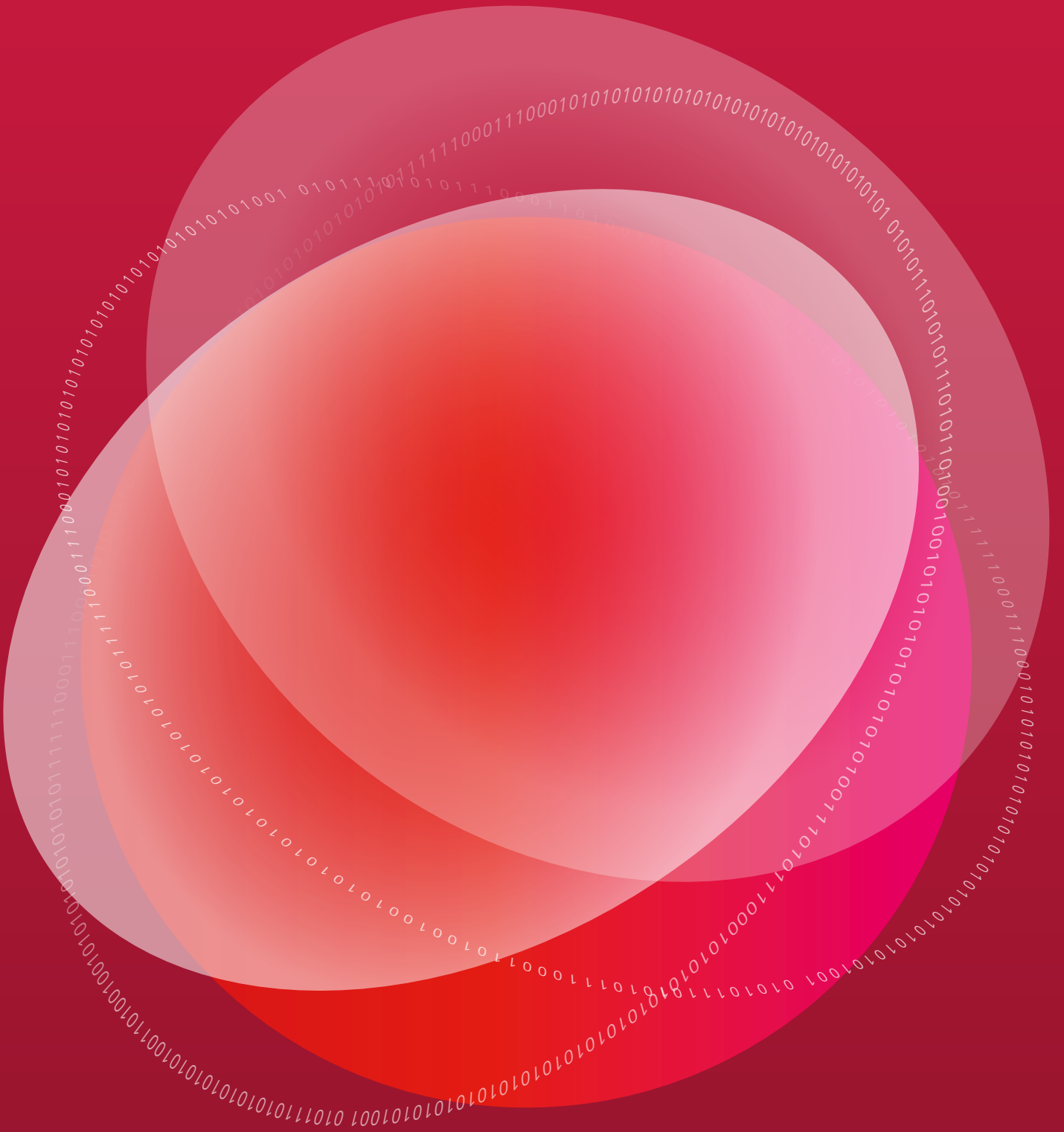


Annual Report  
**2019**



intershop®



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Revenue  
31.6  
EUR million  
(in 2019)

Cloud  
order entry  
13.1  
EUR million  
(in 2019)

Equity ratio  
57%  
(as of 12/31/2019)

Balance Sheet total  
27.6  
EUR million  
(as of 12/31/2019)

Cash and Cash  
Equivalents  
7.7  
EUR million  
(as of 12/31/2019)

EBIT  
(6.5)  
EUR million  
(in 2019)

Employees  
314  
(as of 12/31/2019)

## Overview

in EUR thousand	2019*	2018	Change
<b>Revenues</b>			
Revenues	31,620	31,199	1%
Software and Cloud Revenues	17,072	15,967	7%
Services Revenues	14,548	15,232	-4%
Revenues Europe	20,741	22,883	-9%
Revenues USA	6,248	3,822	63%
Revenues Asia/Pacific	4,631	4,494	3%
Cloud order entry	13,137	7,227	82%
<b>Earnings</b>			
Cost of revenues	20,556	19,278	7%
Gross profit	11,064	11,921	-7%
Gross margin	35%	38%	
Operating expenses, operating income	17,533	17,836	-2%
Research and development	4,557	4,663	-2%
Sales and marketing	8,760	9,627	-9%
General and administrative	3,373	3,526	-4%
Other operating income	(269)	(205)	31%
Other operating expenses	1,112	225	++
thereof restructuring costs	825	0	
EBIT	(6,469)	(5,915)	-9%
EBIT before restructuring costs	(5,644)	(5,915)	5%
EBIT margin	-20%	-19%	
EBIT margin before restructuring costs	-18%	-19%	
EBITDA	(2,323)	(3,704)	37%
EBITDA margin	-7%	-12%	
Net result	(6,774)	(6,742)	0%
Earnings per share (EUR)	(0,17)	(0,20)	15%
<b>Net Assets</b>			
Shareholders' equity	15,731	13,646	15%
Equity ratio	57%	60%	
Balance sheet total	27,626	22,657	22%
Noncurrent assets	13,007	10,350	26%
Current assets	14,619	12,307	19%
Noncurrent liabilities	516	1,693	-70%
Current liabilities	11,379	7,318	55%
<b>Financial Position</b>			
Cash and cash equivalents	7,731	7,224	7%
Net cash operating activities	(1,815)	(4,142)	56%
Depreciation and amortization	4,146	2,211	88%
Net cash used in investing activities	(3,354)	(2,867)	-17%
Net cash provided by financing activities	5,520	5,351	3%
<b>Employees</b>			
	314	339	-7%

\* taking into account the new accounting standard IFRS 16

# Key Figures for the Group

# Letter from the Management

Dear stockholders and business partners,

After about two years, the transformation of our business model is virtually complete. Transitioning from a license to a cloud business is a feat that we faced willingly to make Intershop sustainable in the future. We had planned considerably more for the past business year than we accomplished, but the implementation process proved more time-consuming than expected. Successful transactions with our cloud product portfolio were offset by some setbacks in the acquisition of new customers. Therefore, we were forced to revise our ambitious operating targets for 2019 and 2020 this past October.

Nonetheless, the progress made is clearly a step in the right direction; now more than ever, we are convinced that our „Lighthouse Strategy“ developed together with the Supervisory Board, focusing on Cloud First and Focus on B2B Customers, was the right strategy to pursue; it is merely the implementation that is slightly less dynamic than planned originally. Regardless, we have already made great achievements, acquiring 23 new customers, increasing the incoming orders in the cloud business by 82% to EUR 13.1 million and annually recurring cloud revenues by 32% to EUR 6.8 million, as well as increasing the percentage share of the cloud business in the total revenue from 17% to 20%. Furthermore, we were able to achieve slight growth in the consolidated revenue. This makes us optimistic, and it is our goal to once again generate a positive operating result and slightly increasing revenue by way of the restructuring for 2020 that was initiated in the fall.

Our main focus continues to be the consistent expansion of the cloud business and in particular the B2B sector. This is also reflected in the market expectations of the analysts. Forrester Research anticipates for the U.S. B2B commerce market alone annual growth of 10% to then USD 1.8 trillion over the next four years. The German market is smaller, however, according to the market researchers at IFH Cologne, it is growing even faster at 15% annually. The numbers are examples of the fact that Intershop operates in a global growing market driven by digitization. Technologically, we are already on par with the large IT companies with our B2B solution. With our transition towards a cloud provider and a streamlined cost structure, we have now laid the foundation for a full-force offense this year and for a sustainable efficient growth based on recurring revenues.

We thank you for your trust.

Best regards,



Dr. Jochen Wiechen



Markus Klahn



Dr. Jochen Wiechen / CEO



Markus Klahn / COO

# Management Board

2019

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# Management Report





# Consolidated Management Report and Group Management Report

## The Intershop Group

### Group structure and business activities

The Intershop Group<sup>1</sup> is a globally oriented provider of integrated Enterprise solutions for omni-channel commerce. At the center of its service range is the Intershop Commerce software, which was brought to the market in 1996 as the world's first standard software for electronic commerce. Intershop's business model includes the orchestration of the entire omni-channel commerce process chain from the design of the online channels to implementation of the software platform and coordination of delivery of goods, i.e., fulfillment. Intershop's business activities are divided into the two main business segments „Software and Cloud“ and „Service“. The license revenues and the associated maintenance revenues, and the cloud and subscription revenues are included in „Software and Cloud“ revenues. Over 300 customers worldwide put their trust in Intershop when it comes to their digital sales and distribution to business and end customers. 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 2019 fiscal year, revenue with European customers totaled around 65% 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, 2019, 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, Frankfurt am Main, Boeblingen and Ilmenau. Moreover, the Company has sales representations in the Netherlands and Denmark.

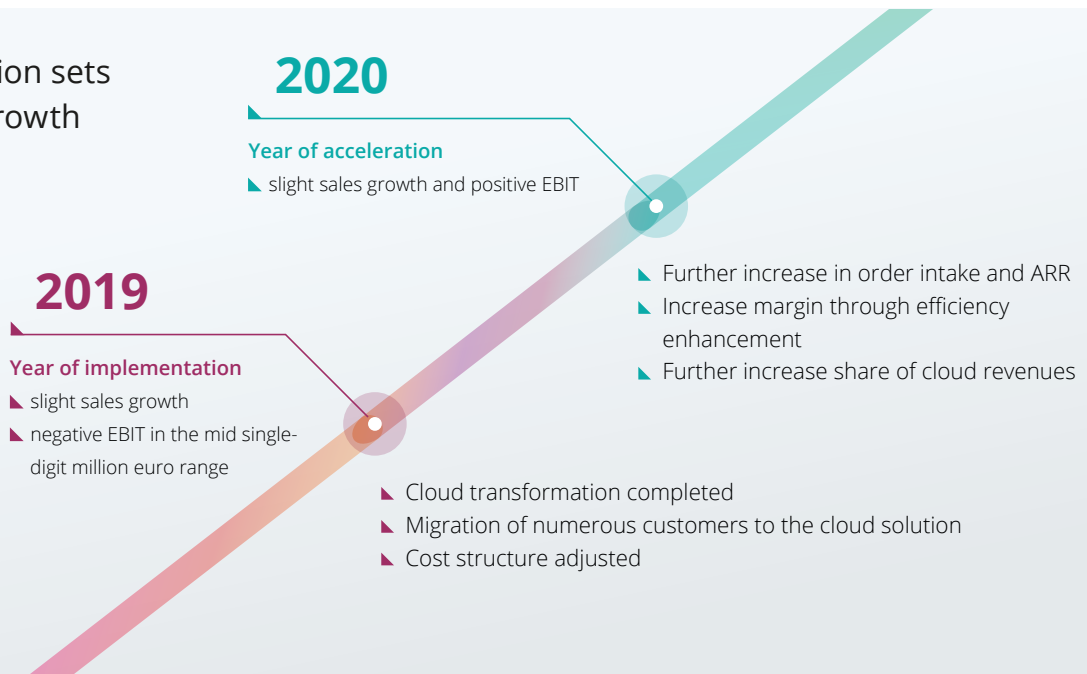
<sup>1</sup> „Intershop“, the „Company“



## Strategic orientation and business objectives

The Intershop strategy continues to focus on the consistent expansion of the cloud business and the B2B market. With this strategic course, Intershop considers itself in an optimum position to exhaust the growth potentials in the future global market of omni-channel solution providers. Intershop's medium-term goal is to become well-established as the leading provider of a digital B2B commerce platform for SMEs and, at the same time, generate sustainable efficient growth. In the prior year, Intershop completed its transition to a cloud provider. A large number of customers are now using the Intershop cloud solution. In the coming year, the Company is primarily focusing on further increasing the number of cloud orders while operating as cost-efficiently as possible. Intershop plans to generate a positive result once again in 2020 at a slight growth rate in total revenues.

### Cloud transformation sets path for positive growth



### Expanding the cloud business in partnership with Microsoft

Since 2018, Intershop has been pursuing a "Cloud First" strategy defining the focus of the activities and whose key focus is the cloud approach, both for investments in research and development and in marketing and sales. The decision to switch from a license to a cloud provider 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.



The expansion of the cloud business is closely linked to the strategic partnership with Microsoft started in 2016, which has been intensified gradually over the past three years. Intershop is supported by a team at the corporate headquarters in Redmond, and the commerce solution has 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. The global partnership enables Intershop to approach new customers and market segments and to advise companies on their digital transformation far more comprehensively than before and assist them in digitizing or reforming their sales.

### **Focusing on the B2B market**

Over the past years, Intershop has established itself as one of the leading technological omnichannel solution providers. 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**

Intershop's sales activities focus on the developed e-Commerce markets in Europe, North America and in the Asia Pacific region, 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. Intershop will focus its distribution efforts on the expansion of the partnership business in the DACH segment in 2020. In general, the mission is to fully focus on the cloud activities also in the partner network. 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. Many existing Commerce-as-a-Service customers were successfully migrated to the latest version of Intershop's Commerce Solution 7.10 in the past fiscal year. The development team consistently worked on the next platform release which is to be launched in 2020. Another important aspect of the development activities in the reporting period was the further development of the Intershop Progressive Web App (PWA). PWA means a website which combines the benefits of a web application with those of a mobile application. This includes, for example, the local storage of data and automated updating. Intershop's PWA offers a rapid modern web interface as well as customized front-end functionalities. In order to consistently drive the enhancement, Intershop's PWA was released as an open-source project for community development after multiple optimization measures in November 2019.

R&D expenditures (expenses and investments) in the 2019 fiscal year amounted to EUR 7.0 million, a decline of around 2% compared to the prior year. R&D expenses also fell by 2% to EUR 4.6 million (2018: EUR 4.7 million), taking into account the capitalization of software development costs. This accounts for 14% of the sales (2018: 15%).



## The 2019 fiscal year

### Overall Economy and Industry

The global economic growth in 2019, according to the International Monetary Fund (IMF) at 2.9% was less than the growth in the previous years. The emerging and developing countries continue to experience the largest growth rates and increased their economic output in the previous year by a total of 3.7%. The economy in the industrialized countries grew by 1.7%, while the U.S. economy grew by 2.3% in 2019. In Europe, the economy grew by 1.2%. Germany experienced economic growth of 0.5%, according to the IMF.

The dynamic growth in online trade continued in the reporting period. According to estimates of the market research company eMarketer, the global B2C e-Commerce sales grew in 2019 by an estimated 20.7% to a market volume of USD 3.5 trillion. 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 72.6 billion (11.6%). What is significantly larger than the B2C market is the B2B e-Commerce market. According to a study published by the Institute for Trade Research Cologne (IFH Köln) in May 2019, the online B2B trade volume in Germany alone has increased every year since 2012 by approx. 15%. As for the U.S. B2B e-Commerce market, Forrester estimates an average annual growth rate of 10% during 2019 and 2023 to a market volume of USD 1.8 trillion.

The increasing digitalization in various business segments and sectors as well as the growing demand for cloud-based enterprise applications continue to provide strong momentum. According to estimates by the IT analyst company Gartner, expenses in the enterprise software market grew by 8.5% in 2019. The growth in the IT services segment of 3.6% is also mainly due to the cloud transition, as the Company is focusing more on cloud services instead of its own IT structures. In Germany, according to Bitkom, the software sector is also the largest growth driver. In the prior year, the German market grew in this sector by 6.3%.

### Business performance during the 2019 fiscal year

The development of the Intershop Group during the reporting period was marked by the strategic transition from the license to the cloud business. In this regard, major progress has been made. Nonetheless, the cloud business results were not as high as originally expected.

#### Cloud transition completed – growth slower than expected

Intershop's complete Commerce-as-a-Service solution (CaaS) offers a comprehensive and efficient standard cloud solution. In 2019, incoming cloud orders increased by 82% to EUR 13.1 million (prior year: EUR 7.2 million). The share of cloud revenue amounted to 20% in the reporting period (prior year: 17%). The new annually recurring revenues (new ARR) based on the incoming cloud orders increased to EUR 2.6 million (prior year: EUR 1.7 million).



Intershop acquired 23 new customers (prior year: 15 new customers). Overall, however, the earnings were significantly lower than the Company's ambitious plans. The original budgets included incoming orders of EUR 22 million, new ARR of EUR 6 million, and 50 new customers. Intershop revised its operating cloud targets for the first half of 2019 and expected incoming cloud orders of EUR 17 million, a new ARR of EUR 5 million, as well as 40 new customers. In its interim report for the first nine months of 2019, Intershop decreased the expected incoming cloud orders to EUR 13 million, the new ARR to EUR 2.5 million, and the number of new customers to 25. The reasons for the delays in the cloud conversion during the 2019 fiscal year are setbacks in the competition for new customers as well as other capacities tied up to meet the obligations to existing license customers with updates and patches and to support them in system adjustments. At the same time, existing cloud customers continue to be served, which temporarily results in additional expenses until Intershop has achieved the desired level of automation for all its customers. The lack of momentum resulted in Intershop having to revise its sales and earnings targets for 2019 on October 15, 2019.

On October 28, 2019, the Management Board and the Supervisory Board of INTERSHOP Communications AG resolved to implement a program to restructure the Company which comprises (i) various cost reduction measures; (ii) the proposal of a simplified decrease in capital at an extraordinary Stockholders' Meeting; and (iii) the planning of financial measures for 2020. The program serves the purpose of completing the transition to a cloud provider and forms the basis for the future business. The costs arising from the implementation of the program totaled EUR 0.8 million. At the same time, Intershop expects to cut costs by about EUR 4 million annually. On December 20, 2019, the extraordinary Stockholders' Meeting passed a resolution on the simplified decrease in capital at a ratio of 3:1 to compensate losses and other impairment losses. The capital decrease became legally effective upon its entry in the commercial register on February 4, 2020. The technical implementation of the combination of shares occurred on February 14, 2020. The restructuring program also includes measures regarding operating excellence such as the identification of weaknesses in the distribution activities and the improvement of lead generation by initiating corresponding operating measures.

## Earnings, financial and asset position

### Actual development of key financial figures compared to the original forecast

The business development in 2019 was not satisfactory due to the fact that Intershop was not able to meet its targets. Intershop reported by ad hoc announcement on October 15, 2019 that the Group will not reach its annual forecast for 2019 or 2020, respectively. Although revenue increased and earnings improved during the first three quarters of 2019, there is not enough momentum, especially for incoming cloud orders, to reach the projected sales targets for 2019 and 2020. Based on these estimations, Intershop revised its forecast and expected a slight revenue growth for the whole of 2019 compared to the prior year (previous sales increase of more than 10%) and a negative operating result (EBIT) in the mid-single-digit million euro range (previously slightly negative EBIT). Given an increase in the total revenues by 1% to EUR 31.6 million and an EBIT of EUR -6.5 million, the actual development was within these revised projections. The development of the profit situation is discussed in detail in the sections below.

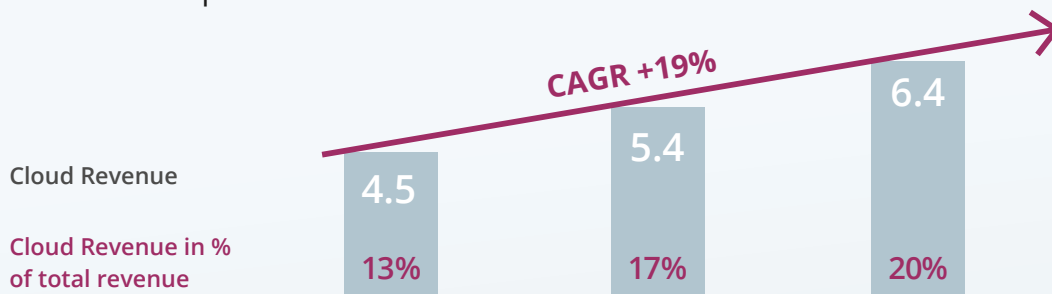


### Revenue Development

Intershop generated revenues of EUR 31.6 million in the 2019 fiscal year, a 1% increase compared to the prior year's revenue of EUR 31.2 million. Thus, the shifts in revenues resulting from the transition to the cloud have already been compensated in part. Throughout the year, the revenues could be increase from one quarter to the next. Hence, the revenues in the fourth quarter of 2019 exceeded those of the same quarter in the prior year and the first quarter of 2019 by 13%. This consistent increase is mainly based on the positive development of the cloud revenues within the software and cloud segment.

During the reporting period, cloud and subscription revenues rose by 18% to EUR 6.4 million (2018: EUR 5.4 million). The incoming orders in the cloud segment rose by 82% to EUR 13.1 million (2018: EUR 7.2 million); of this amount, EUR 11.6 million are attributable to new customers and EUR 1.5 million to existing customers. The cloud ARR (annually recurring revenue) increased by 32% to EUR 6.8 million at the end of December 2019 (December 31, 2018: EUR 5.1 million). The new ARR (new annually recurring revenue) increased to EUR 2.6 million (2018: EUR 1.7 million). The net new ARR (new ARR less ARR for cancellations) totaled EUR 1.7 million (2018: EUR 1.4 million). Cloud revenues accounted for 20% of total sales and thus increased over the prior year (2018: 17%).

### Cloud business development



in EUR million	2017	2018	2019
Cloud order entry	2.1	7.2	13.1
New ARR	0.6	1.7	2.6
Net New ARR	0.7	1.4	1.7
ARR	3.7	5.1	6.8

### ARR development in 2019

in EUR million	
<b>ARR end of 2018</b>	<b>5.1</b>
New ARR new customers	1.9
New ARR existing customers	0.7
<b>New ARR total</b>	<b>2.6</b>
churn	(0.9)
<b>Net New ARR</b>	<b>1.7</b>
<b>ARR end of 2019</b>	<b>6.8</b>



License revenue increased by 8% to EUR 2.6 million (prior year: EUR 2.4 million). At EUR 8.1 million, the revenues resulting from maintenance remained at the prior year's level. The service revenues declined compared to the prior year to EUR 14.5 million, which is a decline of 4% (prior year: EUR 15.2 million). This is the result of smaller project business, while the 2018 revenues included a large project.

The following overview shows the development of revenues:

in EUR thousand	2019	2018	Change
<b>Software and Cloud Revenues</b>	<b>17,072</b>	<b>15,967</b>	<b>7%</b>
<b>Licenses and Maintenance</b>	<b>10,689</b>	<b>10,548</b>	<b>1%</b>
Licenses	2,638	2,434	8%
Maintenance	8,051	8,114	-1%
<b>Cloud and Subscription</b>	<b>6,383</b>	<b>5,419</b>	<b>18%</b>
<b>Service Revenue</b>	<b>14,548</b>	<b>15,232</b>	<b>-4%</b>
<b>Revenues total</b>	<b>31,620</b>	<b>31,199</b>	<b>1%</b>

The European market remains the most important business region with a share of 65% in the total revenue (2018: 73%). Sales in this region decreased by 9% to EUR 20.7 million (prior year: EUR 22.9 million), primarily as a result of declining service revenues (-22% to EUR 8.9 million). By contrast, cloud revenues increased by 12% to EUR 2.8 million. The revenues generated on the U.S. market experienced a positive trend and increased by 63% to EUR 6.2 million (prior year: EUR 3.8 million), in particular due to increasing service revenues (+97% to EUR 3.6 million EUR) and cloud revenues (+53% to EUR 1.8 million). The U.S. revenue share rose to 20% (2018: 12%). Growth was also experienced in the Asia Pacific region. Revenues increased by 3% to EUR 4.6 million (prior year: EUR 4.5 million). The revenue share was 15% as in the prior year.

Revenues of INTERSHOP Communications AG as a single entity reported under German commercial law decreased by 15% to EUR 23.0 million (2018: EUR 27.1 million). The decline is the result of the service revenues declining by 28% to EUR 10.7 million (2018: EUR 14.9 million). Software and cloud revenues amounted to EUR 12.3 million and thus basically remained at the prior year's level (2018: EUR 12.2 million).

### Earnings Development

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

in EUR thousand	2019	2018
Revenue	31,620	31,199
Costs	38,089	37,114
EBIT	(6,469)	(5,915)
EBIT-Margin	-20%	-19%
EBITDA	(2,323)	(3,704)
EBITDA-Margin	-7%	-12%
Earnings after tax	(6,774)	(6,742)





The 2019 fiscal year was marked by adverse result effects due to the slow growth momentum. In the 2019 reporting period, the Intershop Group reported overall gross profits of EUR 11.1 million, a decline of 7% compared to the prior-year figure of EUR 11.9 million. The gross margin decreased by 3 percentage points to 35%. Operating expenses decreased by 2% to EUR 17.5 million. Marketing and sales costs fell by 9% to EUR 8.8 million. Research and development costs decreased by 2% to EUR 4.6 million. Administrative expenses fell by 4% to EUR 3.4 million. Other operating costs increased from EUR 0.2 million to EUR 1.1 million due to the restructuring expenses in the amount of EUR 0.8 million incurred in 2019. The total costs (cost of sales and operating expenses/income) increased by 3% to EUR 38.1 million (2018: EUR 37.1 million).

Overall, the operating result (EBIT) for the past fiscal year amounted to EUR -6.5 million (prior year: EUR -5.9 million). The EBIT before restructuring costs totaled EUR -5.7 million. Depreciation increased from EUR 2.2 million to EUR 4.1 million. The increase is mainly due to the first-time application of IFRS 16 (EUR 1.7 million - please refer to the comments in the notes to the consolidated financial statements). The operating result before depreciation and amortization (EBITDA) amounted to EUR -2.3 million (2019, excl. IFRS 16: EUR -4.0 million; 2018: EUR -3.7 million). The financial result was EUR -0.2 million (prior year: EUR -0.1 million). Income tax amounted to EUR 0.1 million (2018: EUR 0.7 million). The result for the period after tax was EUR -6.8 million (2018: EUR -6.7 million), which corresponds to earnings per share of EUR -0.17 (2018: EUR -0.20).

INTERSHOP Communications AG as a single entity increased the net loss for the year under commercial law from EUR 4.3 million in the prior year to EUR 11.7 million. The main reasons were the decline in overall performance (revenues and inventory changes) as well as higher depreciation and amortization. Amortization increased from EUR 1.6 million to EUR 2.4 million, particularly due to higher amortization on internally generated software. The amortization of financial assets totaled EUR 4.0 million (prior year: EUR 0 million) and results from impairment losses on the carrying amount of the investment in the U.S. subsidiary. We refer to the comments in the notes to the financial statements of INTERSHOP Communications AG. Material expenses decreased from EUR 3.3 million in the prior year to EUR 2.4 million, mainly due to the decline in expenses for purchased services. Personnel costs decreased slightly by EUR 0.3 million to EUR 18.1 million. The other capitalized own work, which includes the capitalization of the software development costs, totaled EUR 2.1 million and thus remained at the prior year's level. Other operating expenses increased by 13% to EUR 10.7 million due to various one-time circumstances. Other operating income remained at the prior year's level at EUR 0.4 million. Other interest income of EUR 0.2 million resulted mainly from affiliated companies. Overall, the unappropriated retained losses increased to EUR 27.6 million after prior reversal of the capital reserve in full in the amount of EUR 9.6 million.

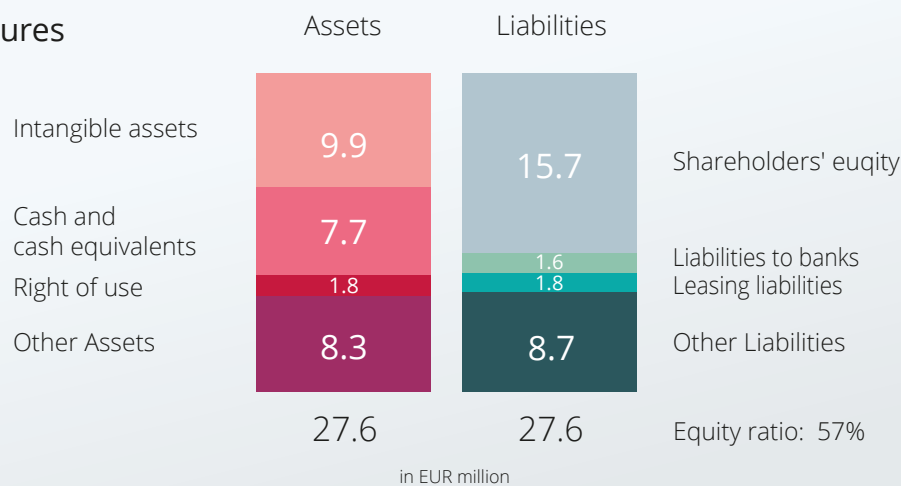
### **Presentation of the Net Assets and Financial Position**

As at December 31, 2019, the balance sheet total of the Intershop Group amounted to EUR 27.6 million (December 31, 2018: EUR 22.7 million). This represents an increase of 22% compared to the prior year's reporting date. On the asset side, non-current assets increased by 26% to EUR 13.0 million, in particular due to the addition of rights of use in accordance with IFRS 16 amounting to EUR 1.8 million. Current assets increased by 19% to EUR 14.6 million, mainly due to the increase in trade receivables (+39% to EUR 5.5 million) and in cash and cash equivalents (+7% to EUR 7.7 million).



On the liabilities side, equity increased by 15% to EUR 15.7 million compared to year-end 2019 (December 31, 2018: EUR 13.6 million). The reasons were two capital increases performed in the 2019 fiscal year (we refer to the comments in the notes to the consolidated financial statements). Non-current liabilities decreased by 73% to EUR 0.5 million, primarily due to scheduled loan repayments in the amount of EUR 1.3 million. Current liabilities rose by 56% to EUR 11.4 million. This is primarily the result of the first-time disclosure of lease liabilities pursuant to IFRS 16 in the amount of EUR 1.7 million due to higher deferred revenue as well as increased current liabilities. The equity ratio was 57% at the end of the year (December 31, 2019, excl. IFRS 16: 61%; December 31, 2018: 60%). Overall, Intershop continues to have a solid net assets and financial position.

**Group Balance key figures**  
December 31, 2019



Cash flow from operating activities improved in the reporting period to EUR -1.8 million after EUR -4.1 million in the same period of the prior year, which is primarily the result of higher liabilities and higher deferred revenue comprising prepayments made by customers. Adjusted by the IFRS 16 effects, the cash flow from operating activities amounts to EUR -3.5 million. The cash outflow for investing activities totaled EUR 3.4 million and thus exceeded previous year's cash flow of EUR 2.9 million due to the allocation of EUR 0.6 million to the cash and cash equivalents with a restriction on disposal, which is to be used as a rental deposit for the new offices to be set up at the company's headquarters. The payments for investments in intangible assets at EUR 2.5 million remained at previous year's level. The cash inflow from financing activities totaled approx. EUR 5.5 million in the 2019 fiscal year (prior year: cash inflow in the amount of EUR 5.4 million). The cash inflow is mainly attributable to the two cash capital increases. Cash was spent on the repayment of loans in the amount of approx. EUR 1.5 million and prepaid lease obligations pursuant to IFRS 16 in the amount of EUR 1.7 million. Adjusted by the IFRS 16 effect, the cash flow from financing activities increased to EUR 7.2 million. Overall, cash and cash equivalents increased in 2019 to EUR 7.7 million after EUR 7.2 million at the end of 2018.

The total assets of the single entity in the financial statements under German commercial law decreased by 6% from EUR 26.2 million to EUR 24.6 million. On the assets side, the non-current assets decreased from EUR 14.8 million to EUR 11.1 million. The change is primarily the result of a decrease in financial assets due to impairment losses on the carrying amount of the investment in the U.S. subsidiary.



Financial assets thus decreased from EUR 9.2 million to EUR 5.1 million. Internally generated software increased from EUR 5.0 million to EUR 5.4 million. Current assets increased by EUR 1.8 million to EUR 12.5 million. The increase is the result of the increase in unfinished services by EUR +0.3 million, the increase in trade receivables (EUR +0.7 million), and receivables from affiliated companies (EUR +0.2 million), as well as the increase in cash and cash equivalents. The cash and cash equivalents increased from EUR 4.9 million to EUR 5.6 million due to two capital increases. On the liabilities side, equity decreased by 16% to EUR 15.0 million. The subscribed capital increased from EUR 34.9 million to EUR 42.6 million as a result of two cash capital increases. This was offset by the reversal of the capital reserve in full for the purpose of (partial) compensation of the unappropriated retained losses. The capital reserve totaled EUR 8.6 million at the prior year's balance sheet date. The balance sheet loss totaled EUR 27.6 million as at December 31, 2019 (December 31, 2018: EUR 25.5 million). At the end of October, a provision recorded for the restructuring program in the amount of EUR 1 million and the result for the first nine months of 2019 as per the provisions of the German Commercial Code (HGB) resulted in a loss of half of the share capital of INTERSHOP Communications AG (single entity) within the meaning of Sec. 92 (1) AktG. The provisions increased from EUR 2.1 million to EUR 2.5 million. Liabilities decreased from EUR 5.0 million to EUR 4.6 million. Liabilities to banks decreased by 49% to EUR 1.5 million due to the scheduled repayment of the two loans. The deferred income increased from EUR 1.2 million to EUR 2.4 million, in particular due to higher prepayments made by customers for maintenance agreements.

## Employees

As of December 31, 2019, Intershop had a total of 314 employees worldwide (prior year: 339 employees). The following overview shows the development of employee figures during the fiscal year:

<b>Employees by department*</b>	<b>12/31/2019</b>	<b>12/31/2018</b>
Technical Departments (Service Functions and Research Development)	243	251
Sales and marketing	39	51
General administration	32	37
	<b>314</b>	<b>339</b>

\* based on full time staff, including students and trainees

At the balance sheet date, the number of employees in the European branch offices was 261 and thus accounted for 83% of the total work force (prior year: 291 employees and 86% in the total work force). The U.S. subsidiary with 19 employees accounted for around 6% of the work force (prior year: 18 employees and 5% of the total work force). The number of employees in the Asia Pacific region increased from 30 to 34; the percentage share thus increased to 11% (prior year: 9%). AG as a single entity had 281 employees at the balance sheet date (December 31, 2018: 288 employees).

## Management Board and Supervisory Board

No personnel-related changes occurred in the committees of INTERSHOP Communications AG during the 2019 fiscal year.



## 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 2019 fiscal year amounted to EUR 485 thousand (2018: EUR 598 thousand), of which EUR 485 thousand (2018: EUR 561 thousand) relate to fixed compensation and EUR 0 thousand (2018: EUR 37 thousand) to variable components. The fixed remuneration components include EUR 460 thousand for the fixed salary component and EUR 25 thousand for additional benefits (2018: EUR 525 thousand for fixed salary and EUR 36 thousand for additional benefits).

The remuneration of the Management Board members is as follows:

in EUR thousand	Fixed Remuneration		Variable Remuneration		Total Remuneration	
	2019	2018	2019	2018	2019	2018
Dr. Jochen Wiechen	265	266	0	0	265	266
Markus Klahn (since 04/09/2018)	220	160	0	37	220	197
Axel Köhler (until 08/16/2018)	-	135	-	0	-	135
	<b>485</b>	<b>561</b>	<b>0</b>	<b>37</b>	<b>485</b>	<b>598</b>

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



No loans or similar benefits were granted to members of the Management Board. No member of the Management Board received any benefits from third parties during the fiscal year that were promised or granted because of his position as a member of the Management Board.

## Remuneration of the Supervisory Board

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

For the 2019 financial year, members of the Supervisory Board were entitled to a total remuneration of EUR 154 thousand (2018: EUR 152 thousand), which consists entirely of fixed compensation. There was no entitlement to variable compensation for 2018 and 2019. The fixed remuneration consists of EUR 50 thousand (2018: EUR 50 thousand) in fixed remuneration and EUR 104 thousand (2018: EUR 102 thousand) for meetings.

The remuneration of the Supervisory Board members is as follows:

in TEUR	Fixed Remuneration		Variable Remuneration		Total Remuneration	
	2019	2018	2019	2018	2019	2018
Christian Oecking	77	77	0	0	77	77
Ulrich Prädell	38.5	39	0	0	38.5	39
Univ.-Prof. Dr. Louis Velthuis	38.5	36	0	0	38.5	36
	<b>154</b>	<b>152</b>	<b>0</b>	<b>0</b>	<b>154</b>	<b>152</b>



## 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 goodwill. 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. 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.

The popularity of the brand is a paramount factor for the distribution of the Intershop products. There is a risk that a decline in brand popularity results in potential customers not being aware of Intershop as a solution partner and the acquisition of new partners and employees is made more difficult. If the Company is not able to increase the visibility of the Intershop brand, in particular given the negative trends in the results over the last two years, this might result in a decline in revenues and adverse effects on public perception. Intershop regards this risk as high. This risk is mitigated by way of various measures to increase brand popularity, which is an integral part of the marketing strategy. For example, the Company intends to expand the online marketing measures or establish and strengthen the employer branding.

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 minor. 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 minor 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 insignificant but its occurrence is likely. It is monitored by detailed process documentation and specifications, insurance policies as well as limitation of liability.

## 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 minor 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, and, if necessary and useful, employees in the development segment provide support. Furthermore, projects and customer satisfaction are monitored on an ongoing basis. The risk occurring is considered possible.

At the balance sheet date, Intershop has a good liquidity position, with liquidity of EUR 7.7 million. Two bank loans totaling EUR 1.55 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 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 improved 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 42,582,492, composed of 42,582,492 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.

At the balance sheet date, Shareholder Value Beteiligungen AG holds 18.39% and Shareholder Value Management AG 15.44% in the Company's capital stock. In total, both companies together hold 33.83% of the voting rights (balanced voting rights behavior) in accordance with Sec. 33 et seq. WpHG.

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

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

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



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

On February 5, 2020, 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 2019 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 86.26% of the votes present at the Annual Stockholders' Meeting on May 29, 2019 and 66.23% at the extraordinary Stockholders' Meeting on December 20, 2019, and thus held a majority of the votes. 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 latest forecast of the IMF in January 2020, the global economy is expected to experience stronger growth of 3.3% again this year. In the emerging and developing countries, the increase in economic output will therefore amount to 4.4%. An increase of 1.6% is expected in the industrialized countries; an increase of 1.3% is expected throughout the Eurozone and growth of 1.1% is forecast for the German economy.

The e-Commerce market will continue to grow significantly in the years to come. In the B2C segment, eMarketer estimates growth to be about 19%. For 2020, the German E-Commerce and Distance Selling Trade Association expects a further increase in online sales by about 10%. The digital transformation of the economy poses major challenges for the B2B commerce as well.



The 2019 Intershop E-Commerce Report confirms just how significant the impact of distribution and service digitization of B2B companies is. Almost 8 out of 10 respondents believe that organizations will disappear within the next five years if they do not digitalize.

In the global IT markets, the U.S. analyst company Gartner expects an additional considerable increase in investments by 10.5% in the enterprise software market in 2020. The key driver of the software market is the introduction of software-as-a-service (SaaS) solutions. The global market for IT services will also benefit from high investment growth (+5.0%). The current Bitkom market forecast for the German market expects growth of 6.4% for 2020 in the software segment and 2.4% in the market for IT services.

## Company outlook

The underlying conditions in the B2C and B2B e-Commerce markets continue to be positive, and more and more companies of all sizes are using cloud solutions instead of their own IT infrastructures and resources. The transition process from a license provider to a provider of Commerce-as-a-Service solutions via the cloud, which was initiated in 2018, is based on this trend and forms the basis for the future development of the Company.

Major progress was made in the fiscal year and the transition was completed. However, since the ambitious growth targets were not realized to the intended extent, Intershop initiated a restructuring program in fall of 2019. The objective of the program is to accelerate the growth of the cloud solution business and once again experience efficient growth as early as in the 2020 fiscal year. The key elements are an adjustment of the cost structure of the cloud business model and measures for optimized operations. For this purpose, weaknesses in sales and distribution have been identified and corresponding operating measures have been initiated. The goal is more efficient lead generation, consistent focus on the B2B segment, and stronger involvement of distribution partners. Furthermore, on December 20, 2019, the extraordinary Stockholders' Meeting passed a resolution on the simplified decrease in capital which was implemented in early 2020. Further financing of Intershop is to be primarily sourced from operating business activities. At the same time, the Company has various options both in respect of debt and equity.

The main focus in 2020 will be the consistent expansion of the cloud business while achieving cost efficiency to the largest extent possible. According to the budgets, the incoming cloud orders are to be increased to EUR 14 million, and net new ARR of EUR 4.3 million are to be generated. Overall, Intershop expects a significant increase in cloud and subscription sales in the 2020 fiscal year. However, in the maintenance and licenses segment, a slight decline in the revenues is budgeted as a result of the transition in the business model. In the service segment, the expansion of the cloud customer basis is expected to result in a slight increase in revenues. In this regard, growth will be expected in all three target regions (Europe, United States, and Asia Pacific).



## Statement on business developments for 2020

Based on the assumptions for the respective business segments, Intershop expects a slight increase in Group sales for the 2020 fiscal year. With a slight improvement in the gross profit and gross margin, a slightly positive operating result (EBIT) is projected.

Jena, February 25, 2020

The Management Board of INTERSHOP Communications Aktiengesellschaft

Dr. Jochen Wiechen

Markus Klahn

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# Consolidated Financial Statements



# Consolidated Financial Statements

## Consolidated Balance Sheet

in EUR thousand	Note No.	December 31, 2019*	December 31, 2018
<b>ASSETS</b>			
<b>Noncurrent assets</b>			
Intangible assets	(1)	9,908	9,599
Property, plant and equipment	(2)	608	658
Rights of use IFRS 16	(3)	1,763	0
Other noncurrent assets	(5)	17	26
Restricted cash	(6)	635	0
Deferred tax assets	(21)	76	67
		<b>13,007</b>	<b>10,350</b>
<b>Current assets</b>			
Trade receivables	(4)	5,528	3,977
Other receivables and other assets	(5)	1,360	1,106
Cash and cash equivalents	(6)	7,731	7,224
		<b>14,619</b>	<b>12,307</b>
<b>TOTAL ASSETS</b>		<b>27,626</b>	<b>22,657</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Subscribed capital	(7)	42,582	34,852
Capital reserve	(7.1)	1,082	9,738
Other reserves	(7.2)	(27,933)	(30,944)
		<b>15,731</b>	<b>13,646</b>
<b>Noncurrent liabilities</b>			
Liabilities to banks	(9)	250	1,547
Leasing liabilities IFRS 16	(3)	207	0
Deferred revenue	(11)	0	146
		<b>457</b>	<b>1,693</b>
<b>Current liabilities</b>			
Other current provisions	(12)	428	261
Liabilities to banks	(9)	1,301	1,500
Trade accounts payable	(8)	1,656	1,525
Income tax liabilities	(21)	62	27
Leasing liabilities IFRS 16	(3)	1,583	0
Other current liabilities	(10)	3,089	2,268
Deferred revenue	(11)	3,319	1,737
		<b>11,438</b>	<b>7,318</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>27,626</b>	<b>22,657</b>

\* taking into account the new accounting standard IFRS 16



## Consolidated Statement of Comprehensive Income

in EUR thousand	Note No.	January 1 to December 31,	
		2019*	2018
<b>Revenues</b>	(13)		
Software and Cloud Revenues		17,072	15,967
Service Revenues		14,548	15,232
		<b>31,620</b>	<b>31,199</b>
<b>Cost of revenues</b>	(14)		
Cost of revenues - Software and Cloud		(7,557)	(6,874)
Cost of revenues - Services		(12,999)	(12,404)
		<b>(20,556)</b>	<b>(19,278)</b>
<b>Gross profit</b>		<b>11,064</b>	<b>11,921</b>
<b>Operating expenses, operating income</b>			
Research and development	(15)	(4,557)	(4,663)
Sales and marketing	(16)	(8,760)	(9,627)
General and administrative	(17)	(3,373)	(3,526)
Other operating income	(18)	269	205
Other operating expenses	(19)	(1,112)	(225)
		<b>(17,533)</b>	<b>(17,836)</b>
<b>Result from operating activities</b>		<b>(6,469)</b>	<b>(5,915)</b>
Interest income	(20)	15	12
Interest expense	(20)	(176)	(158)
<b>Financial result</b>		<b>(161)</b>	<b>(146)</b>
<b>Earnings before tax</b>		<b>(6,630)</b>	<b>(6,061)</b>
Income taxes	(21)	(144)	(681)
<b>Earnings after tax</b>		<b>(6,774)</b>	<b>(6,742)</b>
Other comprehensive income			
Exchange differences on translating foreign operations		142	-42
<b>Other comprehensive income from exchange differences</b>		<b>142</b>	<b>-42</b>
<b>Total comprehensive income</b>		<b>(6,632)</b>	<b>(6,784)</b>
Earnings per share (EUR, basic,diluted)	(22)	(0.17)	(0.20)

\* taking into account the new accounting standard IFRS 16



## Consolidated Statement of Cash Flows

in EUR thousand	Note No.	January 1 to December 31, 2019*	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Earnings before tax		(6,630)	(6,061)
<i>Adjustments to reconcile net profit/loss to cash used in operating activities</i>			
Financial result		161	146
Depreciation and amortization		4,146	2,211
Other noncash expenses and income		113	0
<i>Changes in operating assets and liabilities</i>			
Accounts receivable		(1,633)	1,220
Other assets		(243)	(417)
Liabilities and provisions		1,060	(649)
Deferred revenue		1,414	(4)
<b>Net cash provided by (used in) operating activities before income tax and interest</b>		<b>(1,612)</b>	<b>(3,554)</b>
Interest received		15	12
Interest paid		(103)	(286)
Income taxes received		0	3
Income taxes paid		(115)	(317)
<b>Net cash provided by (used in) operating activities</b>		<b>(1,815)</b>	<b>(4,142)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Restricted cash		(635)	0
Payments for investments in intangible assets		(2,478)	(2,520)
Proceeds on disposal of equipment		2	3
Purchases of property and equipment		(243)	(350)
<b>Net cash provided by (used in) investing activities</b>		<b>(3,354)</b>	<b>(2,867)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash received from loan		0	1,500
Repayments of loans		(1,500)	(1,250)
Cash received for unregistered stock		8,813	5,133
Expenses of cash received for unregistered stock		(97)	(32)
Payments for leasing liabilities		(1,696)	0
<b>Net cash provided by (used in) financing activities</b>		<b>5,520</b>	<b>5,351</b>
Effect of change in exchange rates on cash		156	(67)
<b>Net change in cash and cash equivalents</b>		<b>507</b>	<b>(1,725)</b>
Cash and cash equivalents, beginning of period	(6)	7,224	8,949
<b>Cash and cash equivalents, end of period</b>		<b>7,731</b>	<b>7,224</b>

\* taking into account the new accounting standard IFRS 16



## Consolidated Statement of Shareholders' Equity

in EUR thousand	Common shares (Number shares)	Subscribed capital	Capital reserve	Other reserves			Total share- holders' equity
				Conversion reserve	Cumulative profit/loss	Cumulative currency differences	
<b>Balance January 1, 2019</b>	<b>34,851,831</b>	<b>34,851</b>	<b>9,738</b>	<b>(93)</b>	<b>(32,827)</b>	<b>1,977</b>	<b>13,646</b>
Total comprehensive income					(6,774)	142	(6,632)
Issue of new shares	7,730,661	7,731	986				8,717
Reclassification			(9,642)		9,642		0
<b>Balance December 31, 2019</b>	<b>42,582,492</b>	<b>42,582</b>	<b>1,082</b>	<b>(93)</b>	<b>(29,959)</b>	<b>2,119</b>	<b>15,731</b>
<b>Balance January 1, 2018</b>	<b>31,683,484</b>	<b>31,683</b>	<b>7,806</b>	<b>(93)</b>	<b>(26,085)</b>	<b>2,019</b>	<b>15,330</b>
Total comprehensive income					(6,742)	(42)	(6,784)
Issue of new shares	3,168,347	3,168	1,932				5,100
<b>Balance December 31, 2018</b>	<b>34,851,831</b>	<b>34,851</b>	<b>9,738</b>	<b>(93)</b>	<b>(32,827)</b>	<b>1,977</b>	<b>13,646</b>

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# Notes to the Consolidated Financial Statements



# Notes to the Consolidated Financial Statements

## General Disclosures

### The Company

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

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

The Company has prepared its consolidated financial statements assuming the Company’s continued operations. As of December 31, 2019, the Company had cash and cash equivalents of EUR 7.7 million (December 31, 2018: EUR 7.2 million). The equity ratio as of the balance sheet date was 57% (previous year: 60%). The Company’s financial liabilities to banks totaled EUR 1.6 million on the balance sheet date (prior year: EUR 3.0 million). We refer to the statements in the Group Management Report.

### Accounting principles (compliance statement)

In fiscal year 2019, 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 315e(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code).

The consolidated financial statements of the Company for 2019 (January 1, 2019 to December 31, 2019) 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 2019 fiscal year was the first year in which the adoption of the following financial reporting standards and interpretations became mandatory:

- IFRS 16 “Leases”
- IFRIC 23 “Accounting tax risk positions”
- Improvements to IFRSs 2015-2017: Amendments of IFRS 3, IFRS 11, IAS 12, and IAS 23
- Amendments of IFRS 9 “Prepayment features with negative compensation”



In these consolidated financial statements, IFRS 16 is applied for the first time; thus, the Company had to change its accounting methods as a result of adopting IFRS 16. For the first-time application of IFRS 16, Intershop used the modified retrospective transition method; the Company was not required to reassess leases within the meaning of IFRS 16 that already existed before January 1, 2019. The impact of the first-time adoption of IFRS 16 is outlined in the section entitled "Changes in material accounting methods" in the chapter "Accounting policies".

IFRIC 23, the improvements to IFRSs 2015-2017, as well as the amendments of IFRS 9 have no significant 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:

<b>IFRS</b>	<b>Change</b>	<b>Amendment for fiscal year as of</b>
IFRS	Revision of the references to the framework concept in the IFRS standards	01/01/2020
IFRS 3	Amendments of IFRS 3 "Definition of a business"	01/01/2020
IAS 1 and IAS 8	Amendments of IAS 1 and IAS 8 - Definition of material	01/01/2020
IFRS 17	Insurance agreements	01/01/2021

The amended standards will have no material impact on the Company's consolidated financial statements.

Financial reporting for fiscal year 2019 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 cumulative historical cost or the lower market value as required.

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 25, 2020, 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. In fiscal year 2019, other provisions amounted to a total of EUR 428 thousand (previous year: EUR 261 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 2018 and 2019. Please refer to the chapter entitled „Accounting policies“ for information on estimating revenues. An estimate for the degree of completion of contracts for fixed-price projects is required when determining revenues for services.

## Basis of consolidation

As of December 31, 2019, 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, 2019:

	Interest in %	Equity* in EUR thousand	Annual result** in EUR thousand
Intershop Communications, Inc., San Francisco, USA	100	(714)	198
Intershop Communications Australia Pty Ltd., Melbourne, Australia	100	1,238	154
Intershop Communications Asia Limited, Hong Kong, China	100	152	88
Intershop Communications SARL, Paris, France	100	339	17
Intershop Communications LTD, Romsey, United Kingdom	100	(211)	(114)
The Bakery GmbH, Berlin, Germany	100	(4,037)	(48)
Intershop Communications Ventures GmbH, Jena, Germany	100	(1,381)	(18)

\* Equity as of December 31, 2019 is translated at the exchange rate as of the reporting date

\*\* Net income/loss for fiscal year 2019 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 comprise the financial statements of INTERSHOP Communications AG as the parent and those of all entities that it controls (German and foreign subsidiaries). INTERSHOP Communications AG controls the consolidated subsidiaries by holding the majority of the voting rights. Due to its control, INTERSHOP Communications AG has influence on the amount of the subsidiaries' yields and is subject to fluctuating yields from its investment. 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 -116 thousands (2018: EUR -79 thousands).

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

Country	Currency	Closing rate		Average rate for the year	
		Dec. 31, 2019	Dec. 31, 2018	2019	2018
United States	USD	1.12	1.15	1.12	1.18
Australia	AUD	1.56	1.62	1.61	1.58
Hong Kong	HKD	8.75	8.97	8.78	9.26
United Kingdom	GBP	0.85	0.89	0.88	0.89

## Accounting Policies

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

### Changes in material accounting methods

For the first-time application of IFRS 16, Intershop used the transition method, in which the Company was not required to reassess leases within the meaning of IFRS 16 that already existed before January 1, 2019 (modified retrospective method). The comparative figures of the prior-year periods were not adjusted. With the first-time application of IFRS 16, the Company recognized lease liabilities for leases previously classified as operating leases under IAS 17. Lease liabilities were assessed at the present value of the remaining lease payments discounted at the incremental borrowing rate. Lease payments include fixed payments or graduated rents. Up to now, Intershop only had operating leases, mainly for leased office space (particularly rental obligations for the building of the company headquarters in Jena) and leased vehicles. The average remaining lease term is 2 years, extension options have not been considered. The discounting of lease payments for leased office space resulted in a weighted average incremental borrowing rate of 2.85% and for leased vehicles of 2.45%. Intershop has made use of the exemptions for short-term leases (up to 12 months) and leases for low-value assets provided in the standard. Payments are recognized as an expense on a straight-line basis.



The following table shows the reconciliation to the lease liabilities in accordance with IFRS 16 as of January 1, 2019 (in EUR thousand):

<b>Obligations from operating leases as of December 31, 2018</b>	<b>4,510</b>
Short-term leases that are recognized as an expense on a straight-line basis	(270)
Leases of low-value assets that are recognized as an expense on a straight-line basis	(60)
Payments for non-leasing components	(982)
Adjustment due to different estimates of contract terms	315
Effect of discounting	(106)
Other	(37)
<b>Lease liabilities recognized on January 1, 2019</b>	<b>3,370</b>

The first-time application of IFRS 16 resulted in the following effects as of January 1, 2019: The capitalization of the rights of use increased fixed assets by EUR 3,370 thousand as of January 1, 2019 (thereof EUR 3,262 thousand for leased office space and EUR 108 thousand for leased vehicles) and in return liabilities due to the booking of lease liabilities by EUR 3,370 thousand (thereof for leased office space EUR 3,262 thousand and EUR 108 thousand for leased vehicles).

## Intangible assets

Purchased intangible assets, such as software and patents are 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. For this purpose, goodwill is allocated to cash-generating units generating benefits from the corresponding synergies. 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 2018 and 2019. 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 2018 and 2019. 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, 2019: EUR 4,473 thousand). For the goodwill the relevant cash-generating unit is the Europe segment. In a first step, the carrying amount of the cash-generating unit is compared with the recoverable amount of the Company at the balance sheet date. The recoverable amount in this context is defined as the minimum of the value in use and the stock price or the fair market value less selling costs, respectively. 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 2020 to 2023 and a „perpetual annuity“ (without growth rate) for the period after and including 2024 were identified. The calculations are based on the corporate planning for the period from 2020 to 2023 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 and the share of cloud sales of the total revenue will increase each year. An annual growth of the total revenue between 9% and 10% over the planning period is expected. In the budgeted period, the Group expects increasing gross margins and positive EBIT margins that will grow over time. 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 8.45% (WACC) (WACC before tax: 12.34%). No impairment losses on goodwill were reported in 2018 and 2019; 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

As described in the chapter entitled „Changes in material accounting methods,“ Intershop changed its accounting method for the recognition of leases. Up until then, pursuant to IAS 17, the Company recorded only those operating leases where the lease payments were expensed over the term of the lease using the straight-line method. According to IFRS 16, 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 such rate can be readily determined. Otherwise, the lessee shall use their incremental borrowing rate. Intershop is the lessee in leases of rented office space, vehicles, as well as office equipment and supplies such as copying machines. The Company applies the exemption rule to short-term leases with a term that does not exceed 12 months and to low-value leases; the Company expenses such items over the term of the item using the straight-line method.



## 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. 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.“ Intershop’s current financial assets measured at amortized cost 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, leasing liabilities 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. The trade receivables also include revenue from contracts as set forth in IFRS 15 resulting from fixed-price projects.

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 collection experience and current economic trends. If the historical data the Company uses to calculate the allowances recognized for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional allowances for doubtful accounts may be needed and the future results of operations could be materially affected.



## Cash and cash equivalents

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

## 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.

## Liabilities to banks

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

## Revenues

Intershop's revenues include revenues generated from the sale of software licenses and the corresponding maintenance services, as well as revenues from providing cloud services and rendering consulting services. Intershop records sales revenues at the date at which the obligation to perform has been fulfilled. This requires a valid agreement including identifiable service obligations and agreed-upon payment terms, as well as the likelihood that the agreed-upon consideration will be obtained. The revenues correspond to the transaction price to which Intershop is entitled as per the terms and conditions of the respective agreement. Revenues from variable components are only recorded if it is highly likely that they will not be reversed in the future. There are no significant uncertainties with regard to the revenues.



### Licenses and Maintenance Revenues

Revenues from licenses are recorded at the date at which the software is handed over to the customer and thus the customer has access to the software. The customer is granted a right of use in the software not limited in time. Fees for the software licenses are typically billed after the contract is executed and the software is handed over. On a case-by-case basis, payment plans are agreed upon with customers.

When selling software licenses, maintenance contracts are usually entered into for a period of at least one year. Revenues from maintenance are recognized ratably over the period in which the services are provided. The purchase price stipulated in the respective agreement is allocated to the individual service obligations based on their individual selling price. In general, invoices are issued on an annual basis. The prepayments constitute contractual obligations and are disclosed in deferred revenues. In principle, there is no obligation to accept returns and grant refunds or any warranties from maintenance agreements.

### 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 or annually in advance. Prepayments are disclosed under deferred revenue. Revenues are recognized on a prorated basis over the period of use and result in regularly recurring revenue. Transaction-based and revenue-based fees as well as set-up services are also generally agreed upon; the revenues are recognized when they are recorded (date-based). The purchase price stipulated in the respective agreement is allocated to the individual service obligations based on their individual selling price.

### Service Revenues

Intershop offers its customers various services in the course of implementation of the Intershop software. Daily rates and the schedule for these project services are contractually agreed with the customer. Intershop records the revenues from the rendering of the services over the period in which the services are rendered. Revenues and expenses from fixed-price agreements are recognized based on the percentage of completion. The determination of the amount of revenues to be recognized is partly based upon the use of estimates. The Company estimates 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. 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
<b>Costs of purchase</b>				
<b>Balance at January 1, 2018</b>	<b>1,885</b>	<b>24,497</b>	<b>24,097</b>	<b>50,479</b>
Additions	31	2,522	0	2,553
Disposals	(11)	(6,039)	0	(6,050)
Currency translation differences	0	0	0	0
<b>Balance at December 31, 2018</b>	<b>1,905</b>	<b>20,980</b>	<b>24,097</b>	<b>46,982</b>
Additions	57	2,452	0	2,509
Disposals	(2)	0	0	(2)
Currency translation differences	0	0	0	0
<b>Balance at December 31, 2019</b>	<b>1,960</b>	<b>23,432</b>	<b>24,097</b>	<b>49,489</b>
<b>Amortization, write-downs, and impairment losses</b>				
<b>Balance at January 1, 2018</b>	<b>1,870</b>	<b>20,052</b>	<b>19,624</b>	<b>41,546</b>
Additions	17	1,870	0	1,887
Disposals	(12)	(6,038)	0	(6,050)
Currency translation differences	0	0	0	0
<b>Balance at December 31, 2019</b>	<b>1,875</b>	<b>15,884</b>	<b>19,624</b>	<b>37,383</b>
Additions	44	2,156	0	2,200
Disposals	(2)	0	0	(2)
Currency translation differences	0	0	0	0
<b>Balance at December 31, 2019</b>	<b>1,917</b>	<b>18,040</b>	<b>19,624</b>	<b>39,581</b>
<b>Net carrying amount at December 31, 2018</b>	<b>30</b>	<b>5,096</b>	<b>4,473</b>	<b>9,599</b>
<b>Net carrying amount at December 31, 2019</b>	<b>43</b>	<b>5,392</b>	<b>4,473</b>	<b>9,908</b>

"Internally developed software" includes capitalized software development costs for continued development of Intershop's software. Of the amortization, write-downs and impairment losses on intangible assets recognized in the Statement of Comprehensive Income, EUR 2,168 thousand (2018: EUR 1,876 thousand) are included in the cost of revenues, EUR 6 thousand (2018: EUR 8 thousand) in research and development expenses as well as EUR 26 thousand (2018: EUR 3 thousand) in general and administrative costs. With the exception of goodwill there are no intangible assets with indefinite useful lives.



## (2) Property, plant, and equipment

in EUR thousand	Computer equipment	Office and operating equipment	Leasehold improve- ments	Total
<b>Costs of purchase</b>				
<b>Balance at January 1, 2018</b>	<b>2,724</b>	<b>1,094</b>	<b>281</b>	<b>4,099</b>
Additions	236	114	0	350
Disposals	(104)	(152)	0	(256)
Currency translation differences	(2)	(2)	(1)	(5)
<b>Balance at December 31, 2018</b>	<b>2,854</b>	<b>1,054</b>	<b>280</b>	<b>4,188</b>
Additions	186	64	0	250
Disposals	(198)	(123)	0	(321)
Currency translation differences	5	2	1	8
<b>Balance at December 31, 2019</b>	<b>2,847</b>	<b>997</b>	<b>281</b>	<b>4,125</b>
<b>Depreciation, write-downs, and impairment losses</b>				
<b>Balance at January 1, 2018</b>	<b>2,171</b>	<b>1,010</b>	<b>281</b>	<b>3,462</b>
Additions	229	95	0	324
Disposals	(101)	(151)	0	(252)
Currency translation differences	(1)	(2)	(1)	(4)
<b>Balance at December 31, 2018</b>	<b>2,298</b>	<b>952</b>	<b>280</b>	<b>3,530</b>
Additions	256	37	0	293
Disposals	(197)	(116)	0	(313)
Currency translation differences	4	2	1	7
<b>Balance at December 31, 2019</b>	<b>2,361</b>	<b>875</b>	<b>281</b>	<b>3,517</b>
<b>Net carrying amount at December 31, 2018</b>	<b>556</b>	<b>102</b>	<b>0</b>	<b>658</b>
<b>Net carrying amount at December 31, 2019</b>	<b>486</b>	<b>122</b>	<b>0</b>	<b>608</b>

Of depreciation, write-downs and impairment losses on property, plant and equipment recognized in the Statement of Comprehensive Income, EUR 88 thousand (2018: EUR 103 thousand) are included in the cost of revenues, EUR 72 thousand (2018: EUR 89 thousand) in research and development expenses, EUR 44 thousand (2018: EUR 58 thousand) in marketing and sales expenses as well as EUR 89 thousand (2018: EUR 74 thousand) in general and administrative expenses.



### (3) Leases

The items disclosed in the balance sheet relating to leases are as follows:

#### Rights of use

in EUR thousand	Office space	Vehicles	Total
<b>Balance at Jan. 1, 2019 (first-time adoption)*</b>	<b>3,262</b>	<b>108</b>	<b>3,370</b>
Additions	0	36	36
Disposals	0	0	0
Depreciation, write-downs, and impairment losses	(1,582)	(71)	(1,653)
Currency translation differences	10	0	10
<b>Balance at Dec. 31, 2019</b>	<b>1,690</b>	<b>73</b>	<b>1,763</b>

\* for details on the computation, please see the chapter entitled „Changes in material accounting methods“

#### Lease liabilities

in EUR thousand	2019
Non-current	207
Current	1,583
	<b>1,790</b>

The following amounts were recorded relating to leases through profit and loss:

in EUR thousand	2019
Depreciation on rights of use	1,653
Interest expenses from lease liabilities	70
Expenses for short-term leases	282
Expenses for leases for a low-value asset	39
Income from subleasing of rights of use	(399)
	<b>1,645</b>

The cash paid for leases totaled EUR 1,696 thousand in 2019; this amount includes interest in the amount of EUR 70 thousand.

In December 2020, the Company plans to move into new business premises at the headquarters in an office building that is currently being built. The new lease was concluded in August 2017 and 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.



#### (4) 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 5,528 thousand (2018: EUR 3,977 thousand) which fall due within one year (current assets). EUR 92 thousand (2018: EUR 0 thousand) of this amount relates to receivables from fixed-price projects (contract assets). Of the trade receivables, total receivables of EUR 3,568 thousand (2018: EUR 3,318 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, 2019	Dec. 31, 2018
Due within 30 days	1,579	1,148
Due within 31 and 60 days	1,333	1,743
Due within 61 days and 1 year	655	427
	<b>3,568</b>	<b>3,318</b>

As of December 31, 2019, trade receivables of EUR 1,960 thousand were past due but were not impaired (December 31, 2018: EUR 331 thousand). The following table shows the maturity structure of receivables that are past due but not impaired:

in EUR thousand	Dec. 31, 2019	Dec. 31, 2018
Up to 30 days past due	1,349	153
31 to 60 days past due	252	32
61 to 90 days past due	221	146
Over 90 days past due	138	0
	<b>1,960</b>	<b>331</b>

Itemized allowances are typically recorded after 90 days. No valuation adjustments were recorded for fixed-price projects. 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, 2019 were collected primarily in January 2020. Receivables overdue for more than 90 days in the amount of EUR 138 thousand were paid in January 2020.



As of December 31, 2019, impairment losses amounting to EUR 15 thousand (2018: EUR 15 thousand) have been recognized in operating result. Impairments changed as follows:

in EUR thousand	2019	2018
<b>Balance at beginning of year</b>	<b>15</b>	<b>5</b>
Impairment of receivables	51	15
Amounts derecognized due to uncollectibility	0	0
Amounts received during the fiscal year on receivables written off	(15)	(5)
Reversals of impairments	0	0
<b>Balance at end of year</b>	<b>51</b>	<b>15</b>

## (5) Other receivables and other assets

Other noncurrent assets in the amount of EUR 17 thousand (2018: EUR 26 thousand) comprise rental security deposits.

Other current receivables and current assets include the following items:

in EUR thousand	Dec. 31, 2019	Dec. 31, 2018
Prepayments	1,229	827
Other tax receivables from sales tax	30	183
Other	101	96
	<b>1,360</b>	<b>1,106</b>

## (6) Cash and cash equivalents

Cash and cash equivalents include current cash and cash equivalents (EUR 7,731 thousand) as well as non-current restricted cash (EUR 635 thousand). Cash and cash equivalents include balances at various credit institutions that are available at any time, as well as cash on hand and checks. The non-current restricted cash results from a rental deposit for the new office space at the Company's headquarters.



## (7) Equity

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

### Subscribed capital

As at December 31, 2019, the subscribed capital amounts to EUR 42,582,492 and is divided into 42,582,492 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, 2018, the subscribed capital amounted to EUR 34,851,831. The change of a total of EUR 7,730,661 is attributable to the issuance of new shares from the Authorized Capital in the course of two capital increases and are as follows:

in EUR	2019	2018
<b>Balance at January 1</b>	<b>34,851,831</b>	<b>31,683,484</b>
Capital increases from authorized capital	7,730,661	3,168,347
<b>Balance at December 31</b>	<b>42,582,492</b>	<b>34,851,831</b>

### Capital decrease

On October 28, 2019, the Management Board of INTERSHOP Communications AG announced the loss of half of the Company's share capital as required by Sec. 92(1) German Stock Corporation Act (*Aktiengesetz; AktG*) and convened an extraordinary Stockholders' Meeting. At the Stockholders' Meeting on December 20, 2019, it was resolved that losses and other impairment losses shall be compensated by way of a simplified capital decrease at a ratio of 3:1 to the amount of EUR 14,194,164, which did not become legally effective until registration in the commercial register in the new 2020 fiscal year on February 4, 2020. Technical implementation of the combination of shares occurred on February 14, 2020 after close of trading at the Frankfurt Stock Exchange.

### Authorized capital

As at December 31, 2019, the Company had Authorized Capital in the amount of EUR 8,625,817 (December 31, 2018: EUR 12,667,653) for the issuance of 8,625,817 new non-par bearer shares (December 31, 2018: 12,667,653 shares). 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 8,625,817 by issuing up to 8,625,817 new bearer shares against cash contributions and/or contributions in kind (Authorized Capital I/2019). The Management Board's authorization is valid until June 7, 2024. The Management Board is authorized, subject to approval of the Supervisory Board, to exclude the stockholders' subscription rights in certain cases.

The Annual Stockholders' Meeting on May 29, 2019 resolved to cancel Authorized Capital I/2016 in the amount of EUR 3,167,653 and Authorized Capital II/2018 in the amount of EUR 5,143,522 and to create a new Authorized Capital I/2019 in the amount of EUR 12,000,000. The new Approved Capital I/2019 was entered in the Commercial Register on June 7, 2019. The Authorized Capital I decreased to EUR 8,625,817 due to a cash capital increase in the amount of EUR 3,374,183 in July 2019.



### Conditional capital

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

### Capital increases in the 2019 fiscal year

During the 2019 fiscal year, the Company implemented two capital increase by utilizing the Authorized Capital. 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/2018 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. The capital increase became effective upon registration in the Register of Companies (*Handelsregister*) at the Jena Local Court (*Amtsgericht*) on February 14, 2019. At said date, the subscribed capital increased by EUR 4,356,478 to EUR 39,208,309. The issued shares include the same rights as the other issued shares. Intershop received cash and cash equivalents of EUR 4,966 thousand as a result of the capital increase. The transaction costs amounted to EUR 70 thousand. The Authorized Capital II/2018 decreased by EUR 4,356,478 from EUR 9,500,000 to EUR 5,143,522.

On June 25, 2019, the Management Board of the Company, with the consent of the Supervisory Board, resolved a cash capital increase utilizing authorized capital (Authorized Capital I/2019), excluding the subscription right of shareholders pursuant to Sec. 186(3) s. 4 German Stock Corporation Act (*Aktiengesetz; AktG*), by issuing 3,374,183 new no-par value bearer shares at a price close to the stock price. The issuance amount for the new shares amounted to EUR 1.14. The new shares were subscribed by three institutional investors, Shareholder Value Beteiligungen AG, Shareholder Value Management AG and AXXION S.A. on behalf of several fund clients. The capital increase was entered in the commercial register on July 5, 2019. The share capital increased from EUR 39,208,309 to EUR 42,582,492. The issued shares include the same rights as the other issued shares. The Company received cash and cash equivalents of EUR 3,847 thousand as a result of the capital increase. The transaction costs amounted to EUR 27 thousand.

### 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.

### (7.1) 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. As in the separate financial statements of INTERSHOP Communications AG, the capital reserve was liquidated in the amount of EUR 9,642 thousand to compensate the balance sheet loss. Please see Statement of Change in Equity for details.





## (7.2) 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.

## (8) Trade accounts payable

Trade accounts payable comprise unsettled liabilities relating to the delivery of goods and services and amounted to EUR 1,656 thousand (2018: EUR 1,525 thousand).

## (9) Liabilities to banks

Liabilities to banks are broken down as follows:

in EUR thousand	Dec. 31, 2019	Dec. 31, 2018
Liabilities to banks - noncurrent	250	1,547
Liabilities to banks - current	1,301	1,500
	<b>1,551</b>	<b>3,047</b>

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, and the approval of a distribution license for the Intershop software.



## (10) Other liabilities

Other liabilities consist only of current liabilities and comprise:

in EUR thousand	Dec. 31, 2019	Dec. 31, 2018
Liabilities to employees	1,031	906
Liabilities from outstanding vacation entitlement	645	620
Other VAT and wage tax liabilities	742	325
Liabilities from advance payments received	150	10
Liabilities to the Occupational Health and Safety Agency	105	106
Other liabilities relating to social security benefits	63	65
Miscellaneous other liabilities	353	236
	<b>3,089</b>	<b>2,268</b>

Liabilities to employees mainly include liabilities from commissions and performance-based remuneration and obligations under the restructuring program in 2019 (EUR 420 thousand).

The item „liabilities from prepayments“ are contractual obligations as defined in IFRS 15 comprising prepayments (EUR 116 thousand) and prepayments received for fixed-price projects (EUR 34 thousand). As at December 31, 2018, the amount of EUR 10 thousand included in this amount was recorded as revenues in the 2019 fiscal year (2018: EUR 229 thousand). As permitted under IFRS 15, no disclosures regarding remaining service obligations with an expected original term not to exceed one year are made. The other liabilities include refund obligations in the amount of EUR 107 thousand.

## (11) Deferred revenue

Deferred revenue relates to prepayments by customers, primarily in the form of revenue from maintenance agreements and are deemed contractual obligations as defined in IFRS 15. 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. The amount of EUR 1,737 thousand included in the current deferred revenue as at December 31, 2018 was recorded as revenues in the 2019 fiscal year (2018: EUR 1,670 thousand). As permitted under IFRS 15, no additional disclosures regarding remaining service obligations are made due to the fact that the disclosed service obligations are expected to be due originally within one year.



## (12) Other provisions

Other current provisions amounted to EUR 428 thousand (2018: EUR 261 thousand).

The following table shows the development of other current provisions:

in EUR thousand	<b>Guarantee</b>	<b>Other</b>	<b>Total</b>
<b>Balance at January 1, 2019</b>	<b>179</b>	<b>82</b>	<b>261</b>
Additions	144	284	428
Utilization	(179)	(82)	(261)
Reversal	0	(1)	(1)
Currency adjustments	1	0	1
<b>Balance at December 31, 2019</b>	<b>145</b>	<b>283</b>	<b>428</b>

The other accrued liabilities primarily relate to impending losses from projects.



## Notes to the Individual Items of the Statement of Comprehensive Income

### (13) 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 31,620 thousand (2018: EUR 31,199 thousand) are divided into software and cloud revenues and service revenues as follows:

in EUR thousand	2019	2018
Licenses	2,638	2,434
Maintenance	8,051	8,114
Cloud and Subscription	6,383	5,419
<b>Software and Cloud Revenues</b>	<b>17,072</b>	<b>15,967</b>
<b>Service Revenues</b>	<b>14,548</b>	<b>15,232</b>
<b>Total Revenues</b>	<b>31,620</b>	<b>31,199</b>

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.

### (14) 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	2019	2018
Licenses	2,175	2,010
Maintenance	1,485	1,473
Cloud and Subscription	3,897	3,391
<b>Cost of revenues - Software and Cloud</b>	<b>7,557</b>	<b>6,874</b>
<b>Cost of revenues - Services</b>	<b>12,999</b>	<b>12,404</b>
<b>Total cost of revenues</b>	<b>20,556</b>	<b>19,278</b>

The cost of revenues for licenses primarily include the amortization of software development costs.



## (15) 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 by 2% from EUR 4,663 thousand to EUR 4,557 thousand and account for 14% of the revenue (2018: 15%).

## (16) 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. Selling and marketing expenses decreased by 9% from EUR 9,627 thousand to EUR 8,760 thousand, primarily due to decreased personnel expenses. The share of sales and marketing expenses to total revenue was 28% (2018: 31%).

## (17) General and administrative expenses

General and administrative expenses mainly comprise personnel and non-personnel expenses as well as depreciation and amortization that relates to administration. They include the cost of investor relations activities and expenses relating to the Stockholders' Meeting, as well as all legal expenses. General administrative costs fell by 4% from EUR 3,526 thousand to EUR 3,373 thousand. As in the prior year, the share of general administrative costs in total revenues was 11%.

## (18) Other operating income

Other operating income is composed of the following items:

in EUR thousand	2019	2018
Income from currency translation gains	74	73
Gains from the disposal of fixed assets	3	3
Miscellaneous	192	129
	<b>269</b>	<b>205</b>

Income from currency gains of EUR 74 thousand is attributable to financial instruments.



## (19) Other operating expenses

Other operating expenses relate to the following items:

in EUR thousand	2019	2018
Restructuring costs	825	0
Currency translation losses	190	151
Expenses from defaults on receivables	67	0
Other taxes	1	1
Miscellaneous	29	73
	<b>1,112</b>	<b>225</b>

The restructuring costs primarily comprise personnel expenses. Expenses from currency translation losses of EUR 153 thousand were attributable to financial instruments.

## (20) Interest income and Interest expenses

Interest income of EUR 15 thousand (2018: EUR 12 thousand) consists primarily of interest on bank balances. Interest expenses amounted to EUR 176 thousand (2018: EUR 158 thousand), and are mainly the result of interest expenses for liabilities to banks for the 2019 fiscal year in the amount of EUR 106 thousand and interest expenses from leases in the amount of EUR 70 thousand.

## (21) Income taxes

Income tax liabilities on the balance sheet date amounted to EUR 62 thousand (2018: EUR 27 thousand) and foreign income taxes for the year 2019.

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, 2019 was based on a corporate income tax rate of 15% (2018: 15%) plus the solidarity surcharge of 5.5% (2018: 5.5%) and an effective expected trade tax rate of 15.691% (2018: 15.691%).

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

in EUR thousand	2019	2018
<b>Current taxes</b>		
Abroad	147	107
Germany	2	8
<b>Deferred taxes</b>		
Abroad	(5)	(10)
Germany	0	576
	<b>144</b>	<b>681</b>



The Group tax rate of 31.517% applicable in fiscal year 2019 (2018: 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	2019	2018
IFRS pretax income	(6,630)	(6,061)
Corporate tax rate	31.517%	31.517%
Expected tax expense/ tax income	(2,089)	(1,910)
Effects of changes in tax rates and different rates of foreign taxation	49	23
Effects of non-recognition of deferred taxes or utilization of tax losses	2,197	2,513
Permanent effects, tax refunds	70	70
Taxes of prior years	(83)	(15)
<b>Income taxes</b>	<b>144</b>	<b>681</b>

The components of the deferred tax assets were as follows:

in EUR thousand	2019	2018
Taxes on eligible loss carryforwards	1,559	1,583
Inventories	103	0
Provisions/Liabilities	176	91
Leasing liabilities	482	0
<b>Deferred tax assets</b>	<b>2,396</b>	<b>1,674</b>
Offset	(2,320)	(1,607)
<b>Deferred tax assets after offset</b>	<b>76</b>	<b>67</b>
Intangible assets	1,699	1,606
Receivables	92	0
Liabilities	54	1
Right of use IFRS 16	475	0
<b>Deferred tax liabilities</b>	<b>2,320</b>	<b>1,607</b>
Offset	(2,320)	(1,607)
<b>Deferred tax liabilities after offset</b>	<b>0</b>	<b>0</b>
<b>Net deferred tax assets</b>	<b>76</b>	<b>67</b>



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, 2019, 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, 2019, the Company had net loss carryforwards for tax reporting purposes in various tax jurisdictions as follows:

in EUR thousand	2019	2018
U.S. Federal	66,271	103,185
U.S. State	38,097	36,759
German corporate income tax	308,598	301,393
German municipal trade tax	298,178	286,199
Other	148	116

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 the expiration of U.S. federal taxes in 2019, currency translation, and ongoing use. Deferred taxes on foreign loss carryforwards were not recognized. With regard to the remaining German loss carryforwards, no deferred tax assets were recorded for income tax purposes in the amount of EUR 303,588 thousand (2018: EUR 296,261 thousand) and for trade taxes in the amount of EUR 293,296 thousand (2018: EUR 281,284 thousand).

## (22) Earnings per share

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

in EUR thousand	2019	2018
Basis for calculating basic and diluted earnings per share (earnings after tax)	(6,774)	(6,742)
Weighted average number of ordinary shares (in thousand)	40,338	33,673
<b>Earnings per share (basic/diluted) (in EUR)</b>	<b>(0.17)</b>	<b>(0.20)</b>

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.





## 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.

Cash outflow from operating activities totaled EUR 1,815 thousand in 2019, compared to cash outflow in 2018 in the amount of EUR 4,142 thousand, which is primarily the result of higher liabilities and higher deferred revenue comprising prepayments made by customers. Cash outflow from investment activities increased from EUR 2,867 thousand in the prior year to EUR 3,354 thousand due to additional restricted cash of EUR 635 thousand relating to a rental deposit for the new office space at the Company's headquarters. The payments for investments in intangible assets were at the prior year's level totaling EUR 2,478 thousand (2018: EUR 2,520 thousand). Cash flow from financing activities was EUR 5,520 thousand (2018: EUR 5,351 thousand). The cash inflow is mainly attributable to the two cash capital increases in the total amount of EUR 8,813 thousand (2018: EUR 5,133 thousand). Cash outflows resulted from the repayment of loans in the amount of EUR 1,500 thousand (2018: EUR 1,250 thousand) as well as cash paid for lease liabilities under IFRS 16 in the amount of EUR 1,696 thousand. The payments for lease liabilities include interest in the amount of EUR 70 thousand. In total, there was a net inflow of EUR 507 thousand in the 2019 fiscal year compared to a cash outflow of EUR 1,725 thousand in the prior year. As at the balance sheet date, Intershop had freely available cash and cash equivalents of EUR 7,731 thousand (December 31, 2018: EUR 7,224 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, 2019

in EUR thousand	Europe	USA	Asia/ Pacific	Consoli- dation	Group
<b>Revenues from external customers</b>					
<b>Software and Cloud Revenues</b>	<b>11,821</b>	<b>2,653</b>	<b>2,598</b>	<b>0</b>	<b>17,072</b>
<b>Licenses and Maintenance</b>	<b>9,052</b>	<b>903</b>	<b>734</b>	<b>0</b>	<b>10,689</b>
Licenses	2,303	335	0	0	2,638
Maintenance	6,749	568	734	0	8,051
<b>Cloud and Subscription</b>	<b>2,769</b>	<b>1,750</b>	<b>1,864</b>	<b>0</b>	<b>6,383</b>
<b>Service Revenue</b>	<b>8,920</b>	<b>3,595</b>	<b>2,033</b>	<b>0</b>	<b>14,548</b>
<b>Total revenues from external customers</b>	<b>20,741</b>	<b>6,248</b>	<b>4,631</b>	<b>0</b>	<b>31,620</b>
Intersegment revenues	1,483	0	5	(1,488)	0
<b>Total revenues</b>	<b>22,224</b>	<b>6,248</b>	<b>4,636</b>	<b>(1,488)</b>	<b>31,620</b>
Cost of revenues	13,485	4,070	3,001	0	20,556
<b>Gross profit</b>	<b>7,256</b>	<b>2,178</b>	<b>1,630</b>	<b>0</b>	<b>11,064</b>
Operating expenses, operating income	11,501	3,472	2,560	0	17,533
<b>Result from operating activities</b>	<b>(4,245)</b>	<b>(1,294)</b>	<b>(930)</b>	<b>0</b>	<b>(6,469)</b>
Financial result					<b>(161)</b>
Earnings before tax					<b>(6,630)</b>
Income taxes					<b>(144)</b>
Earnings after tax					<b>(6,774)</b>
<b>Assets</b>	<b>18,123</b>	<b>5,470</b>	<b>4,033</b>	<b>0</b>	<b>27,626</b>
<b>Depreciation and amortization</b>	<b>2,720</b>	<b>821</b>	<b>605</b>	<b>0</b>	<b>4,146</b>



Segment reporting as of December 31, 2018

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

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. On the other hand, they generate revenues from consulting and training services.



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 such as restructuring costs in 2019, 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 2018 and 2019, 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 after elimination of the interim segment revenues.

The Company is domiciled in Germany. Revenues from external customers that were generated in Germany amounted to EUR 9,805 thousand (2018: EUR 12,190 thousand). Revenues of EUR 21,815 thousand (2018: EUR 19,009 thousand) were recorded from external customers in other countries. The amount of EUR 5,527 thousand of the revenues relates to customers in the United States (2018: EUR 3,205 thousand). During the fiscal year, there were no relations with individual customers whose percentage of total sales was at least 10% of the total group revenues. Revenue of EUR 3,594 thousand was generated from a single customer in the Europe segment. Total noncurrent assets excluding deferred taxes amounted to EUR 12,608 thousand (2018: EUR 10,215 thousand) in Germany and EUR 324 thousand (2018: EUR 68 thousand) in other countries.



## Litigations/contingent liabilities

The Company is a defendant in a few legal proceedings arising from the ordinary course of business. Defeat in these proceedings could adversely affect the Company's earnings position. All legal fees arising from a defeat in court are expenses when and if it is more likely than not that a payment obligation exists and they can be estimated reliably. 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.

The Company is asserting claims for payment from a contractual agreement with a customer from the year 2013. The receivables were fully removed from the books in previous years. The contractual partner has filed a counter-claim. The Company is defending itself against this claim and is of the opinion that the claims asserted by the contractual partner in the counter-claim do not have any merits and, moreover, the amount is not justified. No provisions were recognized for these proceedings since the Company deems it highly unlikely that any expenses will be incurred in the future.

## 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 equity ratio has reduced by three percentage points compared to the prior year in particular due to the change in the accounting methods upon adoption of IFRS 16. In total, the capital structure has changed as follows:

in EUR thousand	Dec. 31, 2019	Dec. 31, 2018	as a % of previous year
Equity	15,731	13,646	15%
Liabilities to banks	1,551	3,047	-49%
Trade accounts payable	1,656	1,525	9%
Leasing liabilities	1,790	0	-
Other liabilities	6,898	4,439	55%
Equity ratio	57%	60%	

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



### Categories of financial instrument

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

in EUR thousand	Dec. 31, 2019	Dec. 31, 2018
Measurement	Carrying amount	Carrying amount
<b>Measured at amortized cost</b>		
<b>Financial assets</b>		
Other noncurrent assets	18	26
Trade receivables	5,528	3,977
Restricted cash	635	0
Cash and cash equivalents	7,731	7,224
<b>Financial liabilities</b>		
Trade payables	1,656	1,525
Liabilities to banks	1,551	3,047
Leasing liabilities	1,790	0
Current liabilities	1,185	1,058
<b>Carrying amount aggregated by measurement category</b>	<b>2019</b>	<b>2018</b>
Financial assets measured at amortized cost	13,912	11,227
Financial liabilities measured at amortized cost	6,182	5,630
<b>Net gain/loss per measurement category</b>	<b>2019</b>	<b>2018</b>
Financial assets measured at amortized cost	(96)	(3)
Financial liabilities measured at amortized cost	(176)	(159)

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 and leasing liabilities, 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, 2019: EUR 1,592 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. The Company expects a loss rate of almost 0% since the average default on receivables over the last four years totaled 0.4% of the receivables. The Company performs ongoing creditworthiness checks on its customers. The default risk with regard to trade receivables is also mitigated by the fact that the Company has a broad customer base. In addition, the Company does not demand collateral for its receivables. In the case of larger contracts, this risk is reduced by agreements on advance payments or partial payments based on the stage of completion of the contract. Appropriate allowances are also recognized. The value adjustments are particularly due to late payments or problems with the customer's creditworthiness as well as legal disputes with the customer. The value adjustment is measured based on the assessment and evaluation of the chances of success. The Company's cash and cash equivalents are largely invested with German, U.S. American banks and Australian banks in secure investments. There is no significant default risk here. The Company regularly monitors current and future returns. The maximum default risk relating to financial assets is their carrying amounts in the balance sheet.

### Liquidity risk

The Company monitors the liquidity risk with regularly updated short- and medium-term financial planning activities. Intershop has two bank loans. Of the bank loan taken up in the 2018 fiscal year of EUR 1,500 thousand, EUR 750 thousand has so far been paid when due. Of the bank loan taken out in the 2015 fiscal year in the amount of EUR 6,000 thousand, a total of EUR 5,200 thousand has been repaid so far, of which EUR 4,000 thousand was scheduled repayment and EUR 1,200 thousand unscheduled repayment. The cash in banking accounts totaled EUR 7,731 thousand at the balance sheet date.

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

in EUR thousand	Dec. 31, 2018	Cash-effective change	Non-cash effective change (reclassifications)	Non-cash effective change (interest effects)	Dec. 31, 2019
Liabilities to banks - noncurrent	1,547	0	(1,300)	3	250
Liabilities to banks - current	1,500	(1,602)	1,300	103	1,301
<b>Total</b>	<b>3,047</b>	<b>(1,602)</b>	<b>0</b>	<b>106</b>	<b>1,551</b>



The following table shows the future undiscounted cash flows of financial liabilities that will affect the Company's future liquidity situation:

<b>Financial liabilities</b> (in EUR thousand)	<b>Carrying amount at Dec. 31, 2018</b>	<b>Cash flow in 2019</b>	<b>Carrying amount at Dec. 31, 2019</b>	<b>Cash flow in 2020</b>	<b>Cash flow after 2020</b>
Non-current liabilities to banks	1,547	0	<b>250</b>	0	252
Current liabilities to banks	1,500	1,602	<b>1,301</b>	1,339	0
Trade accounts payable	1,525	1,525	<b>1,656</b>	1,656	0
Leasing liabilities	-	-	<b>1,790</b>	1,609	209
Other current liabilities	1,058	1,058	<b>1,185</b>	1,185	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:

in EUR thousand	<b>Assets</b>		<b>Liabilities</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
in USD	430	478	423	406
In GBP	7	0	103	165

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.

In EUR thousand	<b>Earnings after tax USD</b>		<b>Earnings after tax GBP</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Change due to 10% appreciation of the euro	0	(5)	9	15
Change due to 10% depreciation of the euro	0	7	(11)	(18)





## 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 33.83% of the shares in the Company at the balance sheet date. We refer to the management report, section „Disclosures pursuant to sec. 289a (1) HGB and sec. 315a (1) HGB together with the explanatory report pursuant to sec. 176 (1) sentence 1 of the Stock Corporations Act“. As in the prior year, there were no business relationships with these companies in the 2019 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 2019 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

The Supervisory Board comprised the following members in 2019:

Name	Function	Term of Office
Christian Oecking	Chairman of the Supervisory Board	since 06/02/2016
Ulrich Prädell	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 2019 financial year amounted to EUR 485 thousand (2018: EUR 598 thousand), of which EUR 485 thousand (2018: EUR 561 thousand) relate to fixed remuneration and EUR 0 thousand (2018: EUR 37 thousand) to variable components. For the 2019 fiscal year, the members of the Supervisory Board were entitled to a total remuneration of EUR 154 thousand (2018: EUR 152 thousand), which consists entirely of fixed remuneration. 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, 2019, the following members of the Company's executive bodies held Intershop ordinary bearer shares:

<b>Name</b>	<b>Function</b>	<b>Shares</b>
Christian Oecking	Chairman of the Supervisory Board	40,272
Ulrich Prädell	Vice Chairman of the Supervisory Board	12,686
Univ.-Prof. Dr. Louis Velthuis	Member of the Supervisory Board	16,799
Dr. Jochen Wiechen	CEO of the Management Board	127,983
Markus Klahn	Member of the Management Board	34,099

In the fiscal year 2019, the members of the company's executive bodies made the following purchases of Intershop ordinary bearer shares.

<b>Name</b>	<b>Date</b>	<b>Type of transaction</b>	<b>Amount</b>	<b>Total value (EUR)</b>
Christian Oecking	02/14/2019	Exercised subscription rights	20,272	23,110
Ulrich Prädell	02/14/2019	Exercised subscription rights	4,686	5,342
Univ.-Prof. Dr. Louis Velthuis	02/14/2019	Exercised subscription rights	6,799	7,751
Dr. Jochen Wiechen	02/14/2019	Exercised subscription rights	17,983	20,501
Dr. Jochen Wiechen	10/30/2019	Acquisition	20,000	14,469
Markus Klahn	02/14/2019	Exercised subscription rights	3,788	4,318

**Employees**

During the fiscal year 2019, Intershop Group had an average of 335 full-time employees, of whom 333 were salaried employees and 2 members of the executive bodies (2018: 337 full-time employees, of whom 335 were salaried employees and 2 members of the executive bodies).

**Personnel expenses and cost of materials**

Personnel expenses totaled EUR 23,468 thousand (2018: EUR 23,644 thousand); of which EUR 20,198 thousand relate to wages and salaries (2018: EUR 20,512 thousand) and EUR 3,270 thousand to social security contributions (2018: EUR 3,132 thousand). Material expenses totaled EUR 4,545 thousand (2018: EUR 4,769 thousand); of which EUR 4,425 thousand relate to expenses for purchased services (2018: EUR 4,632 thousand).

**Auditor's fees**

The fees incurred for the services rendered by the auditor for the 2019 fiscal year were comprised of EUR 96 thousand for audit services (2018: EUR 151 thousand), EUR 10 thousand for tax advisory services (2018: EUR 9 thousand) and EUR 0 thousand for other services (2018: EUR 1 thousand).



### Events subsequent to the balance sheet date

The legal and binding resolution by the extraordinary Stockholders' Meeting on December 20, 2019 on the simplified capital decrease at a ratio of 3:1 was registered in the commercial register on February 4, 2020 and thus become legally effective. The Company's capital stock is currently effectively decreased to EUR 14,194,164. The technical implementation of the combination of shares occurred on February 14, 2020 after close of trading at the Frankfurt Stock Exchange.

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 19, 2019, 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 25, 2020

The Management Board of INTERSHOP Communications Aktiengesellschaft

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, 2019, 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, 2019, 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, 2019. 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, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, 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, 2019. 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:

- ① Recoverability of goodwill
- ② Recognition and measurement of internally generated intangible assets
- ③ 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:

### ① Recoverability of goodwill

- ① Goodwill amounting in total to EUR 4,473 thousand (representing 16% of total assets and 28% 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.

## ② Recognition and measurement of internally generated intangible assets

- ① Internally generated intangible assets (software) amounting in total to EUR 5,392 thousand (representing 20% of total assets and 34% 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 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.

**③ Revenue recognition and allocation of revenue to correct periods**

- ① Revenue amounting to EUR 31,620 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 „(11) Accrued revenue“ and „(13) 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 29, 2019. We were engaged by the supervisory board on December 19, 2019. 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 28, 2020

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

(sgd. Andreas Kremser)  
Wirtschaftsprüfer  
(German Public Auditor)

(sgd. ppa. Marcus Engelmann)  
Wirtschaftsprüfer  
(German Public Auditor)

2019

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# Financial Statements

# Financial Statements

## Balance Sheet INTERSHOP Communications Aktiengesellschaft

in EUR	December 31, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Fixed Assets</b>		
Intangible assets		
Internally developed software	5,390,613	4,998,398
Purchased software licenses	42,656	29,263
Property and equipment		
Other facilities, furniture, and equipment	556,798	616,509
Financial Assets		
Investments in affiliated companies	5,128,962	9,173,962
	<b>11,119,029</b>	<b>14,818,132</b>
<b>Current Assets</b>		
Inventories		
Work in process	327,356	0
Payments on account	1,685	13,485
	329,041	13,485
Receivables and other assets		
Accounts receivable	3,402,555	2,733,664
Receivables from affiliated companies	2,965,846	2,778,804
Other assets	114,331	260,927
	6,482,732	5,773,395
Cash-in-hand, bank balances	5,646,476	4,914,655
	<b>12,458,249</b>	<b>10,701,535</b>
<b>Prepaid expenses</b>	<b>999,586</b>	<b>692,198</b>
<b>TOTAL ASSETS</b>	<b>24,576,864</b>	<b>26,211,865</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' Equity</b>		
Common stock	42,582,492	34,851,831
Capital reserves	0	8,559,657
Accumulated deficit	(27,552,620)	(25,494,788)
	<b>15,029,872</b>	<b>17,916,700</b>
<b>Accrued Liabilities</b>		
Other accrued liabilities	2,480,680	2,114,580
	<b>2,480,680</b>	<b>2,114,580</b>
<b>Liabilities</b>		
Bank loans	1,549,994	3,049,998
Customer advances	315,173	0
Trade payables	378,014	511,064
Payables to affiliated companies	1,603,535	1,030,600
Other liabilities	796,864	365,076
thereof from taxes: EUR 632,990 (prior year: EUR 230,963)		
thereof from social security benefits: EUR 21,950 (prior year EUR 35.479)		
	<b>4,643,580</b>	<b>4,956,738</b>
<b>Deferred income</b>	<b>2,422,732</b>	<b>1,223,847</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>24,576,864</b>	<b>26,211,865</b>



## Statement of Operations of INTERSHOP Communications Aktiengesellschaft

in EUR	January 1 to December 31,	
	2019	2018
Revenues	22,991,385	27,142,256
Decrease or increase in inventories of work in progress	327,356	(1,262,267)
Other own work capitalized	2,108,460	2,116,668
Other operating income	398,583	407,762
Cost of Materials		
Cost of purchased merchandise	(104,535)	(137,361)
Cost of purchased services	(2,308,558)	(3,133,562)
Personnel Costs		
Salaries	(15,458,510)	(15,793,191)
Social security contribution	(2,650,866)	(2,589,753)
Depreciation and amortization		
of intangible fixed assets and property and equipment	(2,365,838)	(1,566,343)
Other operating expenses	(10,666,104)	(9,476,176)
Other interest and similar income	164,203	167,083
thereof from affiliated companies: EUR 154,198 Euro (prior year: EUR 160,853)		
Write-downs of long-term financial assets and current securities	(4,045,000)	0
Interest and similar expenses	(88,060)	(126,730)
Taxes on income	(2,297)	(7,941)
<b>Net loss after tax/Net loss income for the year</b>	<b>(11,699,781)</b>	<b>(4,259,555)</b>
Accumulated deficit carried forward	(25,494,788)	(21,235,233)
Withdrawal from the capital reserve	9,641,949	0
<b>Accumulated Deficit</b>	<b>(27,552,620)</b>	<b>(25,494,788)</b>



# Notes to the Financial Statements

## INTERSHOP Communications

### Aktiengesellschaft

INTERSHOP Communications Aktiengesellschaft ("Intershop") is an *Aktiengesellschaft* (German stock corporation) under German law. The Company's registered office is at Intershop Tower, Leutra-graben 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 2019 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 internally developed Software, 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. Scheduled depreciation is recorded over the expected useful lives of the assets, which are between two and five years.

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.

Financial assets are entered at acquisition cost, reduced by the required value adjustments for im-pairments 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. Foreign currency receivables are measured at their historical rate prevailing at the respective transaction date when added.

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 contingent liabilities and are measured in the amount dictated by prudent business practice. They are measured at the settlement value deemed necessary by prudent business practice. Price and cost increases have been accounted for in the computation.

Liabilities are stated at their settlement value. Foreign currency payables are measured at their historical rate prevailing at the respective transaction date when added. 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:

In EUR thousand	Intangible Assets		Tangible Assets	Financial Assets	Total
	Internally developed Software	Purchased Software licenses	Other equipment, operating and office equipment	Shares in affiliated companies	
<b>Costs of purchase</b>					
<b>Balance at January 1, 2019</b>	7,134	1,904	3,970	41,504	54,512
Additions	2,452	57	210	0	2,719
Disposals	0	(2)	(316)	0	(318)
<b>Balance at December 31, 2019</b>	9,586	1,959	3,864	41,504	56,913
<b>Depreciation, write-downs, and impairment losses</b>					
<b>Balance at January 1, 2019</b>	2,136	1,875	3,353	32,330	39,694
Additions	2,059	44	263	4,045	6,411
Disposals	0	(2)	(309)	0	(311)
<b>Balance at December 31, 2019</b>	4,195	1,917	3,307	36,375	45,794
<b>Net carrying amount at December 31, 2018</b>	4,998	29	617	9,174	14,818
<b>Net carrying amount at December 31, 2019</b>	<b>5,391</b>	<b>42</b>	<b>557</b>	<b>5,129</b>	<b>11,119</b>

The addition to internally generated software results from the first-time capitalization of software development costs. Overall, development costs of EUR 7,009 thousand were incurred in the 2019 fiscal year. The capitalization of the software development costs led to a restricted amount of EUR 5,391 thousand less deferred tax liabilities in the amount of EUR 1,699 thousand as set forth in Sec. 268 (8) HGB. Furthermore, deferred tax assets were recognized in the amount of EUR 1,699 thousand which were offset against the deferred tax liabilities. The financial assets include the amount of EUR 4,818 thousand attributable to Intershop Communications Inc on shares of which impairment losses were recorded in the amount of EUR 4,045 thousand in 2019 to mark them down to the lower fair market value. Such reduction of the carrying amount of the shares was required since, once again, the operating result of Intershop Communications Inc. was below the budgeted figures. The plans for the following years therefore required adjustments; the result in future years had to be reduced. The shares were measured based on a business valuation performed by Intershop, using



the discounted cash flow method. A perpetuity was determined to assess the future cash flows for the years 2020 - 2023 and 2024 and after. An annual growth of the total revenue between 2% and 3% over the planning period was assumed. The gross margins and the operating result increased slightly over time and, together with the increase in revenue, lead to slightly growing cash surpluses.

Receivables from affiliated companies in the amount of EUR 1,350 thousand (prior year: EUR 1,800 thousand) resulted from Group financing; EUR 600 thousand of these receivables fall 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 42,582,492 (prior year: EUR 34,851,831) consists of 42,582,492 no-par value bearer shares. The increase in the share capital is the result of two capital increases. On January 9, 2019, the Management Board, with the approval of the Supervisory Board, resolved to increase the subscription right capital; it was registered in the commercial register on February 14, 2019. The share capital therefore increased from EUR 4,356,478 to EUR 39,208,309. Due to the cash capital increase resolved by the Management Board on June 25, 2019 with the consent of the Supervisory Board and registered in the commercial register on July 5, 2019, the share capital increased by EUR 3,374,183 to EUR 42,582,492.

During the 2019 fiscal year, the capital reserve changed as follows (in EUR thousand):

Balance at December 31, 2018	8,560
Premium from cash capital increases	1,082
Offsetting against accumulated deficit	(9,642)
<b>Balance at December 31, 2019</b>	<b>0</b>

On October 28, 2019, the Management Board of INTERSHOP Communications AG announced the loss of half of the Company's share capital as required by Sec. 92(1) German Stock Corporation Act (Aktiengesetz; AktG) and convened an extraordinary Stockholders' Meeting. At the Stockholders' Meeting on December 20, 2019, it was resolved that losses and other impairment losses shall be compensated by way of a simplified capital decrease at a ratio of 3:1 to the amount of EUR 14,194,164, which did not become legally effective until registration in the commercial register in the new 2020 fiscal year on February 4, 2020. Technical implementation of the combination of shares occurred on February 14, 2020 after close of trading at the Frankfurt Stock Exchange.

The capital reserve was liquidated in the amount of EUR 9,642 thousand in full for the (partial) compensation of the accumulated deficit prior to the extraordinary Stockholders' Meeting being convened. Liquidation was the prerequisite for the resolution proposal by the Management Board and the Supervisory Board on a simplified capital decrease to be submitted to the extraordinary Stockholders' Meeting.

The accumulated deficit contains a loss carryforward from prior years in the amount of EUR 25,495 thousand.



The other provisions mainly relate to outstanding invoices (EUR 728 thousand, prior year: EUR 494 thousand), provisions for restructuring (EUR 420 thousand; prior year: EUR 0 thousand), variable remuneration components (EUR 286 thousand, prior year: EUR 358 thousand), as well as provisions for holiday entitlements (EUR 296 thousand, prior year: EUR 292 thousand). The other provisions relate to the costs of the financial statements and the Annual Stockholders' Meeting, remuneration for the Supervisory Board, as well as imminent losses, and warranties.

Liabilities comprise the following:

in EUR thousand	Remaining term of up to one year	Remaining term of more than one year	Total Dec. 31, 2019	Total Dec. 31, 2018
Bank loans	1,300	250	1,550	3,050
Advance payments received	315	-	315	0
Accounts payable	378	-	378	511
Liabilities to affiliated companies	1,604	-	1,604	1,031
Other liabilities	797	-	797	365
	<b>4,394</b>	<b>250</b>	<b>4,644</b>	<b>4,957</b>

In the prior year, the bank loans amounted to EUR 1,550 thousand with a remaining term of more than one year. There are no liabilities with a remaining term of more than five years.

Of the Liabilities to banks, EUR 800 thousand, are secured with an indemnity bond covering 80% of the loan amount from the state of Thuringia and the approval of a distribution license for the Intershop software. Other liabilities mainly include liabilities from current payroll accounting and sales tax. 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	2019	2018
Germany	10,035	15,790
Rest of Europe	10,935	10,692
Rest of the world excluding Europe	2,020	660
	<b>22,991</b>	<b>27,142</b>

Revenues from software and cloud sales and from service sales are EUR 12,277 thousand (prior year: EUR 12,202 thousand) and EUR 10,714 thousand (prior year: EUR 14,940 thousand) respectively.

Other operating income includes income from currency translation of EUR 29 thousand (prior year: EUR 11 thousand). Of the other operating income, EUR 70 thousand is related to prior periods. They are mainly the result of the reversal of provisions.



The impairment losses on financial assets pursuant to Sec. 253(3) HGB total EUR 4,045 thousand (prior year: EUR 0). Other operating expenses include depreciation and amortization of receivables from affiliated companies of EUR 513 thousand (prior year: EUR 63 thousand), as well as expenses from currency translation of EUR 30 thousand (prior year: EUR 16 thousand).

## Other Disclosures

### Authorized capital

As at December 31, 2019, the Company had Authorized Capital in the amount of EUR 8,625,817 (December 31, 2018: EUR 12,667,653). 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 8,625,817 by issuing up to 8,625,817 new bearer shares against cash contributions and/or contributions in kind (Authorized Capital I/2019). The Management Board's authorization is valid until June 7, 2024. The Management Board is authorized, subject to approval of the Supervisory Board, to exclude the stockholders' subscription rights in certain cases.

The Annual Stockholders' Meeting on May 29, 2019 resolved to cancel Authorized Capital I/2016 in the amount of EUR 3,167,653 and Authorized Capital II/2018 in the amount of EUR 5,143,522 and to create a new Authorized Capital I/2019 in the amount of EUR 12,000,000. The new Approved Capital I/2019 was entered in the Commercial Register on June 7, 2019. The Authorized Capital I decreased to EUR 8,625,817 due to a cash capital increase in the amount of EUR 3,374,183 in July 2019.

### Conditional capital

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

### Voting rights notifications

In the 2019 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: The voting rights notification published on February 5, 2019 shows that the voting rights share of Frankfurter Investmentgesellschaft with variable capital (SICAV), Grevenmacher, Luxembourg, in the Company was 3.75% (1,307,695 voting rights) on January 31, 2019. On July 11, 2019, Frankfurter Investmentgesellschaft with variable capital (SICAV) totaled 5.47% of the voting rights (corresponds to 2,330,508 voting rights) in the Company as can be derived from the voting rights notification published on July 17, 2019. Shareholder Value Management AG and Shareholder Value Beteiligungen AG, each with their headquarters located in Frankfurt, held a total of 30.60% of the voting rights in the Company on April 18, 2019 as can be derived from the voting rights notifications published on April 25, 2019 (this equals 11,996,758 voting rights). According to the voting rights notifications published on May 27, 2019, Shareholder Value Beteiligungen AG and Shareholder Value Management AG held a total of 31.90% of the Company's voting rights (12,506,271 voting rights) on May 22, 2019 as a result of the execution of the takeover offer dated March 20, 2019.



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

Other financial obligations of EUR 14,868 thousand (prior year: EUR 16,730 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 agreement for the current business premises expires at the end of December 2020. In December 2020, Intershop plans to move into new business premises in an office building that is currently being 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 2020	due 2021 to 2024	due after 2024	Total Dec.31,2019	Total Dec.31,2018
Rental agreements*	2,075	5,114	7,564	14,753	16,498
Leases	79	36	0	115	232
<b>Total</b>	<b>2,154</b>	<b>5,150</b>	<b>7,564</b>	<b>14,868</b>	<b>16,730</b>

\*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 276 employees during the 2019 fiscal year, including 24 students (calculated on a full-time basis).

### Executive bodies of the Company

The Supervisory Board comprised the following members in fiscal year 2019:

#### Christian Oecking

Chairman of the Supervisory Board since 06/02/2016  
Senior Advisor  
Further Supervisory Board mandate:  
Hexaware Technologies, India (until June 2019)

#### 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)

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**

COO

Responsibilities: Professional Services, Sales and Marketing

Member of the Management Board since 04/09/2018

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

Total remuneration paid to the Management Board for its activities in the 2019 financial year amounted to EUR 485 thousand (2018: EUR 598 thousand), of which EUR 485 thousand (2018: EUR 561 thousand) relate to fixed remuneration and EUR 0 thousand (2018: EUR 37 thousand) to variable components. For the 2019 fiscal year, the members of the Supervisory Board were entitled to a total remuneration of EUR 154 thousand (2018: EUR 152 thousand), which consists entirely of fixed remuneration. 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, 2019, 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, 2019:

	<b>Interest</b> in %	<b>Equity*</b> in EUR thousand	<b>Annual result**</b> in EUR thousand
Intershop Communications, Inc., San Francisco, USA	100	(714)	198
Intershop Communications Australia Pty Ltd, Melbourne, Australia	100	1,238	154
Intershop Communications Asia Limited, Hong Kong, China	100	152	88
Intershop Communications SARL, Paris, France	100	339	17
Intershop Communications LTD, Romsey, United Kingdom	100	(211)	(114)
The Bakery GmbH, Berlin, Germany	100	(4,037)	(48)
Intershop Communications Ventures GmbH, Jena, Germany	100	(1,381)	(18)

\* Equity as of December 31, 2019 is translated at the exchange rate as of the reporting date

\*\* Net income/loss for fiscal year 2019 is translated at the average annual rate

The expenses for auditors' fees have been omitted in accordance with Sec. 288 (2) s. 2 HGB in conjunction with Sec. 285 (17) HGB and are disclosed in the notes to the Company's consolidated financial statements. They primarily include services relating to the audit of the financial statements.

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

The Company issued a declaration of conformity as required by section 161 of the *Aktiengesetz* on December 19, 2019 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 legal and binding resolution by the extraordinary Stockholders' Meeting on December 20, 2019 on the simplified capital decrease at a ratio of 3:1 was registered in the commercial register on February 4, 2020 and thus become legally effective. The Company's capital stock is currently effectively decreased to EUR 14,194,164. The technical implementation of the combination of shares occurred on February 14, 2020 after close of trading at the Frankfurt Stock Exchange.

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 27,552,620 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 25, 2020

The Management Board of INTERSHOP Communications Aktiengesellschaft

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, 2019, and the statement of profit and loss for the financial year from January 1 to December 31, 2019, 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, 2019. 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, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 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, 2019. 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:

- ❶ Matter and issue
- ❷ Audit approach and findings
- ❸ Reference to further information

Hereinafter we present the key audit matters:

#### ❶ Recognition and measurement of internally generated intangible fixed assets

- ❶ Internally generated intangible fixed assets amounting in total to EUR 5,391 thousand (representing 22% of total assets and 36% 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 probable 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.

**② Revenue recognition and allocation of revenue to correct periods**

- ① Revenue amounting to EUR 22,991 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 INTERSHOP 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 and in the management report.

### 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 29, 2019. We were engaged by the supervisory board on December 19, 2019. 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 28, 2020

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

(sgd. Andreas Kremser)  
Wirtschaftsprüfer  
(German Public Auditor)

(sgd. ppa. Marcus Engelmann)  
Wirtschaftsprüfer  
(German Public Auditor)

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**Report of the  
Supervisory  
Board**





# Report of the Supervisory Board

Dear stockholders,

Significant progress was made in the cloud business in the 2019 fiscal year; however Intershop was not able to achieve its ambitious goals. We are convinced that, with the restructuring program resolved in October 2019 and the measures already taken, we are well-positioned to generate efficient growth once again in the 2020 fiscal year.

In the 2019 fiscal year, the Supervisory Board properly performed its assigned tasks as per the applicable laws, the Articles of Association, as well as the by-laws. We consistently monitored and supported the management of the business by the Management Board and were involved in all corporate decisions of fundamental significance. The Management Board provided the Supervisory Board with information regarding business development, significant business transactions, as well as the most recent sales and earnings of the Company on a regular basis and in a timely and comprehensive manner, both verbally and in writing.

## Supervisory Board meetings and content

In the 2019 fiscal year, the Supervisory Board met in ten meetings and seven telephone conferences. The Supervisory Board was fully represented at all meetings. The Management Board attended the meetings on a regular basis. The Supervisory Board discussed all topics relevant to Intershop, with the focus of the meetings being on the current sales and earnings position with the Company's transition to the cloud business, as well as the financial situation of the Company.

In the meeting on February 1, 2019, the Management Board presented the preliminary results for the 2018 fiscal year and the projected sales and earnings trends for the first quarter of 2019. The Management Board advised the Supervisory Board of the status of the capital increase by way of subscriptions rights. The Supervisory Board also approved the report on corporate governance.

In the meeting on March 15, 2019, the Supervisory Board discussed and approved the 2018 annual and consolidated financial statements in the presence of the auditors. In addition, the risk management and the 2018 risk report were discussed. The Management Board also presented the Supervisory Board with the updated sales and results forecast for the first quarter of 2019 and the cash development for 2019. The agenda for the 2019 Annual Stockholders' Meeting was discussed in the meeting as well. In the meeting of the Supervisory Board on March 25/26, 2019, the Supervisory Board discussed and resolved to issue a joint statement by the Management Board and the Supervisory Board in accordance with Sec. 27 German Securities Takeover Act (Wertpapierübernahmegezet; WpÜG) regarding the takeover offer by Shareholder Value Beteiligungen AG and Shareholder Value Management AG.



The main focus of the meetings on May 3 and May 28, 2019 were the sales pipeline and the lead generation process, as well as cost saving measures. The Management Board explained the forecast for the second quarter and the 2019 fiscal year, together with potential measures to cut costs. In their meeting on May 28, 2019, the Board also discussed the current status of the headquarter relocation project, as well as matters for the Annual Stockholders' Meeting.

The main topics of the meetings on August 21 and September 18, 2019 were the economic development in the second half of the year as well as the sales pipeline. The Management Board provided the Supervisory Board with a comprehensive overview of potential cloud orders and presented risks and rewards.

The 2020 budget was the main topic in the meeting on October 21/22. The Management Board presented a detailed plan for 2020 and discussed it in detail with the Supervisory Board. The Management Board also reported on the forecast for the fourth quarter as well as the sales and profit forecast for 2019.

The main topics of the meetings on November 18 and December 19, 2019 were the 2019 forecast, the initiation and implementation of the restructuring measures, as well as the preparation of the extraordinary Stockholders' Meeting. The Management Board also presented the medium-term planning. In their December meeting, the Supervisory Board approved the 2020 budget as well as the 2019 declaration of compliance.

In the teleconferences on January 7, January 9, April 11, June 14, June 25, July 19, and October 15, 2019, resolutions on increasing the capital and amending the Articles of Association were passed and topics relating to the result and cash development were discussed.

In addition to the resolutions that were adopted at the meetings, the Board also adopted resolutions (restructuring program, agenda, Annual Stockholders' Meeting) as part of a circulation procedure.

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

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

## Corporate Governance

Conflicts of interest by Supervisory Members in terms of para. 5.5 of the German Corporate Governance Code, which must be immediately disclosed to the Supervisory Board and of which the Annual Stockholders' Meeting must be informed, did not occur during the 2019 fiscal year.



The new Declaration of Conformity with the German Corporate Governance Code was issued by the Management Board and Supervisory Board in December 19, 2019. 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 2019 fiscal year elected at the Annual Stockholder's Meeting held on May 29, 2019 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 16, 2020. The annual financial statements of INTERSHOP Communications AG were thus adopted. Since the Company did not generate retained earnings during the 2019 fiscal year, there was no need to examine a recommendation for the appropriation of profits.

The Supervisory Board would like to thank the stockholders for their confidence in Intershop and the Management Board and all the employees of the Intershop Group for their commitment and exceptional performance during the 2019 fiscal year.

Jena, March 2020

On behalf of the Supervisory Board

Christian Oecking

Chairman of the Supervisory Board

2019

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Corporate Governance Declaration**

**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 recommendations of the German Corporate Governance Code were largely complied with in fiscal year 2019; 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 19, 2019:

Since the declaration of conformity dated December 13, 2018 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) Since the Supervisory Board has only three members, it does not constitute any committees (Code paragraph 5.3.1). 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. 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 2019 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 target figure was reached for INTERSHOP Communications AG at the end of 2019.

#### 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.

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 5, 2020

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,  
Shareholder Structure  
& Share

# Stock Market Data

ISIN	DE000A254211 (previously DE000A0EPUH1)
WKN	A25421 (previously A0EPUH)
Stock market symbol	ISHA (previously ISH2)
Admission segment	Prime standard/Regulated market
Sector	Software
Membership of Deutsche Börse indices	CDAX, Prime All Share, Technology All Share

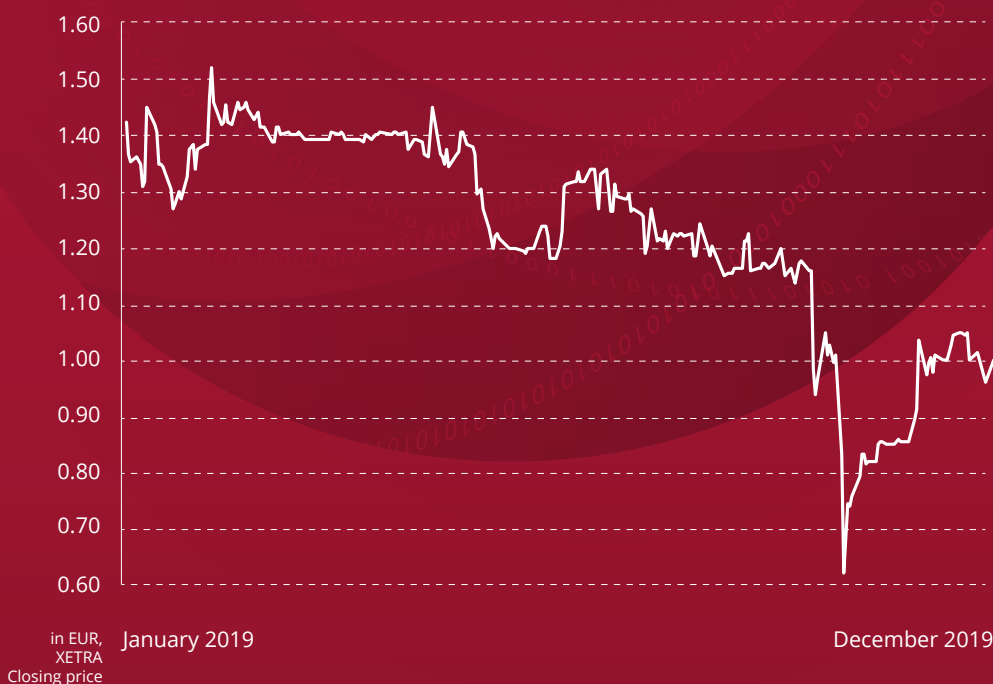
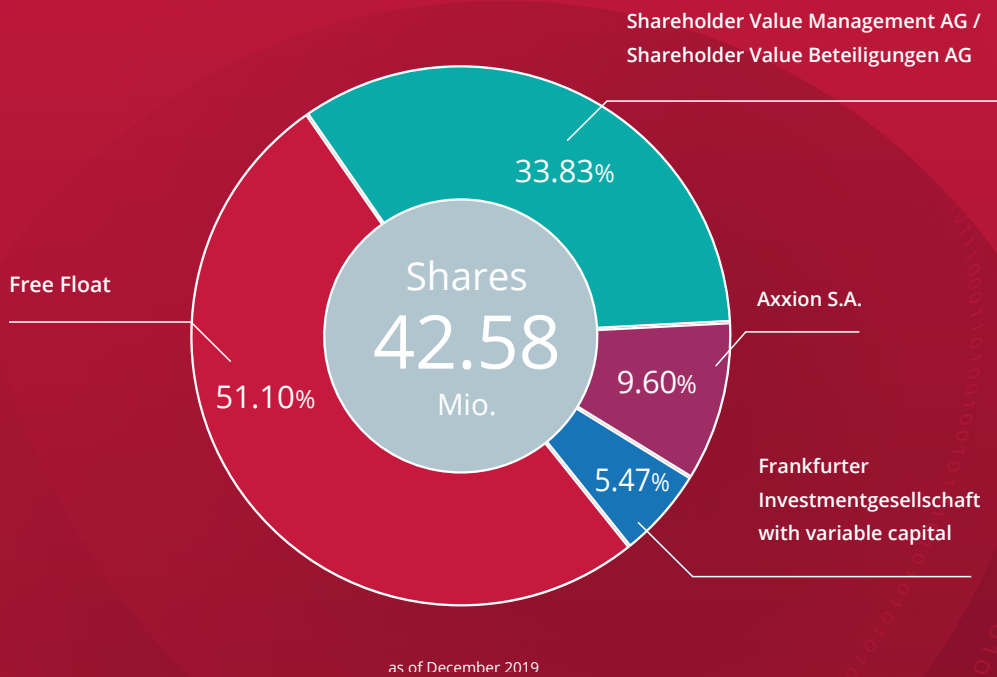
# Intershop Shares

Key figures for Intershop shares		2019	2018
Closing price*	in EUR	1.00	1.35
Number of shares outstanding (end of period)	in million shares	42.58	34.85
Market capitalization	in EUR million	42.58	47.05
Earnings per share	in EUR	(0.17)	(0.20)
Cashflow per share	in EUR	(0.04)	(0.12)
Carrying amount per share	in EUR	0.37	0.39
Average trading volume per day**	Number	37,411	34,442
Free float	in %	51	62

\* Basis: Xetra

\*\* Basis: all stock exchanges

# Shareholder structure and share price



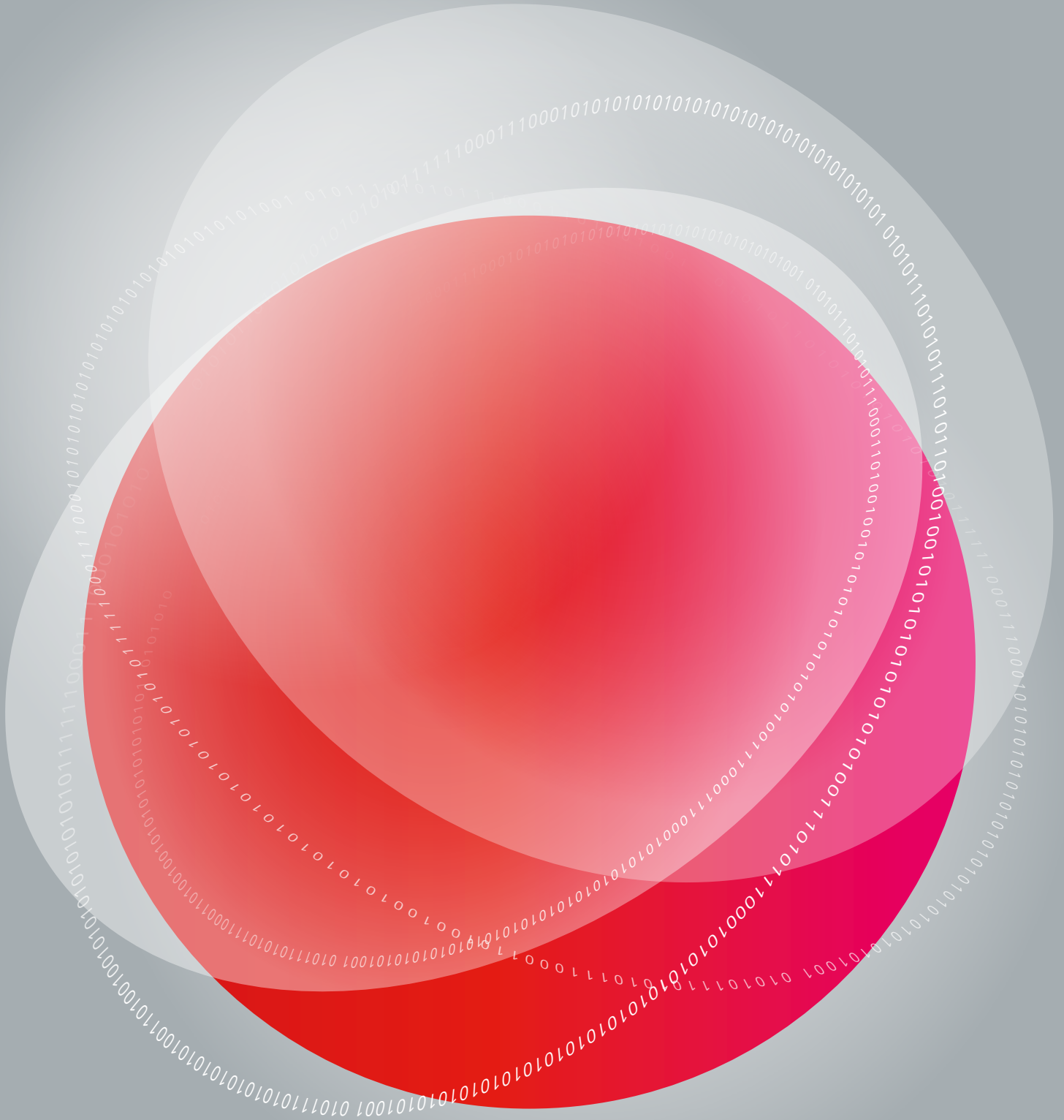
# Financial Calendar 2020

Date	Event
February 19, 2020	Release of (preliminary) Q4 and FY financials 2019
April 29, 2020	Release of Q1 financials 2020
May 20, 2020	Ordinary Annual Stockholders´ Meeting 2020
July 23, 2020	Release of Q2 and 6-month financials 2020
October 22, 2020	Release of Q3 and 9-month financials 2020

The current financial calendar can be found at [www.intershop.com/financial-calendar](http://www.intershop.com/financial-calendar).

This annual report contains forward-looking statements regarding future events or the future financial and operational performance of Intershop. Actual events or results may differ materially from the results presented in these forward-looking statements or from the results expected according to these statements. Risks and uncertainties that could lead to such differences include Intershop's limited operating history, the limited predictability of revenues and expenses, and potential fluctuations in revenues and operating results, significant dependence on large individual customer orders, customer trends, the level of competition, seasonal fluctuations, risks relating to electronic security, possible state regulation, and the general economic situation.

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