

**it**elligence powered by APCON & SVC

1/2001

### Highlights

- Sales increase to MEUR 41.1
- EBIT negative at MEUR –1.9
- License business performs poorly, especially in the United States
- Target: 25 percent to 30 percent increase in sales in fiscal year 2001, positive EBIT

itelligence AG's last fiscal year was dominated by the merger, the associated realignment and the expansion of the international sales network focusing on the United States. These events will have a sustained impact on business development in the first two quarters of the current year.

### Business development

The fiscal year commenced with healthy sales at the upper end of the target range. At the same time, however, two factors reduced income. After extensive investment, itelligence is now the SAP system house with the strongest presence in the United States. The development of the IT sector in this country thus has a direct and sustained impact on the results of operations of the entire company. The consulting business of the US subsidiary fared well despite the current poor performance of the US IT market, but our midmarket customers in the United States proved to be reluctant to invest in new licenses. This interrupted the successful development of license business seen in 2000. A loss of MEUR 1.4 was made in the United States in the first quarter on account of the high growth of the sales force. In the long term, itelligence remains committed to the expansion of the strategically important US business, but will adjust its structures to reflect market conditions in the short term.

The effects of the merger were still felt in Germany, where too much emphasis on R&D and product development had a negative impact. Steps have been taken to remedy this situation by ensuring that the numerous IT and SAP development centers concentrate on their core business areas, and involving consultants in project business. In addition, itelligence is currently reorganizing its German sales and marketing function in close consultation with SAP, moving towards a greater industry focus.

All in all, the first quarter saw a positive response from the market to the company's strategic realignment after the merger. At CeBIT in March 2001, IT specialists from around the world reacted very positively to itelligence's core competencies, SAP-based solutions, customized IT solutions and outsourcing & services. In total, itelligence established business contacts with over 450 new customers during the fair – more than twice as many as last year. Visitors expressed particular interest in Internet-based solutions in the fields of CRM, eProcurement and marketplaces. The company also unveiled its new SAP web application server with the SAP.readytowork solution for mechanical engineering, "it.engine". The R/3 system is thus now fully web-compatible and accessible via Internet browsers. Other web-compatible industry solutions by itelligence include it.trade (commerce) and it.service (service sector).

### Sales and earnings

In the first three months of 2001, sales increased by 30 percent to MEUR 41.1 against the prior year. MEUR 22.5 of total sales was generated in Germany, MEUR 18.6 abroad. Foreign sales thus account for 45.3 percent. At MEUR 8, 43 percent of foreign sales were generated in the United States.

The consulting business recorded 35.9 percent growth. The performance of the license business was most unsatisfactory, with sales of MEUR 2.2. This figure is below the previous year's sales of MEUR 2.9 and significantly less than budgeted. The poor performance of the license business mainly concerns the United States, but the development in Germany and the rest of Europe was also unsatisfactory. Sales from outsourcing & services increased from MEUR 3.3 to MEUR 4.6.

High sales and marketing costs coupled with a poor license business resulted in negative EBIT of MEUR –1.4 in the United States. Due to the changed market situation cost-cutting measures have been initiated in the United States. In Germany, the high cost of sales and marketing and low license revenues also reduced earnings. In addition, staff members were engaged in numerous R&D projects that started during the merger. Measures have already been initiated for the second quarter to reverse this situation and to appoint the majority of employees back to consulting projects.

### Capital expenditure

Capital expenditure came to MEUR 3.4 in the first three months. A significant investment was the modernization and extension of the computer center in Bautzen.

In addition, MEUR 2.3 was invested in research and development and recognized directly as an expense in the period under review. Some of this money went towards the further development of industry solutions.

Alongside its proven SAP solutions, itelligence will gear its customized IT sector more strongly towards core industries in future. Here in the IT area, the company already has in-depth industry know-how in the financial services and banking sectors. Our clients range from Deutsche Bank subsidiary Easy-Cash to the credit insurer Hermes Kreditversicherung. The customized IT solutions segment will also be expanded further on an international level.

### Consulting

With its consulting and implementation expertise built up over many years, itelligence is today the world's largest SAP reseller for midmarket customers. At the beginning of the year, the company received two awards from SAP for the most successful system house. Moreover, the new partnerships "mySAP.com Alliance Partner Service" and "mySAP.com Partner Midmarket System House" are testimony to the increased collaboration in the mySAP area. Major clients currently account for some 60 percent and medium-sized businesses for 40 percent of SAP business.

Our industry-specific SAP know-how extends to specialized industries. Our recent acquisition of Nobilia-Werke as a customer means that three of the four biggest European kitchen manufacturers – a market dominated by medium-sized businesses – have entrusted itelligence with the extension of their IT systems to manage business processes worldwide.

We have also won numerous new projects for major clients – including big names such as Buderus Edelstahl and Alcatel subsidiary Nexans. itelligence has embarked on special e-business projects at customers such as Klöckner and Oetker.

The development of customized IT solutions is primarily technology driven. itelligence is working with JWAM and IBM Websphere Application Servers to further enhance its technology leadership in the current year. The company also plans to collaborate with IBM in the customized solutions area to produce customized integrated IT solutions for the international market. One such customized integrated IT solution based on object-oriented programming is currently being implemented by the insurance company Itzehoer Versicherung.

### Outsourcing & Services

Long-term investments have already soundly positioned itelligence in the promising outsourcing & services market. In January of this year, the company opened its modernized and extended computer center in Bautzen – the third of its kind after Bielefeld and Poznan (Poland). With its extensive capacities, itelligence offers a 24-hour service not only to users in Germany, but also in the United States and elsewhere. In the period under review, itelligence won high growth companies such as the Neuer Markt-listed chip broker ce Consumer Electronic AG for its outsourcing service. itelligence had previously implemented a customized SAP solution based on Linux at this company. An international player, this company's entire SAP/Linux system is now controlled by itelligence servers in Bautzen. The overall package is proof of our ability to provide highly individualized integrated IT solutions plus complete outsourcing and around-the-clock service – giving us a clear edge in know-how.

### Going global

We made further inroads into foreign markets in the first quarter of the current year, focusing especially on expanding our existing locations.

With the acquisition of the Austrian company SABACON, a specialist in the fields of business intelligence, knowledge management and e-business, itelligence added a product-independent developer and provider of individual IT solutions to its international network. In the first three months, foreign business has already reached MEUR 18.6, and thus accounts for 45 percent of sales.

itelligence is now represented by 44 branches in 19 countries. Cross-border projects will continue to play a significant role in 2001.

### Employees

On March 31, 2001 itelligence employed 1,477 people worldwide, as opposed to 1,066 employees on March 31, 2000. As in the prior year, itelligence will continue to invest in training employees, especially in the field of mySAP.com and customized IT solutions. Intensive staff support, an employee stock option plan and the international focus of the company makes itelligence an increasingly appealing employer in Germany and abroad.

**Investor relations**

itelligence AG increased its direct and personal contact to the financial community in the period under review, one of the highlights being the J. P. Morgan investor conference in New York. Here, and at the IT analyst forum at CeBIT 2001 in Hanover, the Management Board also presented the company's strategic alignment to international analysts. The extensive studies by various analyst firms are indicative of the high level of interest. Numerous positive company analyses have also been published in the financial press.

**Outlook**

The final formal merger of SVC AG and APCON AG to form the successor itelligence AG will be executed in 2001. Once the merger resolution is adopted at the general meeting of shareholders of SVC AG on May 7, 2001 and the merger is entered in the commercial register, SVC will transfer its entire assets and all rights and obligations to itelligence AG. The actions taken on the income and cost side will have a direct impact on EBIT. This includes the adjustment of structures in the United States in line with the development of license revenues. In Germany, concentration of R&D expenditure on core business segments will see 75 percent of employees back working in the project business from June, having previously been involved in one of the numerous development projects. This will give a significant boost to performance and thus to productivity. In addition, sales and marketing will be reorganized in close consultation with SAP to achieve a greater industry focus, and cost-cutting measures will be introduced at the European subsidiaries.

Orders have improved, especially in the consulting area. Overall, itelligence's license business is still slow.

The company anticipates 25 percent to 30 percent sales growth for the year. Overall, we expect a positive result for the entire year – albeit below budget.

**Shareholders**

itelligence AG's shares are held by:

Wolfgang Schmidt	16.6%
PSO Vierte Verwaltungsges.	17.6%
Vogel family	16.3%
Norbert Frank	8.2%
Burkhard Berner	4.4%
Petra Berner	2.4%
itelligence management	7.0%
Free float	27.5%

**Notifiable securities transaction**

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	–
Dr Thomas Wrede	117,634	102,258
<b>Supervisory Board:</b>		
Dr Markus Wenserski	–	–
Dr Andreas Leimbach	–	–
Leonhard Fischer	–	–
Peter Schultz-Ossmer	10,000	–
Wolfgang Schmidt	2,723,167	–
Hans Holger Lamb	284,149	–

**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**

August 8, 2001 \_\_\_\_\_ General meeting of shareholders in Frankfurt  
 August 21, 2001 \_\_\_\_\_ Quarterly report 2/2001  
 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	31. 3. 01 million Euro	31. 12. 00 million Euro
<b>Current Assets</b>		
- Cash and cash equivalents	9.75	12.48
- Trade accounts receivable	43.96	51.90
- Inventories	2.93	2.65
- Other current assets	5.75	4.62
- Prepayments	3.92	3.97
- Deferred tax assets	1.61	1.07
<b>Total Current Assets</b>	<b>67.92</b>	<b>76.69</b>
<b>Non-Current Assets</b>		
- Deferred taxes	3.31	2.36
- Other non-current assets	0.00	0.00
- Financial assets	0.89	2.16
- Intangible assets	19.45	18.87
- Property, plant and equipment	11.47	10.60
<b>Total Non-Current Assets</b>	<b>35.12</b>	<b>33.99</b>
<b>Total Assets</b>	<b>103.04</b>	<b>110.68</b>

Liabilities and Shareholders' Equity	31. 3. 01 million Euro	31. 12. 00 million Euro
<b>Current Liabilities and Accruals</b>		
- Short-term financial debt	11.96	6.24
- Trade accounts payable	18.84	25.49
- Liabilities to associates	0.00	0.00
- Advance payments	2.27	2.86
- Other accruals	9.22	8.84
- Other current liabilities	6.07	7.64
- Deferred taxes	0.94	0.99
- Accrued taxes	1.45	1.74
- Deferred income	5.11	6.92
<b>Total Current Liabilities and Accruals</b>	<b>55.86</b>	<b>60.72</b>
<b>Non-Current Liabilities and Accruals</b>		
- Pension reserves	0.35	0.29
- Bonds	0.49	0.50
- Long-term financial debt	6.59	7.68
- Deferred taxes	0.04	0.04
<b>Total Non-Current Liabilities and Accruals</b>	<b>7.47</b>	<b>8.51</b>
<b>Minority Interest</b>	<b>1.83</b>	<b>1.76</b>
<b>Shareholders' Equity</b>		
- Share capital	16.36	16.36
- Capital reserves	18.93	18.93
- Comprehensive income/loss	-1.36	-1.10
- Retained earnings	3.95	5.50
<b>Total Shareholders' Equity</b>	<b>37.88</b>	<b>39.69</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>103.04</b>	<b>110.68</b>

## Consolidated Statements of Income according to US GAAP

	1. 1. – 31. 3. 01 million Euro	1. 1. – 31. 3. 00 million Euro
Sales	41.14	31.66
Cost of sales	-30.98	-24.32
<b>Gross Income</b>	<b>10.16</b>	<b>7.34</b>
Selling	-4.03	-2.58
Research and development expenses	-2.27	-0.08
General and administration	-4.95	-2.60
Goodwill amortization	-0.90	-0.30
<b>Other Operating Income/Expense, Net</b>	<b>0.05</b>	<b>0.08</b>
<b>Operating Income</b>	<b>-1.94</b>	<b>1.86</b>
Income from investments	0.02	-0.02
Interest income, net	-0.09	0.16
<b>Income before Tax</b>	<b>-2.01</b>	<b>2.00</b>
Income taxes	0.63	-1.00
<b>Net Income before Minority Interest</b>	<b>-1.38</b>	<b>1.00</b>
Minority interest	-0.10	0.01
<b>Net Income/Loss</b>	<b>-1.48</b>	<b>1.01</b>

## Consolidated Statements of Cash Flow according to US GAAP

	31. 3. 01 million Euro	31. 3. 00 million Euro
<b>Cash Flow from Operating Activities</b>		
Net income/loss	-1.48	1.01
<b>Adjustments to Net Income/Loss</b>		
Minority interests	0.10	-0.01
Depreciation and amortization	1.99	0.87
Change in deferred taxes	-0.95	-0.24
Change in pension reserves	0.06	0.01
Change in other long term liabilities and accruals	0.00	0.00
Change in inventories	-0.28	0.04
Change in trade accounts receivable	7.94	-1.68
Change in other current assets	-1.08	0.26
Change in other non-current assets	0.00	-0.01
Change in trade accounts payable and advance payments	-7.24	-3.38
Change in other current liabilities and accruals	-3.29	-3.00
Other cash income/expenses	-0.05	0.00
<b>Cash Flow from Operating Activities</b>	<b>-4.28</b>	<b>-6.13</b>
<b>Cash Flow from Investing Activities</b>		
Investments in intangible assets and property, plant and equipment	-2.91	-1.66
Investments in financial assets	0.00	-0.05
Investments in minority interests, investments and loans	-0.53	0.00
<b>Cash Flow from Investing Activities</b>	<b>-3.44</b>	<b>-1.71</b>

	31. 3. 01 million Euro	31. 3. 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	-0.01	0.00
Change in financial debt	-1.09	0.19
Change in minority interest	-0.03	0.00
<b>Cash Flow from Financing Activities</b>	<b>-1.20</b>	<b>0.19</b>
<b>Foreign exchange rate differences</b>		
Foreign exchange rate differences	0.47	0.20
<b>Net Change in Cash and Cash Equivalents</b>	<b>-8.45</b>	<b>-7.45</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>-2.21</b>	<b>20.80</b>

**itelligence AG**

**Investor Relations**

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