, Intershop had expected a slight increase in the Group's revenues for the entire year. With a slight increase in gross profit and gross margin, a slightly positive operating result (EBIT) was also expected. In the first half of the year, there was a significant decline in license revenues, while incoming cloud orders increased. As a result, the Management Board and the Supervisory Board adjusted the full-year outlook at the end of July 2018 to focus more on the cloud. The Management expected slightly lower sales and a negative EBIT in the low single-digit million EUR range. During the second half of the year, there were indications that the market development towards the cloud business was progressing more rapidly than expected. Shifts in sales from one-time license revenues to recurring cloud revenues were stronger than expected and led to further adverse earnings effects. In November 2018, Intershop adjusted the forecast again and expected a decline in sales between 10% and 15% as well as a negative result (EBIT) in the mid single-digit EUR million range. The year ended with a decline in sales of 13% to EUR 31.2 million and an EBIT of EUR -5.9 million. The gross margin declined from 49% to 38%. The development of the net worth, financial and earnings position is discussed in detail in the sections below.

Revenue Development

Intershop generated revenues of EUR 31.2 million in the 2018 financial year, a 13% decrease compared to the previous year's revenue of EUR 35.8 million. The decline in sales is mainly due to the strategic transition to the cloud business and the associated shift in sales from license revenues, which are received immediately, to monthly recurring cloud revenues. With a cloud installation, revenues are continuously generated as a result of long-term customer contracts, whereas with a license contract, the entire revenues are generally recorded one time. Even though the new sales structure introduced due to the „cloud first" approach triggers declines in revenues and results in the short term, the recurring cloud revenues will ensure more consistency overall. During the reporting period, cloud and subscription revenues continued to rise from quarter to quarter by a total of 20% to EUR 5.4 million. At the same time, the transition led to a significant decline in license revenues by 54% to EUR 2.4 million (previous year: EUR 5.2 million). The maintenance revenues remained at the same level as the prior year at EUR 8.1 million (prior year: EUR 8.0 million). While license revenues dropped considerably, incoming orders in the cloud business increased.

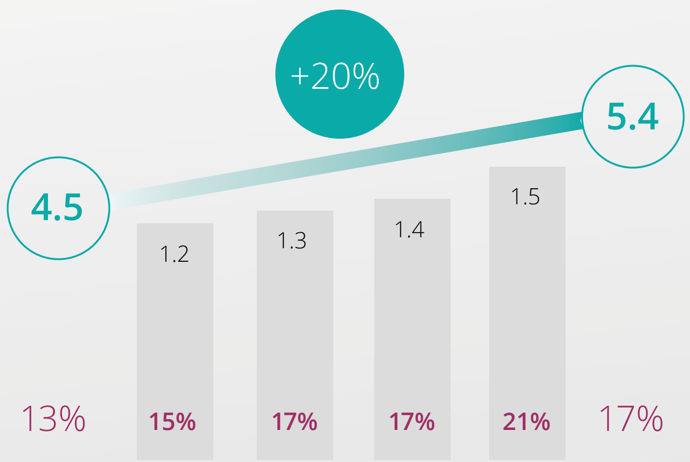
Incoming orders in the cloud business increased from EUR 2.1 million in the previous year to EUR 7.2 million, a plus of 238%. These newly acquired cloud orders will generate sales of EUR 1.7 million in 2019 (New Annual Recurring Revenue = New ARR). However, the increase in cloud sales could not compensate for the decline in license revenues, which caused software and cloud sales to decline overall by 10% to EUR 16.0 million. The service revenues decrease by 15% to EUR 15.2 million (previous year: EUR 18.0 million) due to the end of a large project and the increasingly smaller-scale project structure as a result of the cloud transition.

The share of software and cloud sales in total sales increased slightly compared to the previous year by one percentage point to 51% (2017: 50%) while the share of cloud revenues in total sales increased to 17% (2017: 13%).

Cloud business development

Cloud Revenue

Cloud Revenue in % of total revenue



in EUR million	2017	Q1	Q2	Q3	Q4	2018	Changes in %
Cloud order entry	**2.1**	1.5	0.7	1.0	4.0	**7.2**	+238%
Number of new cloud customers	**8**	4	2	2	5	**13**	+63%
New ARR	**0.6**					**1.7**	+183%

The following overview shows the development of revenues:

in EUR thousand	2018	2017	Change
Software and Cloud Revenues	**15,967**	**17,795**	**-10%**
Licenses and Maintenance	**10,548**	**13,268**	**-21%**
Licenses	2,434	5,247	-54%
Maintenance	8,114	8,021	1%
Cloud and Subscription	**5,419**	**4,527**	**20%**
Service Revenue	**15,232**	**18,012**	**-15%**
Revenues total	**31,199**	**35,807**	**-13%**

The most important business region for Intershop is the European market with a share of 73% in the total revenue (2017: 75%). Revenues decreased in the previous financial year by 15% to EUR 22.9 million (prior year: EUR 26.8 million), mainly due to the decline in license sales and service revenues. By contrast, cloud revenues increased by 35% to EUR 2.5 million. Sales in the United States increased slightly by 3% to EUR 3.8 million due to higher cloud revenues. The U.S. revenue share rose to 12% (2017: 10%). In the Asia Pacific region, sales fell by 15% to EUR 4.5 million, particularly due to the decline in service revenues (-16% to EUR 2.0 million). The revenue share of the Asia Pacific region was 15% as in the previous year.

Revenues of INTERSHOP Communications AG as a single entity reported under German commercial law were almost the same as the previous year's level at EUR 27.1 million (2017: EUR 27.2 million). While software and cloud revenues declined by 4% to EUR 12.2 million, service revenues increased by 3% to EUR 14.9 million.

Earnings Development

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

in EUR thousand	2018	2017
Revenue	31,199	35,807
Costs	37,114	35,394
EBIT	-5,915	413
EBIT-Margin	-19%	1%
EBITDA	-3,704	2,833
EBITDA-Margin	-12%	8%
Earnings after tax	-6,742	-664

In the course of the transition process, the 2018 financial year was marked by adverse result effects. In the 2018 reporting period, the Intershop Group reported overall gross profits of EUR 11.9 million, a decline of 32% compared to the prior-year figure of EUR 17.6 million. The gross margin decreased by 11 percentage points to 38%. The decline was due to the considerably lower license revenues, while cloud revenues only increased gradually. The cloud margin increased from 32% to 37%. Since the new CaaS complete solution is a highly standardized complete cloud solution, this value will continue to increase over the next few years with growing cloud business volumes. Operating expenses increased by 4% to EUR 17.8 million. Marketing and selling costs increased by 16% to EUR 9.6 million. This includes one-time expenses of EUR 0.6 million for the restructuring of sales associated with the „cloud first" strategy. Research and development costs decreased by 8% to EUR 4.7 million. Administrative expenses fell by 6% to EUR 3.5 million. The total costs (cost of sales and operating expenses/income) increased by 5% to EUR 37.1 million.

Overall, the operating result (EBIT) for the past fiscal year amounted to EUR -5.9 million (prior year: EUR 0.4 million). The operating result before depreciation and amortization (EBITDA) amounted to EUR -3.7 million (prior year: EUR 2.8 million). Depreciation fell by 9% to EUR 2.2 million. The financial result was EUR -0.1 million (prior year: EUR -0.3 million). Income tax amounted to EUR 0.7 million as in the previous year. The result for the period after tax was EUR -6.7 million (previous year: EUR -0.7 million), which corresponds to earnings per share of EUR -0.20 (previous year: EUR -0.02).

INTERSHOP Communications AG as a single entity increased the net loss for the year under commercial law from EUR 0.6 million in the prior year to EUR 4.3 million. The main reasons were the decline in overall performance (revenues and inventory changes) as well as higher expenses. By completing fixed-price projects, the inventory of unfinished services was reduced by EUR 1.3 million, in the previous year, inventory increased by EUR 0.4 million. Material expenses increased from EUR 2.5 million in the previous year to EUR 3.3 million, mainly due to the increase in expenses for purchased services. Personnel costs increased slightly by EUR 0.3 million to EUR 18.4 million. Amortization increased from EUR 1.0 million to EUR 1.6 million, particularly due to higher amortization on internally generated software. The other capitalized own work, which includes the capitalization of the software development costs, rose by 4% to EUR 2.1 million. Other operating expenses increased by 4% to EUR 9.5 million due to various one-time circumstances. Other operating income decreased from EUR 0.8 million to EUR 0.4 million due to a lower reversal of provisions. Other interest income of EUR 0.2 million resulted mainly from affiliated companies. Overall, the balance sheet loss resulting from the net loss for the year increased to EUR 25.5 million compared to EUR 21.2 million in the previous year.

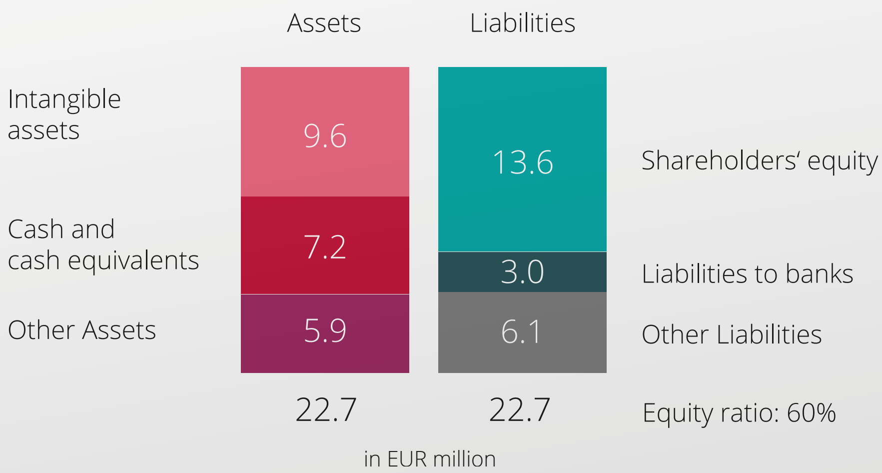
Presentation of the Net Assets and Financial Position

As at December 31, 2018, the balance sheet total of the Intershop Group amounted to EUR 22.7 million. This represents a decrease of 10% compared to the prior year's reporting date. On the assets side, noncurrent assets increased by 1% to EUR 10.4 million. Intangible assets increased by 7% to EUR 9.6 million and deferred tax assets decreased from EUR 0.6 million to EUR 0.1 million. Current assets decreased by 17% to EUR 12.3 million, mainly due to the decline in cash and cash equivalents of EUR 1.7 million to EUR 7.2 million. Trade receivables also declined by 23% to EUR 4.0 million.

On the liabilities side, shareholders' equity declined at the end of 2018 by 11% to EUR 13.6 million due to the negative result after tax. Noncurrent liabilities fell from EUR 2.0 million to EUR 1.7 million. Current liabilities fell by 5% to EUR 7.3 million. For liabilities to banks, the scheduled annual repayment of an existing bank loan of EUR 1.0 million was offset by a new loan of EUR 1.5 million. EUR 0.75 million of this amount was recorded in noncurrent liabilities and EUR 0.75 million, less the monthly repayments of EUR 0.25 million already made, in current liabilities at the balance sheet date. Thus, current liabilities to banks increased by EUR 0.5 million to EUR 1.5 million. Other current liabilities fell by EUR 0.7 million to EUR 2.3 million. The equity ratio decreased from 61% to 60% as at December 31, 2018. Overall, Intershop continues to have a solid net assets and financial position.

Cash flow from operating activities deteriorated to EUR -4.1 million in the reporting period after EUR 1.7 million in the same period of the prior year, which is mainly due to the negative earnings before tax of EUR -6.1 million. Cash outflows from investing activities amounted to EUR 2.9 million, slightly above the prior-year amount of EUR 2.6 million. The payments for investments in intangible assets included in this figure increased from EUR 2.2 million to EUR 2.5 million. The cash inflow from financing activities totaled EUR 5.4 million in 2018 (prior year: cash spent in the amount of EUR 1.0 million). This cash inflow is mainly due to a cash capital increase from authorized capital by almost 10% of the existing share capital in May 2018. The total issue proceeds of capital before the deduction of expenses were approx. EUR 5.1 million. Cash inflow from the addition of another loan of EUR 1.5 million is included, which offsets cash outflow from repayments of this loan (EUR 0.25 million) as well as a previous loan (EUR 1.0 million) of a total of EUR 1.25 million. Overall, cash and cash equivalents declined in 2018 to EUR 7.2 million after EUR 8.9 million at the end of 2017.

Group Balance key figures
Dec. 31, 2018



The total assets of the single entity in the financial statements under German commercial law decreased by 8% from EUR 28.6 million to EUR 26.2 million. On the assets side, non-current assets increased from EUR 13.5 million to EUR 14.8 million, mainly due to the addition of internally generated software (2018: EUR 5.0 million, 2017: EUR 3.7 million). Current assets dropped by EUR 4.0 million to EUR 10.7 million. The reduced current assets is the result of the decline in unfinished services by EUR 1.3 million, the reduction of receivables from affiliated companies (EUR -0.4 million) and trade receivables (EUR -0.8 million), as well as the decline in cash and cash equivalents. Cash and cash equivalents declined from EUR 6.6 million to EUR 4.9 million. The cash outflow resulted primarily from operating activities. Shareholders' equity increased by 5% to EUR 17.9 million. Subscribed capital and capital reserve increased by a total of EUR 5.1 million due to the cash capital increase in May 2018. By contrast, there was a higher balance sheet loss due to the net loss for the year. Provisions decreased by 5% to EUR 2.1 million. Liabilities decreased by EUR 3.2 million to EUR 5.0 million. The advanced payments received declined by EUR 2.6 million to zero and other liabilities by EUR 0.6 million. Liabilities to banks increased from EUR 2.8 million to EUR 3.0 million. The change is due to the scheduled repayment of an existing bank loan of EUR 1.0 million and a new loan of EUR 1.5 million less the monthly repayments already made.

Employees

At balance sheet date, December 31, 2018, Intershop had a total of 339 employees worldwide (previous year: EUR 338 employees). There is a particular need for additional consultants and developers. Intershop is facing fierce competition for IT specialists, which is an increasing obstacle to growth throughout the entire industry. Intershop is dealing with the shortage of specialists by strengthening the existing partnerships with universities and participating in recruiting events. The share of university graduates in the total workforce at 76% is above average.

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

Employees by department*	**12/31/2018**	**12/31/2017**
Technical Departments (Service Functions and Research Development)	251	251
Sales and marketing	51	49
General administration	37	38
	339	**338**

* based on full time staff, including students and trainees

At the balance sheet date, the number of employees in the European branch offices was the same as in the previous year (291 employees) and the share in the total work force remained at 86%. The U.S. subsidiary with 18 employees accounted for around 5% of the workforce, the same as the previous year's reporting date. The number of employees in the Asia Pacific region increased from 29 to 30; the number of employees thus increased to 9% (prior year: 8%).

AG as a single entity had 288 employees at the balance sheet date (December 31, 2017: 286 employees).

Management Board and Supervisory Board

On April 9, 2018, Markus Klahn was appointed as an additional member of the Management Board (Chief Operating Officer) of INTERSHOP Communications AG. Markus Klahn is an experienced sales expert and market observer, particularly with regard to the market positioning of software solutions. Before joining Intershop Communications AG, he was in the top management at the ERP provider Proalpha and most recently at Jaggaer, an exclusive SaaS provider in the procurement sector.

Effective August 16, 2018, Axel Köhler resigned from his position as a member of the Management Board and Chief Sales Officer (CSO). Axel Köhler was also responsible for sales and marketing. His tasks are now being performed by Markus Klahn (COO), who is one of two members of the Management Board, together with CEO Jochen Wiechen.

Remuneration report

Remuneration of the Management Board

The compensation of the Management Board comprises fixed and variable components. The fixed components comprise the fixed salary and additional benefits such as the non-cash benefit resulting from the use of a company car and are paid monthly. The variable, annually recurring remuneration is based on various annual and multi-annual quantitative targets, the assessment of which is based on the degree of achievement of the target. 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.

Total remuneration paid to the Management Board for its activities in the 2018 fiscal year amounted to EUR 598 thousand (2017: EUR 736 thousand), of which EUR 561 thousand (2017: EUR 496 thousand) relate to fixed compensation and EUR 37 thousand (2017: EUR 240 thousand) to variable components. The fixed remuneration components include EUR 525 thousand for the fixed salary component and EUR 36 thousand for additional benefits (2017: EUR 460 thousand for fixed salary and EUR 36 thousand for additional benefits).

The remuneration of the Management Board members is as follows:

	Fixed Remuneration		**Variable Remuneration**		**Total Remuneration**	
in EUR thousand	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Dr. Jochen Wiechen	266	266	0	132	266	398
Axel Köhler (until 08/16/2018)	135	230	0	108	135	338
Markus Klahn (since 04/09/2018)	160	-	37	-	197	-
	561	**496**	**37**	**240**	**598**	**736**

The variable compensation for 2018 for the member of the Management Board Markus Klahn includes a special bonus of EUR 37 thousand for his commitment to the sales and marketing portfolio as well as the strategic restructuring of the Company.

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.

Effective the end of August 16, 2018, by mutual agreement with the Supervisory Board, Axel Köhler resigned from his position as a member of the Management Board. No agreement could be reached with the Supervisory Board about extending the Management Board contract until August 31, 2019. An agreement was reached with Axel Köhler to release him off his duties with continued payment of a fixed amount and additional benefits for the remainder of his employment contract until August 31, 2019 and a non-recurring payment for an outstanding variable remuneration entitlement for the 2017 financial year. In total, the amount payable by Intershop from this agreement is EUR 324 thousand, of which EUR 135 thousand was paid in the 2018 financial year. The post-contractual non-competition clause was rescinded without compensation by mutual agreement.

Remuneration of the Supervisory Board

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

For the 2018 financial year, members of the Supervisory Board were entitled to a total remuneration of EUR 152 thousand (2017: EUR 200 thousand), which consists entirely of fixed compensation. There was no entitlement to variable compensation for 2018. In the prior year, EUR 60 thousand related to the performance-based variable portion. The fixed remuneration consists of EUR 50 thousand (2017: EUR 50 thousand) in fixed remuneration and EUR 102 thousand (2017: EUR 90 thousand) for meetings.

The remuneration of the Supervisory Board members is as follows:

	Fixed Remuneration		**Variable Remuneration**		**Total Remuneration**	
in EUR thousand	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Christian Oecking	77	70	0	30	77	100
Ulrich Prädel	39	35	0	15	39	50
Univ.-Prof. Dr. Louis Velthuis	36	35	0	15	36	50
	152	**140**	**0**	**60**	**152**	**200**

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. 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.

As part of risk identification, the effect of operational and financial risks on the current financial year are quantified as best as possible (extent of damage and probability of occurrence) and assigned a relevance class. The effect of strategic risks over three years is taken into account and the risk is assigned a relevance class.

The identified risks are categorized as follows:

Categorization of the extent of damage:

Economic shareholders' equity				
< 2.5%	< 7.5%	< 25%	< 100%	> 100%
not material	minor	high	critical	existential
Relevance class 1	Relevance class 2	Relevance class 3	Relevance class 4	Relevance class 5

Categorization of the probability of occurrence:

≤ 5%	≤ 25%	≤ 50%	≤ 95%	> 95%
highly unlikely	unlikely	possible	likely	very likely

The consolidated management report focuses on significant risks and rewards. The economic shareholders' equity comprised shareholders' equity less intangible assets. Intershop's total risk exposure is determined by aggregating the risks (Monte-Carlo-Simulation). 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. All Intershop products are offered in all segment regions and are therefore subject to the same kinds of risks. In addition to specific individual risks and opportunities, Intershop's risk management also takes general risks (such as sales and cost fluctuations) into account that may have adverse (risks) or positive (rewards) effects on the earnings and financial position.

Strategic risks

Intershop is one of the leading providers of innovative and comprehensive solutions for omni-channel commerce in a highly dynamic market. Intershop's primary strategic objective is to turn the Company from an exclusive technology provider into an integrated provider of omni-channel commerce solutions. The ongoing transition from a license provider to a provider of Commerce-as-a-Service via the cloud goes hand in hand with the „cloud first" strategy.

Intershop's target market is undergoing constant change due to factors such as technological progress, changes in the companies' IT landscape, consolidation of provider landscape associated with new competitors 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. 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 turn 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 fall of 2018, the Forrester Wave study ranked Intershop, with its B2B platform, in the „Leader" category for the first time. Intershop estimates that these risks could have a strong impact; however no or only weak indicators of occurrence can currently be identified.

There is a general risk that the Intershop software is partially or entirely displaced by new technologies. Depending on the degree and pace of the change, this can lead to Intershop no longer being able to sell its current products and having to replace all or some of them with new products. Intershop regards this risk as high. However, there is currently no identifiable development that challenges e-Commerce or today's products. The risk is also mitigated by 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.

With regard to the Intershop software, there is the risk of product defects, which is typical of software. Due to development flaws, a product might be defective and, especially in terms of product safety, might 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. For Intershop, this could result in claims for damages, costs for possible legal disputes, and additional costs in order to rectify defects. In addition, a decline in revenue might occur. Intershop considers this risk to be minor. However, an extensive quality assurance process with a designated security code officer and a documented escalation process minimize the risk of occurrence.

The risk generally exists that technical concepts of Intershop products are accessed by unauthorized third parties or competitors. The outflow of information may enable competitors to offer competing products or to alienate customers. Furthermore, new competitors can appear on the market and poach existing or potential new customers. Intershop estimates that these risks could have a minor impact that is minimized by technical and organizational measures, as well as market and competitor monitoring.

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. Intershop considers the key position risk to be minor. These risks are counteracted using a state-of-the-art personnel management system with individual measures for personnel development together with an open company culture and flat hierarchies. Intershop has also set up a professional development program that includes the promotion of key persons.

Operational risks

Business processes at Intershop are based on information technologies. This means that there is a typical inherent risk of data loss. The loss of sensitive data could lead to competitive disadvantages or a weaker market position. Intershop regards this risk as high. The risk is mitigated with information security measures, data backup processes as well as security policies and security processes that are continuously further developed, which is why its occurrence is considered to be very unlikely.

Specialized and standardized contracts and GTC are used for the sale of Intershop products. It is possible for deviations from these contracts to occur, for example, at the customer's request. In these cases, there is a risk that the modified provision has adverse effects for Intershop. The risk is considered a possible high risk. It is minimized by having legal advisors review agreements deviating from the standard template or the standard GTC.

The complexity of the e-Commerce processes leads to various mutual dependencies. There is the risk of the process chain or parts thereof failing which leads to a loss of revenue for customers. For Intershop, this can lead to a loss in sales, claims for damages, high legal fees, and additional expenses to eliminate the process error. The risk is regarded as minor. It is monitored by detailed process documentation and specifications, insurance policies as well as limitation of liability, which is why its occurrence is considered unlikely.

When filling open positions, there is a recruitment cost risk, particularly if headhunters are required to find a short-term replacement. Intershop regards this risk as insignificant to minor. The risk is mitigated by way of personnel recruitment management as well as flexible and needs-based recruitment.

Financial risks

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. This especially applies to the countries, in which software process patents exist. The risk is regarded as a potentially high risk. In order to minimize the risk, Intershop verifies compliance of the licensing terms of third parties in the development process.

A large portion of revenues is generated from consulting services, which are primarily provided in the context of projects. In this regard, customer loyalty is a very important factor. To be able to ensure customer loyalty, it is important to provide the quality the customer demands for projects, while at the same time keeping an eye on the costs and time. If this is not successful, this affects the Company's reputation and results in higher project costs. Future contracts may be lost, projects may be canceled prematurely, or the profit margin on projects permanently reduced. Intershop regards this risk as minor. In order to respond to this risk, personnel planning software and project analysis tools are used, and regular project meetings document the current status of projects. Furthermore, projects and customer satisfaction are monitored on an ongoing basis. Therefore, the occurrence of the risk is regarded as unlikely.

There is a risk that statements about competitors are made in Intershop publications that are relevant under competition law and that result in the affected competitors taking action. This can result in unforeseen costs relating to claims for damages and legal fees. The risk is regarded as minor. Intershop minimizes this risk by carefully researching and coordinating texts, which is why the occurrence is regarded as highly unlikely.

At the balance sheet date, Intershop has a good liquidity position, with liquidity of EUR 7.2 million. Two bank loans totaling EUR 3.0 million did not result in an interest risk at the balance sheet date since the interest rates for the loans are fixed over the term of the loan. The liquidity risk as a result of the repayment of the financial liabilities is regarded as minor since repayments have been fixed at annual or monthly installments over a fixed term. In addition, the Company has the option to make annual additional payments on one of the loans without incurring a early repayment penalty. The loan 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 since revenues are generated in U.S. and Australian dollars. Measures to hedge currency risks are taken on a case-by-case basis. There is also a default risk. In order to at least minimize the risk of default, Intershop regularly performs credit checks of customers. In case of larger contracts, this risk is also minimized by agreements on advance payments or partial payments based on the percentage of completion of the contract. Here, reference is also made to the consolidated financial statements, section „Information on financial instruments". These risks are regarded as insignificant but their occurrence is likely.

Intershop is a defendant in various legal proceedings arising from the normal course of business. The Management Board does not currently expect that the Company will incur any major financial obligations resulting from current litigation beyond the litigation stated in the consolidated financial statements. These risks are also secured by way of insurance policies and provisions as a preventative measure. Reference is made to the consolidated financial statements, section „Litigation/contingent liabilities".

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 Intershop are evaluated on a regular basis.
The following opportunities shall be highlighted: Intershop sees an important strategic opportunity in the existing and developing partnership with Microsoft since higher revenues are expected in the medium and long term due to better visibility on the market. Furthermore, Intershop sees the strong strategic opportunity to achieve additional growth potential from strategic M&A options in the course of market consolidation. There is also the strong potential to gain additional revenues from expanding the partner network by focusing on the cloud. There is also the strong but unlikely possibility that unforeseen, extraordinary income is generated from audits conducted by Intershop if customers violate license terms or use Intershop products without authorization.

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 has declined slightly compared to the previous 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 revenue 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 sec. 176 para. 1 s. 1 AktG

On the balance sheet date, the Company’s subscribed capital amounted to EUR 34,851,831, composed of 34,851,831 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.

According to the voting rights notifications dated May 23, 2018, Shareholder Value Beteiligungen AG holds 16.07% and Shareholder Value Management AG 11.73% in the Company’s capital stock. In total, both companies together hold 27.80% of the voting rights (balanced voting rights behavior) in accordance with Sec. 33 et seqq. WpHG.

INTERSHOP Communications AG has not been informed of any other direct or indirect share capital holdings that exceed 10% of the voting rights as of the balance sheet date. There are no shares with special rights conveying powers of control, especially rights of appointment to the Supervisory Board. Also, there are no employee stock option plans, meaning that employees do not have an interest in the capital without being able to exercise their control rights directly at the same time.

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

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

Corporate Governance Declaration in Accordance with Section 289f of the HGB or, respectively, sec. 315d HGB

On February 1, 2019, 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 2018 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 79,46 % of the votes present at the Annual Stockholders' Meeting on May 9, 2018 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 most recent forecast of the IMF in January 2019, the global economy is expected to experience weak growth of 3.5% in 2019. In the emerging and developing countries, the increase in economic output will therefore amount to 4.5%. For the group of industrialized countries, growth is expected to be 2.0%. An increase of 1.6% is expected throughout the Eurozone and growth of 1.3% 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 global B2C market volume will double to around USD 4.88 trillion by 2021 and online sales in Western Europe will increase by 24% to a market volume of USD 457 billion. For 2019, the German e-Commerce and Distance Selling Trade Association (Bundesverband E-Commerce und Versandhandel) expects further increase in online sales by 9.6% for Germany.

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 in B2B commerce platforms by 2021. Just over USD 1 billion will be allocated to mid-sized wholesalers and B2B brand manufacturers who are upgrading and redesigning their commerce infrastructures to assert themselves in a dynamic market, and meet rising customer demands.

In the global IT markets, the U.S. analyst company Gartner expects an additional considerable increase in investments by 8.3% in the enterprise software market in 2019. There is an obvious trend towards SaaS applications. The market for IT services will also benefit from high investment growth (+4.7%), driven by growing cloud service sales. The cloud is also enjoying increasing recognition in Germany. According to a Bitkom survey in October 2018, one out of two large German companies (≥ 500 employees) uses a cloud solution stored on an external data center. The current Bitkom forecast for the German market expects growth of 6.3% for 2019 in the software segment and 2.3% in the IT services market.

Company outlook

The underlying conditions in the B2C and B2B e-Commerce market continue to be favorable. The current market data and surveys also prove that more and more companies of all sizes are using cloud solutions instead of their own IT infrastructures and resources. The major transition process from a license provider to a provider of Commerce-as-a-Service solutions via the cloud, which was initiated in 2018, seems to be inevitable. The CaaS solution offering introduced in March which was further improved with version 7.10 presented in fall is already experiencing a good market response. Thus, Intershop recorded a steady increase in incoming cloud orders throughout 2018. In the 2019 financial year, the new business model shall be implemented in full and the number of cloud customers increased significantly, thereby boosting recurring sales.

The partnership with Microsoft that was further intensified in the last months is of great importance. Integration into the solution portfolio of Microsoft Azure Cloud („Microsoft Global Solution Maps") and the partner certification as an independent software vendor with gold status further increases the global visibility of the Intershop offering and considerably boosts the company's international sales activities.

In order to exploit the opportunities in the cloud segment and to accelerate the growth in the number of new customers, we will also invest in sales and marketing in the next few months. While this temporarily affects profitability, it is essential to successfully complete the strategic transition from the license to the cloud business. In the medium term, the current transition will lead to considerably more consistency both in budgeting and in actual business performance due to the recurring cloud revenues. In order to accelerate the process, the Company increased its capital at the beginning of the financial year. The funds from increasing capital shall be used to intensify sales and marketing measures for the cloud solution. The measures include joint lead generation activities with Microsoft and other partners, intensifying marketing in the U.S. and APAC regions and restructuring internal processes. Sales shall also be strengthened regionally. Furthermore, a dedicated team shall be established for realizing projects identified in collaboration with Microsoft.

The main objective is to establish Intershop as the leading provider of a digital B2B commerce platform in 2020 and to achieve revenues of EUR 50 million and an EBIT margin of 5%. Intershop aims at 75 new customers with incoming cloud orders of EUR 31 million and resulting annually recurring revenues (New ARR) of EUR 10 million.

For the 2019 financial year, the Company plans to acquire 50 new customers with incoming cloud orders of EUR 22 million and a New ARR of EUR 6 million. Based on the considerable growth of incoming cloud orders, the Intershop Management Board expects cloud and subscription revenues to increase. Maintenance and license revenues will slightly increase compared to the previous year. In the service business, a slight increase in sales is expected despite small-scale projects as part of expanding the cloud customer base. For all three target regions of the Intershop Group (Europe, United States, and Asia/Pacific), new projects and customers are expected, and therefore increasing revenues of more than 10%.

Statement on business developments for 2019

Based on the assumptions regarding the respective business segments, Intershop expects an increase in Group sales for the 2019 financial year of more than 10%. With a slight increase in the gross profit and gross margin, a slightly negative operating result (EBIT) is also projected.

Jena, February 27, 2019

The Management Board of INTERSHOP Communications AG

DR. JOCHEN WIECHEN MARKUS KLAHN

Consolidated Financial Statements

Consolidated Financial Statements

Consolidated Balance Sheet

in EUR thousand	Note No.	December 31, 2018	December 31, 2017
ASSETS			
Noncurrent assets			
Intangible assets	(1)	9,599	8,933
Property, plant and equipment	(2)	658	637
Other noncurrent assets	(4)	26	14
Deferred tax assets	(20)	67	637
		10,350	**10,221**
Current assets			
Trade receivables	(3)	3,977	5,181
Other receivables and other assets	(4)	1,106	698
Cash and cash equivalents	(5)	7,224	8,949
		12,307	**14,828**
TOTAL ASSETS		**22,657**	**25,049**
SHAREHOLDERS´ EQUITY AND LIABILITIES			
Shareholders´ equity			
Subscribed capital	(6)	34,852	31,683
Capital reserve	(6.1)	9,738	7,806
Other reserves	(6.2)	(30,944)	(24,159)
		13,646	**15,330**
Noncurrent liabilities			
Liabilities to banks	(8)	1,547	1,787
Deferred revenue	(10)	146	223
		1,693	**2,010**
Current liabilities			
Other current provisions	(11)	261	289
Liabilities to banks	(8)	1,500	1,000
Trade accounts payable	(7)	1,525	1,527
Income tax liabilities	(20)	27	230
Other current liabilities	(9)	2,268	2,993
Deferred revenue	(10)	1,737	1,670
		7,318	**7,709**
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES		**22,657**	**25,049**

Consolidated Statement of Comprehensive Income

in EUR thousand	Note No.	January 1 to December 31, 2018	2017
Revenues	(12)		
Software und Cloud Umsätze		15,967	17,795
Serviceumsätze		15,232	18,012
		31,199	**35,807**
Umsatzkosten	(13)		
Software and Cloud Revenues		(6,874)	(6,910)
Service Revenues		(12,404)	(11,327)
		(19,278)	**(18,237)**
Gross profit		**11,921**	**17,570**
Operating expenses, operating income			
Research and development	(14)	(4,663)	(5,067)
Sales and marketing	(15)	(9,627)	(8,305)
General and administrative	(16)	(3,526)	(3,742)
Other operating income	(17)	205	220
Other operating expenses	(18)	(225)	(263)
		(17,836)	**(17,157)**
Result from operating activities		**(5,915)**	**413**
Interest income	(19)	12	6
Interest expense	(19)	(158)	(338)
Financial result		**(146)**	**(332)**
Earnings before tax		**(6,061)**	**81**
Income taxes	(20)	(681)	(745)
Earnings after tax		**(6,742)**	**(664)**
Other comprehensive income			
Exchange differences on translating foreign operations		(42)	(61)
Other comprehensive income from exchange differences		**(42)**	**(61)**
Total comprehensive income		**(6,784)**	**(725)**
Earnings per share (EUR, basic, diluted)	(21)	(0.20)	(0.02)

Consolidated Statement of Cash Flows

in EUR thousand	Note No.	January 1 to December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Earnings before tax		(6,061)	81
Adjustments to reconcile net profit/loss to cash used in operating activities			
Financial result		146	332
Depreciation and amortization		2,211	2,420
Other noncash expenses and income		0	-59
Changes in operating assets and liabilities			
Accounts receivable		1,220	(129)
Other assets		(417)	(92)
Liabilities and provisions		(649)	(242)
Deferred revenue		(4)	(294)
Net cash provided by (used in) operating activities before income tax and interest“		**(3,554)**	**2,017**
Interest received		12	6
Interest paid		(286)	(179)
Income taxes received		3	4
Income taxes paid		(317)	(156)
Net cash provided by (used in) operating activities		**(4,142)**	**1,692**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments in intangible assets		(2,520)	(2,244)
Proceeds on disposal of equipment		3	28
Purchases of property and equipment		(350)	(352)
Net cash provided by (used in) investing activities		**(2,867)**	**(2,568)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash recceived from loan		1,500	0
Repayments of loans		(1,250)	(1,000)
Cash received for unregistered stock		5,133	0
Expenses of cash received for unregistered stock		(32)	0
Net cash provided by (used in) financing activities		**5,351**	**(1,000)**
Effect of change in exchange rates on cash		(67)	(73)
Net change in cash and cash equivalents		**(1,725)**	**(1,949)**
Cash and cash equivalents, beginning of period	(5)	8,949	10,898
Cash and cash equivalents, end of period		**7,224**	**8,949**

Consolidated Statement of Shareholders´ Equity

in EUR thousand	Common shares (Number shares)	Subscribed capital	Capital reserve	Other Reserves: Conversion reserve	Other Reserves: Cumulative profit/loss	Other Reserves: Cumulative currency differences	Total share-holders´ equity
Balance January 1, 2018	**31,683,484**	**31,683**	**7,806**	**(93)**	**(26,085)**	**2,019**	**15,330**
Total comprehensive income					(6,742)	(42)	(6,784)
Issue of new shares	3,168,347	3,168	1,932				5,100
Balance December 31, 2018	**34,851,831**	**34,851**	**9,738**	**(93)**	**(32,827)**	**1,977**	**13,646**
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**

Notes to the Consolidated Financial Statements

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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, 2018, the Company had cash and cash equivalents of EUR 7.2 million (December 31, 2017: EUR 8.9 million). The equity ratio as of the balance sheet date was 60% (previous year: 61%). The Company's financial liabilities to banks totaled EUR 3.0 million on the balance sheet date (prior year: EUR 2.8 million). We refer to the statements in the Group Management Report.

Accounting Policies (Compliance Statement)

In fiscal year 2018, 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 2018 (January 1, 2018 to December 31, 2018) 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 2018 fiscal year was the first year in which the adoption of the following financial reporting standards and interpretations became mandatory:

- IFRS 9 "Financial instruments"
- IFRS 15 "Revenue from contracts with customers" and clarifications relating to IFRS 15
- Amendments of IFRS 2 "Classification and measurement of share-based payment"
- Improvements to IFRSs 2014-2016: Amendments of IFRS 1 and IAS 28
- IFRIC 22 "Foreign currency transactions and advance consideration"

IFRS 15 “Revenue from contracts with customers” replaced the previous IFRS guidelines on revenue recognition, including IAS 18 “Revenue” and IAS 11 “Construction contracts”. The basic principle of the standard is that revenues shall 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. The Company applied the standard for the first time for the 2018 financial year, in some cases retrospectively. There were no transition effects and no changes to the amount or recognition date of revenue recorded for customer contracts. The application of IFRS 15 has no impact on the EBIT and the balance sheet. IFRS 15 may provide additional quantitative and qualitative supplementary information for the consolidated notes.

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. Currently, the impact of this standard on the Company’s financial statements is insignificant, as no complex financial instruments are deployed. The amendments of IFRS 2 have no impact, as the company has no share-based payment. The amendments of IFRSs 2014-2016 have no major impact on the Company’s consolidated financial statements.

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

IFRS	**Change**	**Amendment for fiscal year as of**
IFRS 16	Leases	01/01/2019
Improvements	Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments IFRS 3, IFRS 11, IAS 12, IAS 23	01/01/2019
IFRIC 23	Uncertainty over Income Tax Treatments	01/01/2019
IFRS 9	Amendments to IFRS 9: Prepayment Features with Negative Compensation	01/01/2019

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. Assets and liabilities arising from leases are initially measured at present value. Lease payments are discounted at the rate implicit in the lease if that can be readily determined. Otherwise, the lessee shall use their incremental borrowing rate. 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. Intershop is obliged to apply the standard as of January 1, 2019. Up to now, the Company only had operating leases, mainly for leased office space, office equipment, and leased vehicles. The Company intends to use the exemption rule, which means the Company is not required to reassess leases within the meaning of IFRS 16 that already existed before January 1, 2019 (modified retrospective method).

This means that these contracts can continued to be carried based on the classification under IAS 17/IFRIC 4. For the 2019 financial year, Intershop does not expect any significant effects on the result and the consolidated balance sheet as a result of the leases in effect as of the reporting date. It is expected that as of 2020 Intershop will also account for the right of use of the leased office space and the corresponding liability as a result of the planned move into new business premises into the Group's headquarters and thus a balance sheet increase in the high single-digit million EUR range. The equity ratio will decrease accordingly. The EBIT and EBITDA will increase as a result of the current rental expenses being reclassified and accounted for as depreciation and interest expenses in the future.

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

Financial reporting for fiscal year 2018 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 27, 2019, 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 services. In fiscal year 2018, other provisions amounted to a total of EUR 261 thousand (previous year: EUR 289 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 2018. Please refer to the "Revenues" section in the chapter entitled "Accounting Policies" for information on estimating revenues.

Basis of consolidation

As of December 31, 2018, 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, 2018:

	Interest in %	**Equity*** in EUR thousand	**Annual result**** in EUR thousand
Intershop Communications, Inc., San Francisco, USA	100	(916)	120
Intershop Communications Australia Pty Ltd, Melbourne, Australia	100	1,038	153
Intershop Communications Asia Limited, Hong Kong, China	100	62	28
Intershop Communications SARL, Paris, France	100	322	7
Intershop Communications LTD, Romsey, United Kingdom	100	(187)	(18)
The Bakery GmbH, Berlin, Germany	100	(3,988)	(46)
Intershop Communications Ventures GmbH, Jena, Germany	100	(1,363)	(18)

* Equity as of December 31, 2018 is translated at the exchange rate as of the reporting date

** Net income/loss for fiscal year 2018 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 if it holds the majority of voting rights. A company is included in the consolidated financial statements from the date on which control passes to the Intershop Group. Deconsolidation usually occurs on the date control passes to a third party or on the date the subsidiary is liquidated.

Subsidiaries:

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

Foreign currency translation

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

Transactions in foreign currencies are translated at the exchange rate prevailing at the date of each transaction. Nonmonetary items denominated in foreign currency are measured at historical exchange rates. Differences in exchange rates between the date of a transaction denominated in a foreign currency and the date at which it is either settled or translated are recognized in the statement of comprehensive income and are shown in "other operating income" or "other operating expenses." Currency gains and losses were EUR -79 thousands (2017: EUR -173 thousands).

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

Country	Currency	Closing rate		Average rate for the year	
	1 EUR =	Dec. 31, 2018	Dec. 31, 2017	2018	2017
United States	USD	1.15	1.20	1.18	1.13
Australia	AUD	1.62	1.53	1.58	1.47
Hong Kong	HKD	8.97	9.37	9.26	8.82
United Kingdom	GBP	0.89	0.89	0.89	0.87

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 (Potential Shippable Increment) and the definition of the EPICs (Features). 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 2018. 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 2018.

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, 2018: EUR 4,473 thousand). For the goodwill the relevant cash-generating unit is the Europe segment. First, the carrying amount of the cash-generating unit is compared with the value in use and with the market value of the entity at the balance sheet date. Secondly, the impairment write-down required is determined, but only if the value in use or market value is less than the carrying amount. To determine the value in use of the cash-generating unit, the net cash flows for the period from 2019 to 2022 and a "perpetual annuity" (without growth rate) for the period after and including 2023 were identified. The calculations are based on the corporate planning for the period from 2019 to 2022 approved by Intershop's management; This plan reflects the transition to the cloud business in that the license revenues will reduce over time and the cloud revenues will experience strong growth due to a significant increase in the number of cloud customers, and the share of cloud sales of the total revenue will increase each year. An annual growth of the total revenue between 15% and 30% over the planning period is expected. For the 2019 financial year, the Company expects a slightly negative operating EBIT with increasing revenues. Thus, a cash outflow is expected for the CGU in 2019. In the following years, the Company expects increasing gross margins and positive EBIT margins that will grow over time. For 2020, Intershop expects revenues of EUR 50 million at an EBIT margin of 5%. The increase in revenues and the improved margin will result in the increased inflow of cash of the CGU during the planning period. When determining the value in use, present values were calculated on the basis of a discount rate after tax of 9.09% (WACC) (WACC before tax: 13.27%). No impairment losses on goodwill were reported in 2017 and 2018; impairment losses on goodwill are not reversed (no appreciation). 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 assets are classified and measured based on the business model operated and the structure of the cash flows. A financial asset is initially measured as “at amortized cost,” “at fair value through other comprehensive income,” or “at fair value through profit or loss.” The classification and measurement of financial liabilities according to IFRS 9 remain largely the same as the accounting provisions of IAS 39. As at December 31, 2017, there were no financial assets recognized in the balance sheet that were measured according to IAS 39 at amortized cost and are now measured according to IFRS 9 at fair value.

Intershop’s current financial assets measured at amortized cost (2017: loans and receivables) include trade receivables, cash and cash equivalents and other assets. Financial liabilities at amortized cost comprise liabilities to banks in the form of interest-bearing bank loans, trade payables, and other current liabilities. At the balance sheet date, Intershop had no financial instruments measured “at fair value through other comprehensive income” or “at fair value through profit or loss” according to IFRS 9. 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.

Revenues

Revenues are broken down into the main groups software and cloud revenues and service revenues beginning in the 2018 financial year. License revenues and the associated maintenance revenues, as well as the cloud and subscription revenues are included in software and cloud revenues. In the past, revenues from providing SaaS products were reported in the license revenues. In the new revenue classification, these are now reported under "Cloud and Subscription". In the past, the full service sales generated recurring and non-recurring revenues, as well as sales from the cloud offering. The regularly recurring revenues as well as the sales from the cloud offering are reclassified and reported under "Cloud and Subscription". Service revenues include revenues from consulting and training, as well as non-recurring revenue from the full service area. The prior-year figures have been adjusted accordingly. The recognition and measurement of balance sheet items remain unchanged.

The following table shows the reclassification of the prior-year figures:

Previous revenue structure	Previous 2017	Reclassification of licenses	Reclassification Full Service	New 2017	New revenue structure
Product Revenue	**14,129**	**0**	**3,666**	**17,795**	**Software and Cloud Revenue**
Licenses	6,108	(861)		5,247	Licenses
Maintenance	8,021			8,021	Maintenance
		861	3,666	4,527	Cloud and Subscription
Service Revenue	**21,678**	**0**	**(3,666)**	**18,012**	**Service Revenue**
Consulting/Training	15,403			15,403	
Full Service	6,275		(3,666)	2,609	
Revenue total	**35,807**	**0**	**0**	**35,807**	**Revenue total**

Licenses and Maintenance Revenues

Intershop generates revenues from selling software licenses and the maintenance of such licenses. 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'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.

When selling software licenses, maintenance contracts are usually entered into for a period of at least one year. In general, invoices are issued on an annual basis. Revenues from maintenance are recognized ratably over the period in which the services are provided.

Cloud and Subscription Revenues

Intershop offers its customers Commerce-as-a-Service solutions (CaaS solution) as a comprehensive and efficient standard cloud solution or the commerce solution for operating the Intershop software in a cloud environment. These revenues include the following services: (1) contractually agreed-upon use of the CaaS solution limited in time with hosting in a dedicated Azure Cloud environment that is operated, maintained and secured by Intershop or (2) contractually agreed-upon use of the Intershop license limited in time with or without hosting in a dedicated cloud environment. Intershop agrees on a regular, fixed fee for these services with its customers for a certain period of time, which is usually invoiced each month. Revenues are recognized on a prorated basis over the period of use and result in regularly recurring revenue. Transaction-based and revenue-based fees are also generally agreed upon; the revenues are recognized when they are recorded.

Service Revenues

Intershop offers its customers various services. 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.

Revenue for services is generally recognized as the services are performed. 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 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.

Cost of revenues

The cost of revenues includes the costs incurred in generating revenues. They include in particular all costs for maintenance, cloud and services. 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, 2017	**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**
Additions	31	2,522	0	2,553
Disposals	(11)	(6,039)	0	(6,050)
Currency translation differences	0	0	0	0
Balance at December 31, 2018	**1,905**	**20,980**	**24,097**	**46,982**
Amortization, write-downs, and impairment losses				
Balance at January 1, 2017	**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**
Additions	17	1,870	0	1,887
Disposals	(12)	(6,038)	0	(6,050)
Currency translation differences	0	0	0	0
Balance at December 31, 2018	**1,875**	**15,884**	**19,624**	**37,383**
Net carrying amount at December 31, 2017	**15**	**4,445**	**4,473**	**8,933**
Net carrying amount at December 31, 2018	**30**	**5,096**	**4,473**	**9,599**

"Internally developed software" includes capitalized software development costs for continued development of Intershop's software. The disposals in internally generated software relate to software versions that were written off in previous year and are no longer used. Of the amortization, write-downs and impairment losses on intangible assets recognized in the Statement of Comprehensive Income, EUR 1,876 thousand (2017: EUR 2,161 thousand) are included in the cost of revenues, EUR 8 thousand (2017: EUR 7 thousand) in research and development expenses as well as EUR 3 thousand (2017: EUR 1 thousand) in general and administrative costs. With the exception of goodwill there are no intangible assets with indefinite useful lives.

(2) Property, plant, and equipment

in EUR thousand	Computer equipment	Office and operating equipment	Leasehold improvements	Total
Costs of purchase				
Balance at January 1, 2017	**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**
Additions	236	114	0	350
Disposals	(104)	(152)	0	(256)
Currency translation differences	(2)	(2)	(1)	(5)
Balance at December 31, 2018	**2,854**	**1,054**	**280**	**4,188**
Depreciation, write-downs, and impairment losses				
Balance at January 1, 2017	**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**
Additions	229	95	0	324
Disposals	(101)	(151)	0	(252)
Currency translation differences	(1)	(2)	(1)	(4)
Balance at December 31, 2018	**2,298**	**952**	**280**	**3,530**
Net carrying amount at December 31, 2017	**553**	**84**	**0**	**637**
Net carrying amount at December 31, 2018	**556**	**102**	**0**	**658**

Of depreciation, write-downs and impairment losses on property, plant and equipment recognized in the Statement of Comprehensive Income, EUR 103 thousand (2017: EUR 87 thousand) are included in the cost of revenues, EUR 89 thousand (2017: EUR 73 thousand) in research and development expenses, EUR 58 thousand (2017: EUR 39 thousand) in marketing and sales expenses as well as EUR 74 thousand (2017: EUR 52 thousand) in general and administrative expenses.

(3) Trade receivables

The trade receivables at the balance sheet date include receivables from rendering services and cloud services as well as the sale of software licenses amounting to EUR 3,977 thousand (2017: EUR 5,181 thousand) which fall due within one year (current assets). Thereof, total receivables of EUR 3,318 thousand (2017: EUR 4,293 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, 2018**	**Dec. 31, 2017**
Due within 30 days	1,148	2,481
Due within 31 and 60 days	1,743	750
Due within 61 days and 1 year	427	1,062
	3,318	**4,293**

As of December 31, 2018, trade receivables of EUR 331 thousand were past due but were not impaired (December 31, 2017: EUR 486 thousand). The following table shows the maturity structure of receivables that are past due but not impaired:

in EUR thousand	**Dec. 31, 2018**	**Dec. 31, 2017**
Up to 30 days past due	153	412
31 to 60 days past due	32	23
61 to 90 days past due	146	51
	331	**486**

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, 2018 were collected primarily in January 2019.

As of December 31, 2018, impairment losses amounting to EUR 15 thousand (2017: EUR 5 thousand) have been recognized. Impairments changed as follows:

in EUR thousand	2018	2017
Balance at beginning of year	**5**	**61**
Impairment of receivables	15	5
Amounts derecognized due to uncollectibility	0	0
Amounts received during the fiscal year on receivables written off	(5)	(61)
Reversals of impairments	0	0
Balance at end of year	**15**	**5**

(4) Other receivables and other assets

Other noncurrent assets in the amount of EUR 26 thousand (2017: EUR 14 thousand) comprise rental security deposits.
Other current receivables and current assets include the following items:

in EUR thousand	Dec. 31, 2018	Dec. 31, 2017
Prepayments	827	557
Other tax receivables from sales tax	183	26
Other	96	115
	1,106	**698**

(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, 2018, the subscribed capital amounts to EUR 34,851,831 and is divided into 34,851,831 no-par value bearer shares, all of which have been paid in full. There are no restrictions on the voting rights. As at December 31, 2017, the subscribed capital amounted to EUR 31,683,484. The change of a total of EUR 3,168,347 is attributable to the issuance of new shares from the Authorized Capital I, as described below:

in EUR	2018	2017
Balance at January 1	**31,683,484**	**31,683,484**
Capital increases from authorized capital	3,168,347	0
Balance at December 31	**34,851,831**	**31,683,484**

Authorized capital

As at December 31, 2018, the Company had a total of EUR 12,667,635 in authorized capital (December 31, 2017: EUR 6,336,000). According to the INTERSHOP Communications AG's Articles of Association, the Management Board is authorized, subject to approval by the Supervisory Board, to increase the capital stock by issuing new common shares as follows:

- Up to a total of EUR 3,167,653 by issuing up to 3,167,653 new bearer shares against cash contributions and/or contributions in kind (Authorized Capital I/2016). The Management Board's authorization is valid 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. Due to a cash capital increase, the Authorized Capital I decreased by EUR 3,168,347.
- Up to a total of EUR 9,500,000 by issuing up to 9,500,000 new bearer shares against cash contributions and/or contributions in kind (Authorized Capital II/2018). The Management Board's authorization is valid until June 8, 2023. 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.

Capital increase in the 2018 financial year

During the 2018 financial year, the Company implemented a capital increase by utilizing the Authorized Capital I. Against cash contributions and exclusive of the subscription rights of shareholders, 3,168,347 new no-par value bearer shares were issued at a price of EUR 1.62 per new share. The new shares were subscribed by three institutional investors, AXXION S.A. on behalf of several fund clients, Shareholder Value Beteiligungen AG, and Shareholder Value Management AG. This event was recorded in the Register of Companies (*Handelsregister*) on May 15, 2018. The issued shares include the same rights as the other issued shares. Intershop received cash and cash equivalents of EUR 5,133 thousand as a result of the capital increase. The transaction costs amounted to EUR 32 thousand. No capital increases were implemented in the previous year.

(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 1,525 thousand (2017: EUR 1,527 thousand).

(8) Liabilities to banks

Liabilities to banks are broken down as follows:

in EUR thousand	Dec. 31, 2018	Dec. 31, 2017
Liabilities to banks - noncurrent	1,547	1,787
Liabilities to banks - current	1,500	1,000
	3,047	**2,787**

In the 2018 financial year, Intershop entered into an unsecured loan agreement with Commerzbank AG in the amount of EUR 1,500 thousand over a period of three years with a fixed interest rate of 2.85% p.a. and a constant monthly repayment rate.
In the 2015 financial year, the Company entered into a loan agreement in the amount of 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, 2018	Dec. 31, 2017
Liabilities to employees	906	828
Liabilities from outstanding vacation entitlement	620	552
Other VAT and wage tax liabilities	325	793
Liabilities to the Occupational Health and Safety Agency	106	97
Other liabilities relating to social security benefits	65	71
Liabilities from advance payments received	10	17
Liabilities from advance payments received for fixed-price projects	0	212
Miscellaneous other liabilities	236	423
	2,268	**2,993**

Liabilities to employees mainly include liabilities from commissions, performance-based remuneration and severance payments.

(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 261 thousand (2017: EUR 289 thousand).

The following table shows the development of other current provisions:

in EUR thousand	Guarantee	Other	Total
Balance at January 1, 2018	**162**	**127**	**289**
Additions	179	82	261
Utilization	(161)	(120)	(281)
Reversal	0	(7)	(7)
Currency adjustments	(1)	0	(1)
Balance at December 31, 2018	**179**	**82**	**261**

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

Notes to the Individual Items of the Statement of Comprehensive Income

(12) Revenues

The Company generated revenues from software licenses and the corresponding maintenance services, as well as from providing cloud services and consulting services. Revenues of EUR 31,199 thousand (2017: EUR 35,807 thousand) are divided into software and cloud revenues and service revenues as follows:

in EUR thousand	2018	2017
Licenses	2,434	5,247
Maintenance	8,114	8,021
Cloud and Subscription	5,419	4,527
Software and Cloud Revenues	**15,967**	**17,795**
Service Revenues	**15,232**	**18,012**
Total Revenues	**31,199**	**35,807**

The breakdown of the recognized revenue into categories corresponds to the representation in segment reporting. We refer to Chapter "Segment reporting" in Section "Other disclosures". Revenues are recognized for licenses at a specific point in time, and for all other revenues over a specific period of time.

(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	2018	2017
Licenses	2,010	2,249
Maintenance	1,473	1,596
Cloud and Subscription	3,391	3,065
Cost of revenues - Software and Cloud	**6,874**	**6,910**
Cost of revenues - Services	**12,404**	**11,327**
Total cost of revenues	**19,278**	**18,237**

The cost of revenues for licenses in the amount of EUR 2,010 thousand (2017: EUR 2,249 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. Research and development costs decreased from EUR 5,067 thousand to EUR 4,663 thousand due to a higher number of employees involved in software development projects. 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 16% from EUR 8,305 thousand to EUR 9,627 thousand, primarily due to increased personnel expenses. This includes one-time expenses of EUR 0.6 million for the restructuring of the sales division associated with the "cloud first" strategy. The share of sales and marketing expenses to total revenue was 31% (2017: 23%).

(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 6% from EUR 3,742 thousand to EUR 3,526 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	**2018**	**2017**
Income from currency translation gains	73	63
Gains from the disposal of fixed assets	3	5
Miscellaneous	129	152
	205	**220**

Income from currency gains of EUR 73 thousand is attributable to financial instruments.

(18) Other operating expenses

Other operating expenses relate to the following items:

in EUR thousand	**2018**	**2017**
Currency translation losses	151	236
Other taxes	1	0
Miscellaneous	73	27
	225	**263**

Expenses from currency translation losses of EUR 151 thousand were attributable to financial instruments.

(19) Interest income and Interest expenses

Interest income of EUR 12 thousand (2017: EUR 6 thousand) consists primarily of interest on bank balances. Interest expenses amounted to EUR 158 thousand (2017: EUR 338 thousand) and result mainly from interest expenses for liabilities to banks for the 2018 fiscal year.

(20) Income taxes

Income tax liabilities on the balance sheet date amounted to EUR 27 thousand (2017: EUR 230 thousand) and foreign income taxes for the year 2018.

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, 2018 was based on a corporate income tax rate of 15% (2017: 15%) plus the solidarity surcharge of 5.5% (2017: 5.5%) and an effective expected trade tax rate of 15.691% (2017: 15.691%).

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

in EUR thousand	**2018**	**2017**
Current taxes		
Abroad	107	70
Germany	8	247
Deferred taxes		
Abroad	(10)	28
Germany	576	400
	681	**745**

The Group tax rate of 31.517% applicable in fiscal year 2018 (2017: 31.517%) was multiplied by IFRS earnings before taxes to calculate the expected tax expense. Tax rates in a bandwidth from 16% to 30% were taken into account for the foreign subsidiaries.

The tax rate reconciliation contains the following details:

in EUR thousand	2018	2017
IFRS pretax income	(6,061)	81
Corporate tax rate	31.517%	31.517%
Expected tax expense/tax income	(1,910)	26
Effects of changes in tax rates and different rates of foreign taxation	23	22
Effects of non-recognition of deferred taxes or utilization of tax losses	2,513	362
Permanent effects, tax refunds	70	105
Taxes of prior years	(15)	230
Income taxes	**681**	**745**

The components of the deferred tax assets were as follows:

in EUR thousand	2018	2017
Taxes on eligible loss carryforwards	1,583	2,445
Inventories	0	398
Provisions/Liabilities	91	100
Deferred tax assets	**1,674**	**2,942**
Offset	(1,607)	(2,306)
Deferred tax assets after offset	**67**	**637**
Intangible assets	1,606	1,401
Receivables	0	143
Liabilities	1	762
Deferred tax liabilities	**1,607**	**2,306**
Offset	(1,607)	(2,306)
Deferred tax liabilities after offset	**0**	**0**
Net deferred tax assets	**67**	**637**

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 at December 31, 2018, deferred tax assets were only recognized in accordance with IAS 12.35 in the amount of taxable profit from temporary differences that will be 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, 2018, the Company had net loss carryforwards for tax reporting purposes in various tax jurisdictions as follows:

in EUR thousand	2018	2017
U.S. Federal	103,185	107,798
U.S. State	36,759	38,527
German corporate income tax	301,393	179,325
German municipal trade tax	286,199	176,731
Other	116	102

U.S. federal and state net operating loss carryforwards expire in various fiscal periods through 2037. The change in loss carryforwards in the United States is mainly the result of currency translation and ongoing use. 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 increase in German corporate income tax loss carryforwards in the amount of EUR 113,817 thousand and trade tax loss carryforwards in the amount of EUR 110,339 thousand are due to the revision of Sec. 8c German Corporate Income Tax Code (*Körperschaftsteuergesetz; KStG*), which led to the reactivation of carryforwards already forfeited due to changes in the group of INTERSHOP Communications AG's stockholders in 2010 and 2011. With regard to the remaining German loss carryforwards, no deferred tax assets were recorded for income tax purposes in the amount of EUR 296,261 thousand (2017: EUR 171,865 thousand) and for trade taxes in the amount of EUR 281,284 thousand (2017: EUR 168,671 thousand).

(21) Earnings per share

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

in EUR thousand	2018	2017
Basis for calculating basic and diluted earnings per share (earnings after tax)	(6,742)	(664)
Weighted average number of ordinary shares (in thousand)	33,673	31,683
Earnings per share (basic/diluted) (in EUR)	**(0.20)**	**(0.02)**

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 was EUR 4,142 thousand in 2018 after a cash outflow of EUR 1,692 thousand in 2017, which is mainly due to the negative earnings before taxes. Non-cash impairment losses decreased to EUR 2,211 thousand compared to EUR 2,420 thousand in 2017. The cash outflow from investing activities increased slightly from EUR 2,568 thousand in the previous year to EUR 2,867 thousand. The cash spent on investments in intangible assets included in this figure increased by EUR 276 thousand to EUR 2,520 thousand. The cash inflow from financing activities totaled EUR 5,351 thousand in the 2018 financial year (2017: cash outflow of EUR 1.0 thousand). This cash inflow is mainly due to a cash capital increase from authorized capital by almost 10% of the existing share capital in May 2018. The cash inflow from capital measures after the deduction of expenses was EUR 5,101 thousand. Furthermore, the addition of another loan of EUR 1,500 thousand was offset by repayments of this loan (EUR 250 thousand) as well as a previous loan (EUR 1,000 thousand) in the total amount of EUR 1,250 thousand. In total, there was a net outflow of EUR 1,725 thousand in the 2018 financial year compared to a cash outflow of EUR 1,949 thousand in the previous year. Intershop had freely available cash and cash equivalents of EUR 7,224 thousand at the balance sheet date (December 31, 2017: EUR 8,949 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, 2018

in EUR thousand	Europe	USA	Asia/ Pacific	Consoli- dation	Group
Revenues from external customers					
Software and Cloud Revenues	**11,498**	**1,999**	**2,470**	**0**	**15,967**
Licenses and Maintenance	**9,016**	**854**	**678**	**0**	**10,548**
Licenses	2,204	224	6	0	2,434
Maintenance	6,812	630	672	0	8,114
Cloud and Subscription	**2,482**	**1,145**	**1,792**	**0**	**5,419**
Service Revenue	**11,385**	**1,823**	**2,024**	**0**	**15,232**
Total revenues from external customers	**22,883**	**3,822**	**4,494**	**0**	**31,199**
Intersegment revenues	49	0	139	(188)	0
Total revenues	**22,932**	**3,822**	**4,633**	**(188)**	**31,199**
Cost of revenues	14,131	2,371	2,776	0	19,278
Gross profit	**8,752**	**1,451**	**1,718**	**0**	**11,921**
Operating expenses, operating income	13,074	2,194	2,568	0	17,836
Result from operating activities	**(4,322)**	**(743)**	**(850)**	**0**	**(5,915)**
Financial result					**(146)**
Earnings before tax					**(6,061)**
Income taxes					**(681)**
Earnings after tax					**(6,742)**
Assets	16,607	2,787	3,263	0	**22,657**
Depreciation and amortization	1,621	272	318	0	**2,211**

Segment reporting as of December 31, 2017

in EUR thousand	Europe	USA	Asia/ Pacific	Consoli- dation	Group
Revenues from external customers					
Software and Cloud Revenues	**13,156**	**1,784**	**2,855**	**0**	**17,795**
Licenses and Maintenance	**11,318**	**1,158**	**792**	**0**	**13,268**
Licenses	4,741	443	63	0	5,247
Maintenance	6,577	715	729	0	8,021
Cloud and Subscription	**1,838**	**626**	**2,063**	**0**	**4,527**
Service Revenue	**13,685**	**1,925**	**2,402**	**0**	**18,012**
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**

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 software and cloud revenues, which also include the sale of software licenses and associated maintenance and cloud and subscription revenues. They also generated service revenues from the provision of various services. The classification of revenues for the business segments that must be reported was adjusted in accordance with the presentation of revenues for the Group. We refer to the section "Accounting policies".

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 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 2018, 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 12,190 thousand (2017: EUR 16,839 thousand). Revenues of EUR 19,009 thousand (2017: EUR 18,968 thousand) were recorded from external customers in other countries. The amount of EUR 5,305 thousand of the revenues relates to customers in the Netherlands (2017: EUR 5,997 thousand). In the 2018 fiscal year, a single customer generated sales of EUR 3,594 thousand in the Europe segment (2017: EUR 5,371 thousand). Total noncurrent assets excluding deferred taxes amounted to EUR 10,215 thousand (2017: EUR 9,537 thousand) in Germany and EUR 68 thousand (2017: EUR 47 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 leases

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

in EUR thousand	Dec. 31, 2018	Dec. 31, 2017
Due within 1 year	2,561	2,470
Due in 1 to 5 years	1,949	2,176
Due after more than 5 years	0	0
Total	**4,510**	**4,646**

The sum of future minimum payments arising from subleases amounted to EUR 284 thousand (2017: EUR 293 thousand) as of the balance sheet date. Rental expense of EUR 2,013 thousand (2017: EUR 2,178 thousand) was recognized in the income statement. Rental income amounted to EUR 760 thousand (2017: EUR 808 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.

At the end of 2020, 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 an addendum to the lease agreement was entered into in August 2018. It has a term of ten years from the move-in date. The contractually agreed lease payments excluding utilities total EUR 9.7 million over the lease 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 decrease in shareholders' equity has reduced the equity ratio by one percentage point over the previous year. In total, the capital structure has changed as follows:

in EUR thousand	**Dec. 31, 2018**	**Dec. 31, 2017**	**as a % of previous year**
Equity	13,646	15,330	-11%
Liabilities to banks	3,047	2,787	9%
Trade accounts payable	1,525	1,527	0%
Other liabilities	4,439	5,405	-18%
Equity ratio	60%	61%	

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 **Measurement**	**Dec. 31, 2018** **Carrying amount**	**Dec. 31, 2017** **Carrying amount**
Measured at amortized cost		
Financial assets		
Other noncurrent assets	26	14
Trade receivables	3,977	5,181
Cash and cash equivalents	7,224	8,949
Financial liabilities		
Trade payables	1,525	1,527
Liabilities to banks	3,047	2,787
current liabilities	1,058	1,028

Carrying amount aggregated by measurement category	**2018**	**2017**
Financial assets measured at amortized cost	11,227	14,144
Financial liabilities measured at amortized cost	5,630	5,342

Net gain/loss per measurement category	**2018**	**2017**
Financial assets measured at amortized cost	(3)	43
Financial liabilities measured at amortized cost	(159)	(194)

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, 2018: EUR 3,124 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 applies the simplified approach according to IFRS 9 to measure the expected credit losses; as a result, the credit losses expected over the term for all trade receivables will be used. The expected credit losses were measured by summarizing the trade receivables based on common credit risk criteria and days in arrears. Since the default on receivables was 0.3% in 2016 and 0.1% in 2017, the Company expects a loss rate of almost 0%. 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. In the 2018 financial year, Intershop took out a bank loan of EUR 1,500 thousand, mainly to compensate for fluctuations in revenue shifts related to the transition to the cloud business. Since the loan is repaid each month, EUR 250 thousand were repaid as scheduled in the 2018 financial year. Of the bank loan taken out in the 2015 fiscal year in the amount of EUR 6,000 thousand, a total of EUR 4,200 thousand has been repaid so far, of which EUR 3,000 thousand was scheduled repayment and EUR 1,200 thousand unscheduled repayment. The cash in banking accounts totaled EUR 7,224 thousand at the balance sheet date.

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

	Dec. 31, 2017	**Cash-effective change**	**Non-cash effective change** (re-classifications)	**Non-cash effective change** (interest effects)	**Dec. 31, 2018**
Liabilities to banks - non-current	1,787	750	(1,000)	10	1,547
Liabilities to banks - current	1,000	(649)	1,000	149	1,500
Total	**2,787**	**101**	**0**	**159**	**3,047**

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, 2017**	**Cash flow in 2018**	**Carrying amount at Dec. 31, 2018**	**Cash flow in 2019**	**Cash flow after 2019**
Non-current liabilities to banks	1,787	0	**1,547**	0	1,591
Current liabilities to banks	1,000	1,126	**1,500**	1,602	0
Trade accounts payable	1,527	1,527	**1,525**	1,525	0
Other current liabilities	1,028	1,028	**1,058**	1,058	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 two bank loans each 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	**2018**	**2017**	**2018**	**2017**
in USD	478	307	406	6
in GBP	0	102	165	5

The carrying amount of the monetary assets and debt of the Group denominated in Australian dollars total AUD 0 at the balance sheet date (2017: 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	2018	2017	2018	2017
Change due to 10% appreciation of the euro	(5)	(5)	15	(9)
Change due to 10% depreciation of the euro	7	6	(18)	11

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 27.80% of the shares in the Company according to the voting rights notifications dated May 23, 2018. 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 2018 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 2018 the following members:

Name	Function	Term of office
Dr. Jochen Wiechen	CEO	since 08/01/2013 (CEO since 09/01/2015)
Markus Klahn	Member of the Management Board	since 04/09/2018
Axel Köhler	Member of the Management Board	09/01/2015 – 08/16/2018

The Supervisory Board comprised the following members in 2018:

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

Total remuneration paid to the Management Board for its activities in the 2018 financial year amounted to EUR 598 thousand (2017: EUR 736 thousand), of which EUR 561 thousand (2017: EUR 496 thousand) relate to fixed remuneration and EUR 37 thousand (2017: EUR 240 thousand) to variable components. For the 2018 financial year, members of the Supervisory Board were entitled to a total remuneration of EUR 152 thousand (2017: EUR 200 thousand), which consists entirely of fixed remuneration (2017: EUR 140 thousand fixed remuneration and EUR 60 thousand variable compensation). 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, 2018, 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	10,000
Dr. Jochen Wiechen	CEO of the Management Board	90,000
Markus Klahn	Member of the Management Board	30,311

In the fiscal year 2018, the members of the company's executive bodies made the following purchases of Intershop ordinary bearer shares.

Name	Date	Type of transaction	Amount	Total value (EUR)
Dr. Jochen Wiechen	05/08/2018	Purchase	30,000	51,900
Univ.-Prof. Dr. Louis Velthuis	08/06/2018	Purchase	5,000	8,342

Employees

During the fiscal year 2018, Intershop Group had an average of 337 full-time employees, of whom 335 were salaried employees and 2 members of the executive bodies (2017: 331 full-time employees, of whom 329 were salaried employees and 2 members of the executive bodies).

Personnel expenses and cost of materials

Personnel expenses totaled EUR 23,644 thousand (2017: EUR 23,325 thousand); of which EUR 20,512 thousand relate to wages and salaries (2017: EUR 20,289 thousand) and EUR 3,132 thousand to social security contributions (2017: EUR 3,036 thousand). Material expenses totaled EUR 4,769 thousand (2017: EUR 3,280 thousand); of which EUR 4,632 thousand relate to expenses for purchased services (2017: EUR 3,187 thousand).

Auditor´s fees

The fees incurred for the services rendered by the auditor for the 2018 fiscal year were comprised of EUR 151 thousand for audit services (2017: EUR 96 thousand), EUR 9 thousand for tax advisory services (2017: EUR 21 thousand) and EUR 1 thousand for other services (2017: EUR 1 thousand). Support services for a DPR audit are included in the audit services.

Events subsequent to the balance sheet date

The Management Board of INTERSHOP Communications AG, with the consent of the Supervisory Board, resolved on January 9, 2019 to increase the capital, making partial use of the Authorized Capital II with subscription rights for shareholders at a ratio of 8:1 at a subscription price of EUR 1.14. The capital increase with subscription rights was successful and a total of 4,356,478 new shares were allocated. Around 3.1 million of these shares resulted from existing shareholders exercising their subscription rights. This equates to a subscription rate of 72%. Existing stockholders also acquired the remaining shares as part of excess subscription. The capital increase became effective upon registration in the Register of Companies (*Handelsregister)* at the Jena Local Court (*Amtsgericht*) on February 14, 2019. Thus, the Company's share capital was increased from EUR 34,851,831 to EUR 39,208,309 by issuing 4,356,478 new shares against cash contribution. Intershop generated gross issue proceeds of EUR 4.97 million.

On February 15, 2019 Shareholder Value Management AG and Shareholder Value Beteiligungen AG publicly disclosed their decision to make a joint voluntary takeover bid for their shares to the remaining INTERSHOP Communications AG shareholders. The Management Board has taken note of the bid decision and welcomes the confidence expressed by the bidders in the strategic course of the cloud transformation and their commitment to remain loyal to Intershop. In accordance with the provisions of the German Securities Acquisition and Takeover Act (*Wertpapierübernahmegesetz; WpÜG*), the Management Board and Supervisory Board will thoroughly review the bidding document and comment on its contents after it has been publicly disclosed as permitted by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin*).

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 13, 2018, and made this declaration permanently available to its stockholders at https://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 27, 2019

The Management Board of INTERSHOP Communications AG

DR. JOCHEN WIECHEN

MARKUS KLAHN

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, 2018, 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, 2018, 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, 2018. 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, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, 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, 2018. 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 20% of total assets and 33% 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 5,096 thousand(representing 22% of total assets and 37% 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 31,199 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 and running of systems for online-commerce as standardized service (CaaS), the provision of installation services and advice, maintenance and operation of online shops on behalf of customers in return for a sales- or transaction-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 customer. Proceeds from services are realized as at the date the services are rendered, while maintenance revenue, revenue from the provision and running of systems for online-commerce as standardized service (CaaS) 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 light of the complexity of the customer agreements underpinning revenue recognition, these significant items are subject to particular risk. Against this background, the correct revenue recognition in connection with the group-wide application of the new accounting standard IFRS 15 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, in particular the IFRS 15.

To do so, we first identified the material controls implemented by the Group to ensure the correct identification of contracts, individual service obligations and the recognition of revenue, assessed their appropriateness and tested their effectiveness with respect to avoiding and/or identifying errors. Moreover, we assessed during our audit the consequences from the initial application of IFRS 15. We have assessed the design of the processes set up to account for transactions compliant to IFRS 15. In addition we have tested in detail material transactions, as well as further transactions on a test basis, in light of contracts, identification of service obligations and have assessed whether those services have been rendered over a period or at a point of time and which fees have been collected.

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 service obligations 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) Accrued revenue" and „(12) Revenue" 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, 2018. We were engaged by the supervisory board on November 19, 2018. 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, February 27, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

Financial Statements

Balance Sheet INTERSHOP Communications Aktiengesellschaft

in EUR	December 31, 2018	December 31, 2017
ASSETS		
Fixed Assets		
Intangible assets		
Internally developed software	4,998,398	3,725,640
Purchased software licenses	29,263	14,754
Property and equipment		
Other facilities, furniture, and equipment	616,509	603,795
Financial Assets		
Investments in affiliated companies	9,173,962	9,173,962
	14,818,132	**13,518,151**
Current Assets		
Inventories		
Work in process	0	1,262,267
Payments on account	13,485	0
	13,485	1,262,267
Receivables and other assets		
Accounts receivable	2,733,664	3,556,220
Receivables from affiliated companies	2,778,804	3,158,296
Other assets	260,927	126,981
	5,773,395	6,841,497
Cash-in-hand, bank balances	4,914,655	6,555,667
	10,701,535	**14,659,431**
Prepaid expenses	**692,198**	**428,076**
TOTAL ASSETS	**26,211,865**	**28,605,658**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' Equity		
Common stock	34,851,831	31,683,484
Capital reserves	8,559,657	6,595,281
Accumulated deficit	(25,494,788)	(21,235,233)
	17,916,700	**17,043,532**
Accrued Liabilities		
Provisions for taxes	0	227,373
Other accrued liabilities	2,114,580	2,009,518
	2,114,580	**2,236,891**
Liabilities		
Bank loans	3,049,998	2,800,000
Advance payments received	0	2,616,746
Accounts payable	511,064	685,598
Liabilities to affiliated companies	1,030,600	1,141,712
Other liabilities	365,076	947,110
thereof from taxes: EUR 230,963 (prior year: EUR 630,340)		
thereof from social security benefits: EUR 35,479 (prior year EUR 27,614)		
	4,956,738	**8,191,166**
Deferred income	**1,223,847**	**1,134,069**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**26,211,865**	**28,605,658**

Statement of Operations of INTERSHOP Communications Aktiengesellschaft

	January 1 to December 31,	
in EUR	**2018**	**2017**
Revenues	27,142,256	27,236,764
Decrease or increase in inventories of work in progress	(1,262,267)	427,154
Other own work capitalized	2,116,668	2,044,489
Other operating income	407,762	802,194
Cost of Materials		
Cost of purchased merchandise	(137,361)	(88,115)
Cost of purchased services	(3,133,562)	(2,436,489)
Personnel Costs		
Salaries	(15,793,191)	(15,530,480)
Social security contribution	(2,589,753)	(2,569,968)
Depreciation and amortization		
of intangible fixed assets and property and equipment	(1,566,343)	(992,879)
Other operating expenses	(9,476,176)	(9,102,949)
Other interest and similar income	167,083	160,054
thereof from affiliated companies EUR 160,853 (prior year: EUR 158,815)		
Interest and similar expenses	(126,730)	(288,872)
Taxes on income	(7,941)	(247,475)
Net loss after tax/Net loss for the year	**(4,259,555)**	**(586,572)**
Accumulated deficit carried forward	(21,235,233)	(20,648,661)
Accumulated Deficit	**(25,494,788)**	**(21,235,233)**

Notes to the Financial Statements INTERSHOP Communications Aktiengesellschaft

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 2018 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 (Potential Shippable Increment) and the definition of the EPICs (Features). 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 800 (until December 31, 2017: 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.

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

Cash is measured at its nominal value.

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.

Cash, 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, 2018	4,612	1,885	3,884	41,504	51,885
Additions	2,522	31	315	0	2,868
Disposals	0	(12)	(229)	0	(241)
Balance at December 31, 2018	7,134	1,904	3,970	41,504	54,512
Depreciation, write-downs, and impairment losses					
Balance at January 1, 2018	886	1,870	3,281	32,330	38,367
Additions	1,250	17	300	0	1,567
Disposals	0	(12)	(228)	0	(240)
Balance at December 31, 2018	2,136	1,875	3,353	32,330	39,694
Net carrying amount at December 31, 2017	3,726	15	603	9,174	13,518
Net carrying amount at December 31, 2018	**4,998**	**29**	**617**	**9,174**	**14,818**

The addition to internally generated software results from the first-time capitalization of software development costs. Overall, development costs of EUR 7,185 thousand were incurred in the 2018 fiscal year. The capitalization of the software development costs led to a restricted amount of EUR 4,998 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.

Receivables from affiliated companies amount to EUR 1,800 thousand (previous year: EUR 1,900 thousand) from Group financing; including receivables of EUR 600 thousand due within 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 34,851,831 consists of 34,851,831 no-par value bearer shares.

During the 2018 fiscal year, the capital reserve changed as follows (in EUR thousand):

Balance at December 31, 2017	6,595
Premium from the cash capital increase	1,965
Balance at December 31, 2018	**8,560**

The accumulated deficit contains a loss carryforward from previous years in the amount of EUR 21,235 thousand.

Other provisions mainly relate to variable remuneration components (EUR 358 thousand, previous year: EUR 654 thousand), severance payments (EUR 408 thousand, previous year: EUR 0 thousand), outstanding invoices (EUR 494 thousand, previous year: EUR 483 thousand) and provisions for holiday entitlements (EUR 292 thousand, previous year: EUR 262 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 Dec. 31, 2018**	**Total Dec. 31, 2017**
Bank loans	1,500	1,550	3,050	2,800
Advance payments received	-	-	0	2,617
Accounts payable	511	-	511	685
Liabilities to affiliated companies	1,031	-	1,031	1,142
Other liabilities	365	-	365	947
	3,407	**1,550**	**4,957**	**8,191**

In the prior year, the bank loans amounted to EUR 1,800 thousand with a remaining term of more than one year.

Of the Liabilities to banks, EUR 1,800 thousand, 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. 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	2018	2017
Germany	15,790	16,049
Rest of Europe	10,692	10,002
Rest of the world excluding Europe	660	1,186
	27,142	**27,237**

Revenues from software and cloud sales and from service sales are EUR 12,202 thousand (previous year: EUR 11,733 thousand) and EUR 14,940 thousand (previous year: EUR 15,504 thousand) respectively.

Other operating income includes income from currency translation of EUR 11 thousand (prior year: EUR 24 thousand). Of the other operating income, EUR 153 thousand is related to previous periods. They are mainly the result of the reversal of provisions.

Other operating expenses include depreciation and amortization of receivables from affiliated companies of EUR 63 thousand, as in the previous year, as well as expenses from currency translation of EUR 16 thousand (previous year: EUR 88 thousand).

Other Disclosures

Authorized capital

As at December 31, 2018, the Company had a total of EUR 12,667,635 in authorized capital (December 31, 2017: EUR 6,336,000). According to the INTERSHOP Communications AG's Articles of Association, the Management Board is authorized, subject to approval by the Supervisory Board, to increase the capital stock by issuing new common shares as follows:

- Up to a total of EUR 3,167,653 by issuing up to 3,167,653 new bearer shares against cash contributions and/or contributions in kind (Authorized Capital I/2016). The Management Board's authorization is valid 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. Due to a cash capital increase, the Authorized Capital I decreased by EUR 3,168,347.
- Up to a total of EUR 9,500,000 by issuing up to 9,500,000 new bearer shares against cash contributions and/or contributions in kind (Authorized Capital II/2018). The Management Board's authorization is valid until June 8, 2023. 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.

Voting rights notifications

In the 2018 financial year, the Company was given the following information about the shares in accordance with Sec. 33 (1) German Securities Trading Act (*Wertpapierhandelsgesetz; WpHG*), which it announced according to Sec. 40 (1) WpHG: On May 15, 2018 Shareholder Value Management AG and Shareholder Value Beteiligungen AG held 27.80% of the voting rights in the Company, as shown in the voting rights notifications publicly disclosed on May 23, 2018. The voting rights notification publicly disclosed on October 9, 2017 stated that AXXION S.A. held 9.20% of the voting rights in the Company on October 1, 2017.

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

Other financial obligations of EUR 16,729 thousand (prior year: EUR 15,669 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. End of 2020, 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 EUR thousand	due 2019	due 2020 to 2023	due after 2023	Total Dec. 31,2018	Total Dec. 31,2017
Rental agreements*	2,208	5,721	8,569	16,498	15,380
Leases	142	90	0	232	289
Total	**2,350**	**5,811**	**8,569**	**16,730**	**15,669**

*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 285 employees (salaried employees only) during fiscal year 2018 (prior year: 282 employees).

Executive bodies of the Company

The Supervisory Board comprised the following members in fiscal year 2018:

Christian Oecking
Chairman of the Supervisory Board since 06/02/2016
Senior Advisor
Other supervisory board mandates:
Sepicon AG, Düsseldorf (Vice Chairman until 12/18/2018)
Hexaware Technologies, India

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

Markus Klahn
(since 04/09/2018)
COO
Responsibilities: Professional Services, since 08/16/2018 additionally Sales and Marketing
Member of the Management Board since 04/09/2018

Axel Köhler
(until 08/16/2018)
Dipl.- Ingenieur
Chief Sales Officer, COO until 04/09/2018
Responsibilities: Sales and Marketing, as well as professional services until 04/09/2018.
Member of the Management Board from 09/01/2015 to 08/16/2018

Compensation of the members of the Management Board and the Supervisory Board

Total remuneration paid to the Management Board for its activities in the 2018 financial year amounted to EUR 598 thousand (2017: EUR 736 thousand), of which EUR 561 thousand (2017: EUR 496 thousand) relate to fixed remuneration and EUR 37 thousand (2017: EUR 240 thousand) to variable components. For the 2018 financial year, members of the Supervisory Board were entitled to a total remuneration of EUR 152 thousand (2017: EUR 200 thousand), which consists entirely of fixed remuneration (2017: EUR 140 thousand fixed remuneration and EUR 60 thousand variable compensation). 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, 2018, 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, 2018:

	Interest in %	**Equity*** in EUR thousand	**Annual result**** in EUR thousand
Intershop Communications, Inc., San Francisco, USA	100	(916)	120
Intershop Communications Australia Pty Ltd, Melbourne, Australia	100	1,038	153
Intershop Communications Asia Limited, Hong Kong, China	100	62	28
Intershop Communications SARL, Paris, France	100	322	7
Intershop Communications LTD, Romsey, United Kingdom	100	(187)	(18)
The Bakery GmbH, Berlin, Germany	100	(3,988)	(46)
Intershop Communications Ventures GmbH, Jena, Germany	100	(1,363)	(18)

* Equity as of December 31, 2018 is translated at the exchange rate as of the reporting date

** Net income/loss for fiscal year 2018 is translated at the average annual rate

The expenses for auditors' fees are stated in the Company's consolidated financial statements and mainly include audit services with support services for a DPR audit.

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 13, 2018 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

The Management Board of INTERSHOP Communications AG, with the consent of the Supervisory Board, resolved on January 9, 2019 to increase the capital, making partial use of the Authorized Capital II with subscription rights for shareholders at a ratio of 8:1 at a subscription price of EUR 1.14. The capital increase with subscription rights was successful and a total of 4,356,478 new shares were allocated. Around 3.1 million of these shares resulted from existing shareholders exercising their subscription rights. This equates to a subscription rate of 72%. Existing stockholders also acquired the remaining shares as part of excess subscription. The capital increase became effective upon registration in the Register of Companies (*Handelsregister*) at the Jena Local Court (*Amtsgericht*) on February 14, 2019. Thus, the Company's share capital was increased from EUR 34,851,831 to EUR 39,208,309 by issuing 4,356,478 new shares against cash contribution. Intershop generated gross issue proceeds of EUR 4.97 million.

On February 15, 2019 Shareholder Value Management AG and Shareholder Value Beteiligungen AG publicly disclosed their decision to make a joint voluntary takeover bid for their shares to the remaining INTERSHOP Communications AG shareholders. The Management Board has taken note of the bid decision and welcomes the confidence expressed by the bidders in the strategic course of the cloud transformation and their commitment to remain loyal to Intershop. In accordance with the provisions of the German Securities Acquisition and Takeover Act (*Wertpapierübernahmegesetz; WpÜG*), the Management Board and Supervisory Board will thoroughly review the bidding document and comment on its contents after it has been publicly disclosed as permitted by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin*).

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 25,494,788 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 27, 2019

The Management Board of INTERSHOP Communications AG

DR. JOCHEN WIECHEN MARKUS KLAHN

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, 2018, and the statement of profit and loss for the financial year from January 1 to December 31, 2018, 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, 2018. 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, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018 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, 2018. 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 4,998 thousand (representing 19% of total assets and 28% 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 27,142 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 and running of systems for online-commerce as standardized service (CaaS), the provision of installation services and advice, maintenance and operation of online shops on behalf of customers in return for a sales- or transaction-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 revenue from the provision and running of systems for online-commerce as standardized service and proceeds from the temporary granting of licenses is recognized over the performance period. These various services of the company 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 In the context of our audit 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, 2018. We were engaged by the supervisory board on November 19, 2018. 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, February 27, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

Report of the Supervisory Board

Report of the Supervisory Board

Dear stockholders,

For Intershop, 2018 was a year of transition towards the cloud business, which initially led to lower sales and negative earning effects as a result of the associated shift in revenue. The considerable increase in incoming cloud orders and the growth of cloud sales at the end of the year allow us to start the 2019 financial year with optimism.

In the 2018 fiscal year, the Supervisory Board properly performed its assigned tasks as per the applicable laws, the Articles of Association, as well as the by-laws. We consistently monitored and supported the management of the business by the Management Board and were involved in all corporate decisions of fundamental significance. The Management Board provided the Supervisory Board with information regarding business development, significant business transactions, as well as the most recent sales and earnings of the Company on a regular basis and in a timely and comprehensive manner, both verbally and in writing.

Supervisory Board meetings and content

In 2018, the Supervisory Board met in ten meetings and five telephone conferences. All Supervisory Board members participated in all of the meetings, only Univ. Prof. Dr. Louis Velthuis was unable to attend one meeting. The Management Board attended the meetings on a regular basis. Furthermore, the Supervisory Board attended a strategy workshop on the cloud topic. The Supervisory Board discussed all topics relevant to Intershop, with the focus of the meetings being on the current sales and earnings position, the financial situation of the Company, and the strategic development towards the cloud business.

In the meeting on March 19/20, 2018, the Supervisory Board discussed and approved the 2017 annual and consolidated financial statements in the presence of the auditors. The Management Board presented the planned sales goals and distribution and marketing activities for the 2018 financial year as well as the product and service portfolio with regard to the cloud business. The Management Board also presented the Supervisory Board with the sales and results forecast for the first quarter of 2018 and the cash development for the first half of the year. The agenda for the 2018 annual general meeting was also resolved in the meeting. During the telephone conference on February 12, 2018, the Management Board informed the Supervisory Board of the preliminary results for the 2017 financial year and the preview for the first quarter of 2018. The Supervisory Board also approved the report on corporate governance.

In the meeting on April 30, 2018, the Management Board presented the current sales pipeline and lead generation process and provided information on the expected earnings performance for the second quarter. The Management Board and the Supervisory Board also discussed in-depth the transition to the cloud business. Another focus of the meeting was the preparation for the Annual General Meeting by showing the presentation for the Annual General Meeting of the Management Board.

The focus of the Supervisory Board meeting on June 13, 2018 was the sales pipeline and the service areas. The Management Board gave the Supervisory Board an overview of potential license and cloud orders and explained possible measures for better customer orientation, particularly for the CaaS offering. The Management Board also presented the planned reorganization of the service areas adjusted based on the cloud transition process. The Management Board and the Supervisory Board also discussed the forecast for the second quarter and the expected economic development for the 2018 financial year. Other topics of this meeting included the risk report for the first quarter and the status of the relocation project to the new corporate headquarters.

The main topics of the meetings on August 16 and September 19, 2018 were the economic development in the second half of the year as well as the sales pipeline. The Management Board presented the sales, result and cash forecast for the Intershop Group for the second half of the year, risks and rewards relating to the sales pipeline, as well as measures for the distribution organization with regard to the "cloud first" strategy. In the August meeting, the Supervisory Board resolved to approve the early resignation of Management Board member Axel Köhler as well as the associated settlement agreement.

The focus of the meetings on October 19 and November 19, 2018 were the 2019 budget with medium-term planning as well as the forecast for the fourth quarter of 2018 and the 2018 financial year. The Management Board presented the objectives for 2019, detailed planning for 2019, and medium-term planning. These were discussed in depth with the Supervisory Board. The Supervisory Board then approved the budget for 2019. The Management Board reported in detail on the forecast for the fourth quarter with risks and rewards relating to the sales pipeline as well as the sales and profit forecast for 2018. Other topics included the status of the partnership with Microsoft and an upcoming analyst conference.

In the meeting on December 13, 2018, the Management Board reported on the forecast for the fourth quarter as well as the status of the marketing and sales activities, and presented the sales pipeline for the first quarter of 2019. Furthermore, the status of the Microsoft partnership was presented and the objectives for the variable remuneration for the Management Board in 2019/2020 was discussed. The Supervisory Board also approved the 2018 letter of compliance.

At the other meetings or telephone conferences (May 7, May 8, July 18, July 26, July 31, and December 31 2018), resolutions on increasing the capital and amending the Articles of Association were passed and topics relating to the result and cash development as well as Management Board personnel matters were discussed.

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 2018 fiscal year.

The new Declaration of Conformity with the German Corporate Governance Code was issued by the Management Board and Supervisory Board in December 13, 2018. 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 2018 fiscal year elected at the Annual Stockholder's Meeting held on May 9, 2018 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 15, 2019. The annual financial statements of INTERSHOP Communications AG were thus adopted. Since the Company did not generate retained earnings during the 2018 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

Two changes were made to the Company's Management Board during the reporting period. On April 9, 2018, Markus Klahn was appointed as an additional member of the Management Board. This addition to the Management Board with responsibility for the service business reflects the growing significance of the cloud business and is expected to further accelerate the Company's transition process. Markus Klahn is an experienced sales expert and market observer, particularly with regard to the market positioning of software solutions.

Effective August 16, 2018, Axel Köhler resigned as a member of the Management Board and Chief Sales Officer (CSO) with the approval of the Supervisory Board. Axel Köhler was also responsible for sales and marketing. The Supervisory Board would like to thank Mr. Köhler for his services and contribution to the Company's transition to the cloud business. His tasks are now assumed by Markus Klahn. There were no personnel changes in the Supervisory Board during the 2018 financial year.

The Supervisory Board would like to thank the Management Board and all the employees of the Intershop Group for their commitment and exceptional performance during the 2018 financial year, and would also like to thank the stockholders for their confidence.

Jena, March 2019

On behalf of the Supervisory Board

CHRISTIAN OECKING

Chairman of the Supervisory Board

Corporate Governance Report

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 2018; 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 13, 2018:

Since the declaration of conformity dated December 18, 2017 to the time of this declaration INTERSHOP Communications AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code in the version dated 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 figure of women on the Management Board and the Supervisory Board at 0% by June 30, 2021, which was achieved for the 2018 reporting year. 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.

The target figure 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 was limited until June 30, 2021 at 26.92% by the resolution of June 21, 2017. The target figure of 26.92% was defined according to the existing percentage of women as of June 2017. Since it would be inappropriate to consider and set target figures separately for each executive tier below the Management Board, the Management Board decided to specify just one target figure for this executive tier. The actual rate at the end of 2018 of 18.52% for INTERSHOP Communications AG and 18.75% in the Intershop Group was below the defined target figure. The reason for this was that positions occupied by female executives were filled by male executives after they left the company. Despite the company management's best efforts, the positions could not be filled by women.

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 1, 2019

INTERSHOP Communications AG

For the Management Board

DR. JOCHEN WIECHEN

MARKUS KLAHN

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/Geregelter Markt
Sector	Software
Membership of Deutsche Börse indices	CDAX, Prime All Share, Technology All Share

Intershop Shares

Key figures for Intershop shares		**2018**	**2017**
Closing price*	in EUR	1.35	1.78
Number of shares outstanding (end of period)	in million shares	34.85	31.68
Market capitalization	in EUR million	47.05	56.40
Earnings per share	in EUR	(0.20)	(0.02)
Cashflow per share	in EUR	(0.12)	0.05
Carrying amount per share	in EUR	0.39	0.48
Average trading volume per day**	Number	34,442	53,028
Free float	in %	62	66

* Basis: Xetra

** Basis: all stock exchanges

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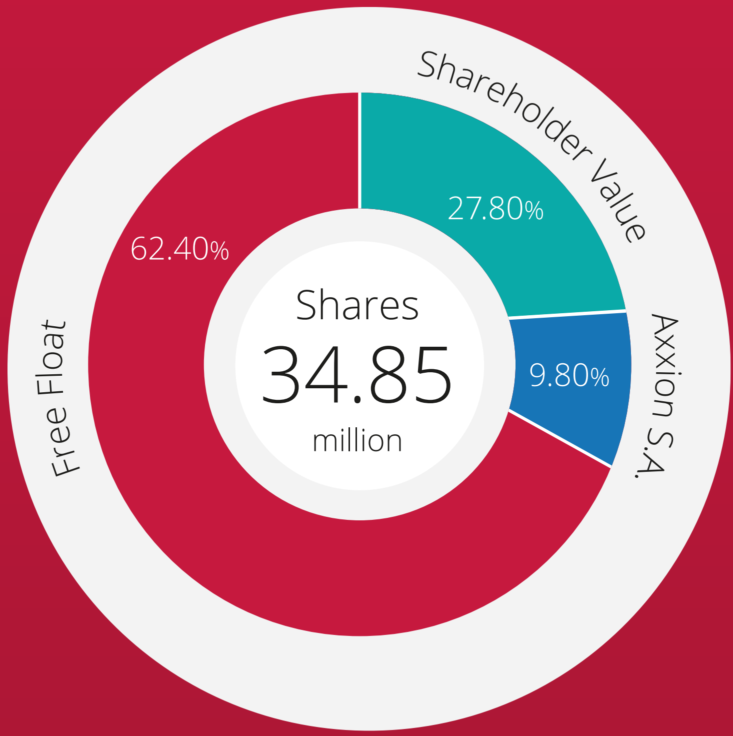
Shareholder Structure and Share Price



as of December 2018

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Financial Calender 2019

Date	Event
February 20, 2019	Release of (preliminary) Q4 and FY financials 2018
April 30, 2019	Release of Q1 financials 2019
Mai 29, 2019	Ordinary Annual Stockholders´ Meeting 2019
Juli 25, 2019	Release of Q2 and 6-month financials 2019
Oktober 30, 2019	Release of Q3 and 9-month financials 2019

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

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