

**itelligence**

Interim Report 1/2002  
January 1 to March 31, 2002

## Letter to the Shareholders

Dear Shareholders,

We started into fiscal year 2002 with a focus on increased profitability and the structural optimization of our business model. In the first quarter we recorded a significant improvement in our cost structure compared with the prior year and achieved decisive cost savings. We reported on the implementation of cost-cutting measures on several occasions in the course of the last fiscal year. After the first few weeks of the new year, we are pleased to be able to present concrete results to back up our original expectations. In addition to successfully cutting costs, we improved the general productivity of itelligence AG.

Despite the successes achieved within the organization, our business development in the first quarter was shaped by difficult economic conditions. Not only is the first quarter traditionally a period of low investment in the IT industry. The upturn expected for 2002 also failed to materialize due to the persistently weak economy and the resulting reluctance to invest in IT on the part of industry.

### Positive Business Development in a Weak Market Environment

In the first three months, the Group's total sales increased by 6.1 percent to MEUR 43.6 (from MEUR 41.1 in 2001). MEUR 23.8 of total sales in the reporting period was generated in Germany, MEUR 19.8 abroad. This puts foreign sales at 45.4 percent of total sales. Europe (excluding Germany) achieved a 21.7 percent increase in sales compared with the prior year. Germany and Switzerland with their strong SAP consulting business performed particularly well in the first three months, while the United States had a very poor first quarter. The reluctance of US companies to invest in IT already seen in 2001 grew further at the beginning of 2002. This affected both the license and the consulting business. However, with numerous new orders signed for the second quarter of 2002 we view the business prospects in the United States much more optimistically.

Looking at the individual business divisions, we generated MEUR 32.7 (prior-year quarter: MEUR 34.3) in

the consulting business, which traditionally records high sales. The fast growing SAP Consulting division – especially in Germany and Switzerland – was not able to compensate entirely for the poor performance of SAP consulting in the United States. In addition to the effects of general economic conditions, consulting sales in the Customized IT division were reduced by the sales of shareholdings in CIB Netzwerk-Beratung GmbH and CIB Computer-Integrations-Beratung GmbH. These companies were fully consolidated as of March 31, 2001. Furthermore, employee reduction in the Customized IT division was relatively high for the fourth quarter 2001 and also affected consulting sales.

License sales increased from MEUR 2.2 year-on-year to MEUR 3.7. However, they fell short of the license sales recorded in the fourth quarter of 2001 (MEUR 7.8). The Outsourcing & Services division performed well. Our expectations were met by a substantial increase in sales from 39.1 percent to MEUR 6.4 year-on-year. This division's share in total sales for the quarter

itelligence at a Glance  
January 1 to March 31, 2002 and 2001

	Jan. 1 to March 31, 2002 MEUR	Jan. 1 to March 31, 2001 MEUR
<b>Total sales</b>	<b>43.6</b>	<b>41.1</b>
Consulting	32.7	34.3
Licenses	3.7	2.2
Outsourcing & Services	6.4	4.6
Other	0.8	0
Germany	23.8	22.5
Rest of Europe	12.9	10.6
Americas	6.9	8.0
EBIT margin	0.0%	-4.6%
EBITDA	1.1	0.09
Net income/loss according to US GAAP	-0.4	-1.5
Earnings per share	-0.03	-0.09

increased from 11 percent in 2001 to 15 percent.

The order situation has improved significantly at group level since the be-

ginning of the year. In Germany firm orders for the second quarter will see us working to target capacity. Abroad, the forecast for capacity utilization is also better than in the first quarter.

SAP

We repositioned ourselves within the SAP organization in Germany in September 2001 in response to a change

in demand from our customers. The strategic advantages of this restructuring have been demonstrated in the first three months of 2002. Both new customers and longstanding business partners appreciate the optimized organization of skills according to key industries and service lines. This allows us to adapt to customer needs more efficiently and flexibly. The cross-regional deployment of services is already producing an increasing degree of knowledge transfer between Germany, Europe and the Americas.

We also received a positive response to our positioning as a leading international full-service provider for SAP at CeBIT 2002. Our service portfolio of midmarket industry solutions met with particular interest. The new solutions that we introduced for the first time included those for the chemical and automotive industries („it.chemical“ and „it.automotive-supplier“). Our comprehensive range of services for new SAP products such as Product Lifecycle Management (PLM), Supply Chain Management (SCM) and Cus-

tomers Relationship Management (CRM) also appealed to numerous companies.

SAP's initiative for the midmarket, "SAP Smart Business Solutions", provided important stimulus at this year's CeBIT. The trend towards the midmarket underpins our positioning as a leading international provider of SAP services for small and medium-sized enterprises. We will continue to work closely with SAP AG in this area.

We were able to demonstrate our strength in the SAP business for the midmarket to numerous customers in the first few months of 2002. In Germany we put our consulting skills to work for the service company Kasolvenzia AG and the engineering firm Axima Refrigeration GmbH. Our SAP-based industry solutions are enjoying particularly high demand among small and medium-sized enterprises. In this area we adapted our "it.service" solution to the requirements of the financial services company FJA AG. We implemented our "it.chemi-

cal" solution for the Stockmeier Group and our "it.trade" solution for the computer distributor Advia and the world's leading manufacturer of roofing tiles, Creaton AG.

When it comes to major customers, our strengths lie in SAP consulting in particular. We took charge of numerous projects in the first quarter, including assignments for the Henkel Group, the Deutz Group, the BASF, the Norddeutsche Affinerie Group and the Nobilia Werke J. Stickling GmbH & Co.

Our longstanding partnership with SAP AG has paid off. Following on from numerous awards in the past, this year SAP AG made itelligence a mySAP.com Special Expertise Partner in recognition of its close collaboration on "Service Providers – Professional Services".

## High Sales for Outsourcing & Services

Outsourcing & Services was still our fastest growing business division at the beginning of the year. Thanks to its long contractual terms (some 3 to 5 years), this division has proven to be resistant to the fluctuations otherwise typical of the industry. In its fourth year the Outsourcing & Services division is positioned such that we can offer our customers a wide range of services around the world from our three computer centers. Many customers entrust us with their system maintenance after successful collaboration on earlier projects. Such customers include Schwarz Pharma AG, YXLON International X-Ray GmbH, ce Consumer Electronic AG, Benteler AG, Norddeutsche Affinerie Group and, most recently, the wind farm operator REpower AG.

## Business Development Abroad

While foreign sales have yet to fully meet our expectations, we are satisfied with the increasing international integration of our projects. This trend reflects the supranational character of our competence teams. We were able to put our services to work on an international level for the global hardware and software manufacturer SCM Microsystems Inc. Our teams from Germany, France, Switzerland, Hungary and the United Kingdom worked together at Testo AG, our customer projects for the Duferco Group and Diners Club Europe S.p.A. were also pan-European.

Despite the generally disappointing order intake in the United States in the first quarter, we are now seeing numerous new orders come in and business development should improve. We have won projects for midmarket customers such as East Balt, GemCar and Pinnacle and for major customers including Knauf Fiberglass, Behr

America and others. With skill transfer from Germany, international teams will implement our SAP-based industry solutions such as "it.wood", "it.trade", "it.engine", "it.service", "it.chemical", "it.metal" and "it.automotive" for the new customers. Our skills in CRM and SCM are also still high in demand.

In response to the continuing poor business performance, we took further steps to cut costs in the United States in the first quarter and made changes to US management. The US subsidiary is now headed by a four-member competence team which has already initiated a turnaround in the second quarter.

In Europe (excluding Germany) our Swiss company has excelled itself particularly, recording a 28 percent increase in EBIT. Our team in Switzerland won numerous orders for 2002. Our industry solution "it.engine" will be implemented at the customers Alcan Airex Composites and Concast Standard AG. In the technology and

## Letter to the Shareholders

engineering industry we are providing advice and implementing SAP at the Swiss Post Office, Bernische Kraftwerke and at Centralschweizerische Kraftwerke in Lucerne. Our skills in e-business, exchange, portals and technology are also in demand.

### Positive Result After Cost Cuts

Prices remained virtually unchanged in the first quarter as compared with fiscal year 2001 as a whole. The average daily rates for consultants remained at the same constant level of the prior year. We merely saw growing price pressure in the major customer business on account of the tight IT market and competition.

We are particularly pleased about our improved cost situation at the end of the first quarter of 2002. Substantial cost reductions confirm the success of our comprehensive restructuring program last year. We managed to cut costs in research and development by some 80 percent. As was the case in the second half of 2001, all expenses in this area were focused on customer

assignments. Most investments in the reporting period went towards SAP solutions. The cost factors in sales and marketing were also lowered by 6 percent. We do not expect to see the full effect of the cost-cutting measures on general and administrative expenses until mid-2002.

The successful savings – some MEUR 0.5 per month in Germany alone – enabled us to improve our results significantly year-on-year. For the first three months of 2002 we reported positive EBITDA of MEUR 1.1 – a considerable improvement on the prior-year quarter, where EBITDA came to a mere MEUR 0.09.

We have also improved our EBIT, generating positive EBIT of MEUR 0.03. In the prior-year quarter EBIT amounted to negative MEUR 1.94. As of the beginning of 2002 the positive earnings do not include any goodwill amortization. The Financial Accounting Standards Board has replaced the amortization of goodwill on acquisitions from 2002 by an impairment test for the purposes of US GAAP. This im-

pairment test is scheduled for the third quarter such that goodwill amortization will not be reflected in earnings until the third quarter.

Despite the difficult market situation in the IT sector, we are on track for the profit zone.

We began to see a positive trend in cash flow in the second half of 2001. In the first quarter of 2002 cash flow from operating activities was also much improved at negative MEUR 0.67 versus negative MEUR 4.3 in the prior-year quarter. We expect a positive cash flow from operating activities for fiscal year 2002.

### Capital Expenditure

Capital expenditure came to MEUR 1.6 as of March 31, 2002 (MEUR 3.4 as of March 31, 2001). The low level of investment at the beginning of the year is representative of the entire year.

Aside from the Outsourcing & Services division and regular replacement investments, we have not planned any major capital expenditure for 2002.

## Employees

As of March 31, 2002 the Group employed 1,462 people as opposed to 1,477 at the same time last year. 763 of these employees worked in Germany and 699 abroad. Fiscal year 2001 was an eventful year for our employees due to numerous restructuring measures. In the last few months management has provided support to help employees gain their bearings in the new organizational structures. The growing satisfaction of employees and customers in the projects is proof of the success of itelligence AG's realignment.

## Investor Relations

Investor relations in the first three months of the current fiscal year were dominated by the reporting on fiscal year 2001. We received a positive response to the look back on the year at our results press conference in March and in the daily press and business press. The improvements in costs and productivity achieved in 2001 were

generally acknowledged. The outlook for 2002 has also dominated communication with the financial community in the last few weeks. One highlight was the analyst forum at CeBIT 2002. The presentation of our strategic positioning as a leading international full-service provider for SAP attracted a lot of interest from the international visitors in Hanover.

## Outlook

Our planning for fiscal year 2002 is intentionally cautious. We can therefore adhere to our annual forecasts (sales growth 10 percent, positive EBIT and an EBITDA margin of around 5 percent) even if the weak economic conditions continue. Should the anticipated improvement in the license business in 2002 be delayed still further, we are now in a position to compensate for a weak license business with our excellently positioned SAP Consulting division. By contrast, if the license business recovers we will be able to exceed our expectations for the year as a whole. At the

end of 2001 we began to focus our business model on the consulting business. Apart from being able to compensate for the volatile license business, concentrating on consulting makes us independent of short-lived IT market trends. Internally we have taken steps to improve our results of operations and financial position. Our strategic positioning has been confirmed by the market. This makes us cautiously optimistic for the Group's future, and we hope that we can pass on this confidence to you, our employees, customers and investors.



Herbert Vogel  
CEO

Consolidated Balance Sheet as of March 31, 2002 and 2001 as well as of December 31, 2001 (US-GAAP)

	March 31, 2002 KEUR	March 31, 2001 KEUR	December 31, 2001 KEUR
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8,609	9,752	12,169
Trade accounts receivable, net	39,230	43,961	42,659
Inventories, net	2,106	2,931	2,440
Prepaid expenses	4,294	3,916	668
Other current assets	5,858	5,751	4,690
Deferred tax assets	0	1,611	0
<b>Total current assets</b>	<b>60,097</b>	<b>67,922</b>	<b>62,626</b>
<b>Non-current assets</b>			
Deferred tax assets	5,162	3,311	5,154
Intangible assets, net	19,211	19,446	18,145
Property, plant and equipment, net	11,579	11,471	12,041
Financial assets	539	890	479
<b>Total non-current assets</b>	<b>36,491</b>	<b>35,118</b>	<b>35,819</b>
<b>Total Assets</b>	<b>96,588</b>	<b>103,040</b>	<b>98,445</b>

	March 31, 2002 KEUR	March 31, 2001 KEUR	December 31, 2001 KEUR
<b>Liability and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Current liabilities due to banks	12,541	11,960	13,725
Trade accounts payable	13,315	18,836	12,164
Liabilities due to associated companies	79	0	63
Advance payments received	125	2,265	4,944
Other current accruals	8,504	9,223	8,902
Other current liabilities	9,176	6,072	10,108
Current deferred tax assets	143	943	212
Tax accruals	1,729	1,450	1,613
Deferred income	6,079	5,112	867
<b>Total current liabilities</b>	<b>51,691</b>	<b>55,861</b>	<b>52,598</b>
<b>Non-current liabilities</b>			
Pension reserves	265	353	224
Bonds	741	493	760
Long-term liabilities due to banks net of current maturities	5,094	6,585	5,142
Other non-current liabilities	5,513	0	5,906
Deferred tax liabilities	0	37	0
<b>Total non-current liabilities</b>	<b>11,613</b>	<b>7,468</b>	<b>12,032</b>
<b>Total liabilities</b>	<b>63,304</b>	<b>63,329</b>	<b>64,630</b>
<b>Contingent liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Minority interests</b>	<b>234</b>	<b>1,831</b>	<b>488</b>
<b>Shareholders' Equity</b>			
Common stock (16,771,202 shares)	16,771	16,359	16,771
Capital reserves	19,768	18,934	19,768
Retained earnings	-585	3,945	-158
Accumulated other comprehensive income/loss	-2,904	-1,358	-3,054
<b>Total Shareholders' Equity</b>	<b>33,050</b>	<b>37,880</b>	<b>33,327</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>96,588</b>	<b>103,040</b>	<b>98,445</b>

## Consolidated Statement of Income for the Period January 1 to March 31, 2002 and 2001 (US-GAAP)

	Jan. 1 to March 31, 2002 KEUR	Jan. 1 to March 31, 2001 KEUR
(all figures in thousands of Euros except for number of shares and per-share amounts)		
Sales	43,581	41,140
Cost of sales	-32,176	-30,978
<b>Gross profit</b>	<b>11,405</b>	<b>10,162</b>
<b>Operating expenses</b>		
Selling and marketing expenses	-3,776	-4,027
General and administrative expenses	-6,768	-4,946
Research and development expenses	-471	-2,271
Goodwill amortization	0	-904
Other operating income/expenses, net	-358	49
<b>Total operating expenses</b>	<b>-11,373</b>	<b>-12,099</b>
<b>Operating result</b>	<b>32</b>	<b>-1,937</b>
<b>Other income/expenses</b>		
Income from investments	8	22
Interest income/expenses, net	-362	-97
<b>Other income/expenses</b>	<b>-354</b>	<b>-75</b>
<b>Result before tax</b>	<b>-322</b>	<b>-2,012</b>
Income taxes	-188	626
<b>Net income/net loss for the period before minority interests</b>	<b>-510</b>	<b>-1,386</b>
Minority interests	83	-96
<b>Net income/net loss for the period</b>	<b>-427</b>	<b>-1,482</b>
Loss per share in EUR - basic	-0.03	-0.09
Loss per share in EUR - diluted	n/a	n/a
<b>Weighted average number of shares used to calculate loss per share</b>		
- basic	16,771,202	16,358,317
- diluted	17,521,351	17,224,431

Consolidated Statement of Changes in Shareholders' Equity as of March 31, 2002 and 2001 (US-GAAP)

	No. of shares issued and outstanding	Common stock KEUR	Capital reserve KEUR	Retained earnings KEUR	Accumulated other Comprehensive income/loss KEUR	Total shareholders' equity KEUR	Comprehensive income/loss KEUR
<b>December 31, 2000</b>	<b>16,358,317</b>	<b>16,359</b>	<b>18,934</b>	<b>5,495</b>	<b>-1,098</b>	<b>39,690</b>	
Net loss for the period/distribution				-1,550		-1,550	-1.550
Capital increase							
Foreign currency translation					485	485	485
Valuation of securities available for sale					-745	-745	-745
Comprehensive income/loss							-1.810
<b>March 31, 2001</b>	<b>16,358,317</b>	<b>16,359</b>	<b>18,934</b>	<b>3,945</b>	<b>-1,358</b>	<b>37,880</b>	
<b>December 31, 2001</b>	<b>16,771,202</b>	<b>16,771</b>	<b>19,768</b>	<b>-158</b>	<b>-3,054</b>	<b>33,327</b>	
Net loss for the period				-427		-427	-427
Capital increase							
Foreign currency translation					94	94	94
Valuation of securities available for sale					56	56	56
Comprehensive income/loss							-277
<b>March 31, 2002</b>	<b>16,771,202</b>	<b>16,771</b>	<b>19,768</b>	<b>-585</b>	<b>-2,904</b>	<b>33,050</b>	

Consolidated Statement of Cash Flow for the Period  
January 1 to March 31, 2002 and 2001 (US-GAAP)

	March 31, 2002 KEUR	March 31, 2001 KEUR
<b>Cash Flow from operating activities</b>		
Net income/net loss for the period	-427	-1,482
<b>Adjustments to net loss for the period</b>		
Minority interests	-83	96
Depreciation and amortization	1,104	1,986
Change in deferred taxes	-77	-954
Change in pension reserves	41	57
Change in inventories	334	-283
Change in trade accounts receivable	3,429	7,943
Change in other current assets	-4,794	-1,078
Change in other non-current assets	0	0
Change in trade accounts payable and advance payments received	-3,652	-7,235
Change in other current liabilities and accruals	3,456	-3,286
Other non-cash income/expenses	0	-46
<b>Cash Flow from operating activities</b>	<b>-669</b>	<b>-4,282</b>
<b>Cash Flow from investing activities</b>		
Investments in intangible assets and property, plant and equipment	-940	-2,912
Investments in financial assets	0	0
Investments in minority interests, investments and loans	-678	-529
<b>Cash Flow from investing activities</b>	<b>-1,618</b>	<b>-3,441</b>
<b>Cash Flow from financing activities</b>		
Changes in minority interests	0	-98
Issue of bonds	-19	-10
Bank liabilities repaid/raised	-70	-1,087
Loans raised	0	0
<b>Cash Flow from financing activities</b>	<b>-89</b>	<b>-1,195</b>
Foreign currency translations	0	474
<b>Net change in cash and cash equivalents</b>	<b>-2,376</b>	<b>-8,444</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>-1,556</b>	<b>6,236</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>-3,932</b>	<b>-2,208</b>
<b>Composition of cash and cash equivalents at the end of the period</b>		
Balances at banks, cash on hand	8,609	9,752
Liabilities due to banks (current)	-12,541	-11,960
<b>Cash and cash equivalents at the end of the period</b>	<b>-3,932</b>	<b>-2,208</b>

## Notes to the Interim Financial Statements

### General Information

The consolidated interim financial statements for the period ended March 31, 2002 were prepared in accordance with United States Generally Accepted Accounting Principles (US GAAP). The consolidated financial statements were not reviewed by the auditor. The consolidated interim financial statements account for all current transactions and cut-offs that management deems necessary to present the interim results accurately.

### The Company

itelligence AG was formed in May 2000 by a non-cash contribution. Under the merger agreement signed in May 2000, the principal shareholders of SVC AG, Schmidt Vogel Consulting, Bielefeld, and the shareholders of APCON AG, Hamburg,

subscribed for approx. 45 percent and approx. 55 percent, respectively, of the Company's shares.

itelligence's services range from specialized SAP industry solutions and innovative customized software technologies to the integration of highly complex IT and e-business systems including Outsourcing & Services.

### New Accounting Principles

Under SFAS No. 141/142, goodwill and intangible assets with indefinite lives are no longer subject to regular amortization but are to undergo an impairment test at least once a year. For more details please refer to pages 43 and 44 of the Annual Report 2001.

The Company intends to apply SFAS 142 for the first time as of September 30, 2002.

### Segment Reporting

The Company has one operating segment according to the requirements of SFAS 131. Please refer to the key figures for the revenue of the divisions.

### Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of intangible assets came to a total of MEUR 1.1 (prior year: MEUR 1.09) in the functions of production, sales and marketing, research and development and administration. Goodwill was not amortized. In the absence of SFAS 141/142 regular goodwill amortization would have amounted to MEUR 0.82 (prior year: MEUR 0.90) in the first quarter of 2002.

## Shareholders

As of March 31, 2002 itelligence AG's shares are held by:

Wolfgang Schmidt:	16.2 %
Vogel family:	15.9 %
Petra Berner:	9 %
Frank family:	7,7 %
Lamb family:	7.5 %
Burkhard Berner:	4.3 %
Free float:	39.4 %

itelligence AG has entered into a pool agreement of its own with all of its principal shareholders, tying up 55 percent of the total capital stock until September 2002. This percentage and the few shares held by principal shareholders that are not tied can only be sold in a special placement.

## Directors Holdings

Members of the Management Board and Supervisory Board held the following numbers of itelligence shares as of March 31, 2002:

	Shares
Management Board:	
Herbert Vogel	1,657,286
Burkhard Berner	721,223
Norbert Frank	375,659
Prof. Dr. Hermann Hueber	22,881

Supervisory Board:

Dr. Markus Wenserski	0
Hans-Holger Lamb	0
Leonhard Fischer*	0
Dr. Andreas Leimbach	0
Wolfgang Schmidt	2,723,167
Peter Schultz-Ossmer*	10,000

\*withdrew from the Supervisory Board as of February 5, 2002

Neither the Management Board nor the Supervisory Board held convertible bonds of itelligence AG as of March 31, 2002.

## Service

All itelligence AG reports can be downloaded from the Internet. At [www.itelligence.de](http://www.itelligence.de) you will find reports in German and English. At this Internet address you can also register for the mailing list for news and press releases under Investor Relations / Dialog. You will then receive the latest news by e-mail.

## Important Events in 2002

May 28, 2002	itelligence shareholders' meeting 2002, Frankfurt
August 21, 2002	Publication of the six month report
November 20, 2002	Publication of the nine month report

