

**it**elligence powered by APCON & SVC

2/2001

### Highlights

- Sales in the first six months up 36 percent to MEUR 87.4
- SAP midmarket license business well below budget
- Lower margins and higher costs weaken profitability
- Restructuring to continue
- Costs and earnings situation will improve in the second half of the year

In the first half of the current fiscal year itelligence AG increased its sales by more than planned. The operative business performed well in the second quarter especially.

However, one-off expenses caused by write-downs and pressure on margins meant that earnings were lower than expected. A sluggish license business also affected the earnings situation.

A restructuring program designed to cut costs was launched in the second quarter by the new CFO Prof Dr Hermann Hueber and will be followed consistently in the second half of the year.

The program covers R&D, sales and marketing and administration activities in both Europe and the United States. itelligence is benefiting already from a great improvement in productivity.

Overall, these measures and the new license business should help to boost profitability – in conjunction with rising sales. The goal is to attain balanced EBITDA for the year as a whole.

### Business Development

All in all, itelligence's traditional business segments performed better than in the first quarter: SAP and Customized IT Consulting developed encouragingly, as did the new business segment Outsourcing & Services. With companies being reluctant to invest in IT, the license business remained weak, although the pipeline picked up towards the end of the first half. Overall, itelligence expects that many of its projects will not translate into sales and earnings until the second half of the year.

### Customer Relationship Management

By the middle of the year, the IT service company had completed its first successful projects in the new Customer Relationship Management (CRM) business segment. In this segment, which is in great demand, itelligence enjoys a key competitive edge thanks to its many years of experience and early entry into the market. CRM, which entails the complex integration of system processes, demands an in-depth understanding of SAP system

modules. itelligence has the necessary IT know-how and SAP expertise, built up over many years, for the up-and-coming field of CRM solutions. itelligence's CRM competencies were underlined in a CRM roadshow staged in conjunction with Compaq and SAP and by the winning of numerous CRM projects in the first six months of the year, with clients such as the Klingelnberg-Oerlikon Group. Its SAP competence and in-depth industry know-how enable itelligence to optimize complex systems for its clients.

### SAP

In 2000 itelligence positioned itself as an international force in SAP services, offering an object-oriented approach, concentrated industry competence and specialist technological know-how. itelligence is heading towards another successful year in its partnership with SAP in 2001. At the end of the second quarter itelligence's consultants were working to capacity for the first time. The SAP license business is showing signs of improvement after deals were signed in the US and Italy. After a general reluctance of businesses to invest in IT at the beginning of the year, management expects to follow last year's successes in this segment in terms of the results of operations in the second half of the year.

### Customized IT Solutions

itelligence has made a name for itself in the IT industry as a business that focuses on solution. The company has built up the sophisticated technological and professional skills needed for Customized IT Solutions over many years. The Customized IT Consulting segment has been performing better

since the beginning of the second quarter. Nevertheless, itelligence is still experiencing downward pressure on its margins. The consulting business is still working below capacity compared to the prior year.

### Outsourcing & Services

Once again, great efforts were made to promote the Outsourcing & Services segment in the first six months of the current fiscal year. All five service centers – in Bielefeld, Walldorf, Bautzen, Cincinnati, and Poznan (Poland) – reported an improvement in capacity utilization in the first half of 2001. Approximately 380 companies made use of global support from the highly specialized teams in the first six months alone, thereof 35 customers in Outsourcing. The Outsourcing & Support services are a successful complement to the wide range of services offered by itelligence AG. They enable

itelligence AG to cover the next step in the chain and take full charge of the operation of complex, customized system solutions.

In a recent project for Benteler AG, itelligence demonstrated its skills in the implementation and outsourcing of entire e-business solutions. With 34 production sites in 13 countries, Benteler is one of the world's leading industrial enterprises in the steel/tubing, automotive technology and mechanical engineering sectors. Given the large volumes involved, procurement is a complex and costly activity for the multinational group. itelligence was asked to create a group-wide procurement system to make the purchasing process more effective and efficient. For the customized B2B procurement solution, itelligence integrated SAP Enterprise Buyer Professional (EBP) 2.0c in combination with a complex online catalogue system developed by Heiler Software AG. Benteler AG's 17,000 employees will be able to order anything from office supplies to manufacturing supplies straight from the supplier using the central online catalogue.

itelligence not only implemented the various systems, its Outsourcing & Services division will also regularly maintain and integrate supplier data (Content Management as an ASP solution) for the multinational group. This full e-procurement solution is being managed from the itelligence computer center in Bautzen.

#### Financial Performance

##### Sales

In the first half of the current fiscal year, itelligence AG's sales were up 36 percent from MEUR 64.3 to MEUR 87.4, continuing the strong sales growth.

MEUR 44.3 of total sales were generated in Germany, MEUR 43.1 abroad. At MEUR 21.2, 49 percent of foreign sales were generated in the United States. In the first six months, the consulting business reported sales of MEUR 70.6.

Sales of the Outsourcing & Services segment came to MEUR 9.5. With sales of MEUR 6.5, the SAP license business was well below budget. The reluctance of US companies to invest in IT, already noticeable at the beginning of the year, was the main reason for this shortfall, although the license business also failed to develop satisfactorily in Germany and the rest of Europe.

##### Earnings Situation

High sales costs coupled with a weak license business resulted in negative EBIT of MEUR -4.6. Selling expenses and poor license sales depressed earnings in Germany and the United States in particular. A large-scale program of cost-cutting activities is already underway. Consultant productivity saw an overall improvement.

Market conditions in a weakened economic environment meant that itelligence had to write-down higher levels of accounts receivable, which resulted in a one-off special effect of MEUR 2.2 in the second quarter.

The expenses for standardizing systems in the operative business, controlling and accounting had an additional effect on the results of operations. Internal costs of MEUR 0.5 were incurred in the first six months. External expenses of MEUR 0.6 were incurred in connection with the merger. Likewise, personnel changes in the first six months resulted in higher costs; turnover in the wake of the merger in particular had a negative effect on both sales growth and the earnings situation. New employees were unable to make up for the loss of know-how without interruption.

EBITDA fell accordingly, from MEUR 0.8 in the same period in the prior year to MEUR -0.8. Likewise, EBIT in the first six months of 2001 came to MEUR -4.6, compared with MEUR -1.2 in the year before. After the first six months of 2001, earnings per share were at EUR -0.19, as against EUR -0.03 in the same period last year.

##### Restructuring Activities

In view of the earnings situation, the Management Board of itelligence AG has been creating more cost-effective structures in the areas of administration, research and development and sales.

The business segments were aligned more closely with the operative business and capacities were assigned accordingly. Sales activities in particular were restructured in line with the SAP sales organization and a sharper industry focus. itelligence has focused the R&D activities of its numerous IT and SAP development centers into its core business segments. Consulting capacities will be shifted mainly to project business. Most product developments will only be undertaken in cooperation with the client.

The first phase of restructuring already had a positive effect on the overall business situation by the end of the second quarter.

Management expects the measures in place to have a lasting impact on the overall sales and earnings position in the third quarter.

All of the steps taken will be intensified and followed up in a second phase in the latter half of the year. The Management Board will also push ahead with the following steps:

- No more staff will be hired in certain areas of the company, particularly in the administrative area as well as in offices with consulting productivity below budget.
- Smaller work units will be combined.
- All company locations will be analyzed with a view to profitability as well as the effectiveness of the measures taken.

Prof Dr Hermann Hueber, who has replaced Dr Thomas Wrede as CFO, is in charge of the restructuring activities. The new CFO, Prof Dr Hueber, born in 1948, is an eminent finance expert with great treasury and controlling expertise and a longstanding member of the company. After joining the company in 1994, Prof Dr Hueber played a key part in the strategic development of SVC AG/itelligence AG. Prof Dr Hueber has many years of experience in executive positions in the company's operative business. In his capacity as CFO, Prof Dr Hueber will pursue itelligence's rigorous focus on increasing profitability.

#### Capital Expenditure

Capital expenditure in the first half of 2001 came to MEUR 4.9. Most of the spending went towards the new building in Bielefeld, which hosts a client training center and a new computer center. itelligence also invested in extending its computer center in Bautzen. Research and development investments of MEUR 2.9 were posted immediately to expenses as in the past.

#### Going Global

Internationally, business improved in the second quarter. In addition to the United States, Austria and Spain also reported improved performance in the second quarter. The global economic downturn prevented itelligence from attaining the planned positive results in all of its units. As a result, the start-up losses of the new companies and acquisitions were higher than planned in the second quarter. itelligence will nevertheless continue to pursue its expansive growth strategy, concentrating on the profitability of each of its locations. In the first six months, foreign business has already generated MEUR 43.1, and thus accounts for 49 percent of sales.

#### Employees

At the end of the first half of 2001, itelligence AG employed 1,505 people, as against 1,156 as at June 30, 2000. itelligence believes that it has a responsibility to foster its employees' know-how and to pursue a balanced personnel policy in line with market conditions.

The restructuring in the first half of the year also affected personnel at itelligence AG. In Europe, in particular, employee capacities were shifted from research and development to the operative business for strategic reasons. In Germany, new employees were hired in response to increased demand for SAP skills. In order to keep know-how standards high, itelligence staff receive constant training.

The numerous training sessions range from system areas such as SCM and portals to CRM. The long-term scheme of employee training in the IBM web-Sphere environment is worth of special mentioning; here itelligence is working on a system area that is enhanced by the collaboration between SAP and IBM.

#### Investor Relations

Following Dr Thomas Wrede's departure, investor relations activities will be the responsibility of the CEO, Herbert Vogel. In his capacity as CEO, Mr Vogel has been intensively involved in communication with the financial community in the past and has been a successful spokesman for the company in the media and in presentations to analysts. One highlight of the second quarter was the company's appearance at the analysts' conference organized by

Deutsche Bank in Cannes, France, where Mr Vogel presented itelligence AG in terms of its positioning and market assessment.

The itelligence share was not able to defy the downward trend of the New Market. General insecurity in the capital markets concerning IT services and a slow first quarter for itelligence also affected the share's performance. Due to the low share price at present, the company is making structural changes, accompanied by efforts to maintain intensive relations with its shareholders and the financial community.

#### Outlook

itelligence expects growing utilization of its consulting capacities in the months to come. SAP consulting and Customized IT Consulting will continue to be in great demand in the current fiscal year. itelligence expects its order situation in the license business to improve in Germany and the United States. itelligence will deepen its collaboration with SAP further.

The company intends to improve its earnings situation in the third quarter with the aid of the anticipated profitability increases in all of its areas. There will no longer be any internal and external merger-related costs and the steps to cut costs and increase efficiency currently implemented will lead to further earnings improvements in the following quarters. Management forecasts 25 to 30 percent increase in total sales and balanced EBITDA for the year as a whole.

**Shareholders**

As of June 30, 2001 itelligence AG's shares are held by:

Wolfgang Schmidt	16.6 %
PSO Vierte Verwaltungsges.	17.6 %
Vogel family	16.3 %
Frank family	8.2 %
Burkhard Berner	4.4 %
Petra Berner	2.4 %
Free float	34.5 %

**Notifiable Securities****Transactions**

The following shares and convertible bonds are held by the Supervisory Board and the Executive Board:

	Shares	Convert- ible bonds
<b>Executive Board:</b>		
Herbert Vogel	1,657,286	-
Burkhard Berner	1,848,798	-
Norbert Frank	450,659	-
Prof Dr Hermann Hueber	17,872*	-

**Supervisory Board:**

Dr Markus Wenserski	-	-
Dr Andreas Leimbach	-	-
Leonhard Fischer	-	-
Peter Schultz-Ossmer	10,000	-
Wolfgang Schmidt	2,723,167	-
Hans Holger Lamb	284,149	-

\* of which 500 are SVC shares

**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 (Investor Relations/Dialog) you can also register by e-mail for entry in the mailing list to receive the latest news and press releases.

**Events**

October 15 to 18, 2001 \_\_\_\_\_ DVFA Media & IT Forum in Munich, itelligence presentation

November 20, 2001 \_\_\_\_\_ Quarterly report 3/2001

## Consolidated Balance Sheets according to US GAAP

Assets	30. 6. 01 million Euro	31. 12. 00 million Euro
<b>Current Assets</b>		
- Cash and cash equivalents	8.97	12.48
- Trade accounts receivable	45.42	51.90
- Inventories	2.77	2.65
- Other current assets	4.97	4.62
- Prepayments	3.10	3.97
- Deferred tax assets	1.78	1.07
<b>Total Current Assets</b>	<b>67.01</b>	<b>76.69</b>
<b>Non-Current Assets</b>		
- Deferred taxes	4.19	2.36
- Other non-current assets	0.00	0.00
- Financial assets	0.55	2.16
- Intangible assets	19.26	18.87
- Property, plant and equipment	11.91	10.60
<b>Total Non-Current Assets</b>	<b>35.91</b>	<b>33.99</b>
<b>Total Assets</b>	<b>102.92</b>	<b>110.68</b>

Liabilities and Shareholders' Equity	30. 6. 01 million Euro	31. 12. 00 million Euro
<b>Current Liabilities and Accruals</b>		
- Short-term financial debt	15.39	6.24
- Trade accounts payable	15.24	25.49
- Liabilities to associates	0.00	0.00
- Advance payments	1.07	2.86
- Other accruals	8.90	8.84
- Other current liabilities	7.84	7.64
- Deferred taxes	0.94	0.99
- Accrued taxes	1.59	1.74
- Deferred income	4.96	6.92
<b>Total Current Liabilities and Accruals</b>	<b>55.93</b>	<b>60.72</b>
<b>Non-Current Liabilities and Accruals</b>		
- Pension reserves	0.39	0.29
- Bonds	0.84	0.50
- Long-term financial debt	7.96	7.68
- Deferred taxes	0.04	0.04
<b>Total Non-Current Liabilities and Accruals</b>	<b>9.23</b>	<b>8.51</b>
<b>Minority Interest</b>	<b>1.61</b>	<b>1.76</b>
<b>Shareholders' Equity</b>		
- Share capital	16.36	16.36
- Capital reserves	18.93	18.93
- Comprehensive income/loss	-1.46	-1.10
- Retained earnings	2.32	5.50
<b>Total Shareholders' Equity</b>	<b>36.15</b>	<b>39.69</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>102.92</b>	<b>110.68</b>

## Consolidated Statements of Income according to US GAAP

	1. 1. – 30. 6. 01 million Euro	1. 1. – 30. 6. 00 million Euro
Sales	87.40	64.26
Cost of sales	-64.64	-50.15
<b>Gross Income</b>	<b>22.76</b>	<b>14.11</b>
Selling	-8.92	-6.23
Research and development expenses	-2.93	-0.32
General and administration	-12.37	-8.07
Goodwill amortization	-1.59	-0.71
Other Operating Income/Expense, net	-1.52	0.04
<b>Operating Income</b>	<b>-4.57</b>	<b>-1.17</b>
Income from investments	0.20	0.02
Interest income, net	-0.43	0.21
<b>Income before Tax</b>	<b>-4.80</b>	<b>-0.94</b>
Income taxes	1.58	0.40
<b>Net Income before Minority Interest</b>	<b>-3.22</b>	<b>-0.54</b>
Minority interest	0.07	-0.03
<b>Net Income/Loss</b>	<b>-3.15</b>	<b>-0.57</b>

## Consolidated Statements of Cash Flow according to US GAAP

	30. 6. 01 million Euro	30. 6. 00 million Euro
<b>Cash Flow from Operating Activities</b>		
Net income/loss	-3.15	-0.57
<b>Adjustments to Net Income/Loss</b>		
Minority interests	-0.07	0.03
Depreciation and amortization	3.77	1.97
Change in deferred taxes	-1.87	-1.06
Change in pension reserves	0.10	0.02
Change in other long term liabilities and accruals	0.00	0.00
Change in inventories	-0.12	-0.50
Change in trade accounts receivable	6.48	-5.08
Change in other current assets	0.52	-0.18
Change in other non-current assets	0.00	-0.01
Change in trade accounts payable and advance payments	-12.04	-1.15
Change in other current liabilities and accruals	-1.85	0.37
Other cash income/expenses	-0.05	0.00
<b>Cash Flow from Operating Activities</b>	<b>-8.28</b>	<b>-6.16</b>
<b>Cash Flow from Investing Activities</b>		
Investments in intangible assets and property, plant and equipment	-4.94	-3.95
Investments in financial assets	0.00	0.24
Investments in minority interests, investments and loans	-0.53	0.00
<b>Cash Flow from Investing Activities</b>	<b>-5.47</b>	<b>-3.71</b>

	30. 6. 01 million Euro	30. 6. 00 million Euro
<b>Cash Flow from Financing Activities</b>		
Capital increases and contribution for capital increase	0.00	0.00
Premium from capital increase	0.00	0.00
Changes in capital reserves due to transactions with no effect on income	0.00	0.00
Dividends paid, net	0.00	0.00
Dividends paid (minority interest)	-0.07	0.00
Issue of bonds	0.34	0.00
Change in financial debt	0.29	0.29
Change in minority interest	-0.08	0.17
<b>Cash Flow from Financing Activities</b>	<b>0.48</b>	<b>0.46</b>
Foreign exchange rate differences	0.61	0.07
<b>Net Change in Cash and Cash Equivalents</b>	<b>-12.66</b>	<b>-9.34</b>
<b>Cash and Cash Equivalents at the Beginning of the Year</b>	<b>6.24</b>	<b>28.25</b>
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>-6.42</b>	<b>18.91</b>

**itelligence AG**

**Investor Relations**

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