intentia

Intentia Group / January-September 2000

January–September 2000 Interim Report

Substantial increase in license revenue at 46 percent

- License revenue increased substantially during the period as a result of Intentia's greater competitive strength and the continued rising demand for complete e-collaboration solutions. License revenue in the third quarter increased by 46 percent. License revenue totaled SEK 151 million (104) for the quarter. For the first nine months, license revenue totaled SEK 620 million (503), representing an increase of 23 percent.
- Intentia's successful product development effort during the period, aimed at developing a complete range of components in the area of e-collaboration, afforded the company a stronger product position than ever before.
- The latter part of the third quarter saw an improvement in capacity utilization, as a result of which the consultancy margin for the first nine months of the year was 7 percent. However, the consultancy margin remained unsatisfactory.
- Net revenue for the first nine months totaled SEK 2,230 million (2,182), representing growth of 2 percent. Net revenue during the third quarter declined 3 percent, to SEK 624 million (643).
- Operating earnings were SEK –319 million (–259) for the first nine months and SEK –146 million (–130) for the third quarter.
- We expect a continuation of rapid growth in license sales and a steady improvement of the consultancy margin. Since these improvements will occur within the existing cost structure over the next few quarters, there will be a considerable positive impact on operating earnings.
- To maintain a high level of financial preparedness for Intentia's strong expected growth, the Board has decided to propose a special meeting of stockholders to carry out an issue of new shares during the first half of 2001.

Group Progress

In 2000, Intentia Has Established the Framework for Profitable Long-term Growth

Intentia takes a distinctly long-term view of its business. In recent years, a period during which the market has been sluggish, Intentia has proceeded with its effort to strengthen its offering. The objective has been to fulfil the new requirements that our customers have identified with respect to both applications and service. Such a strategy is a guarantee of our long-term success. With a leading range of products, strong customer base, global organization and highly professional associates, the intense efforts of recent years have laid the groundwork for Intentia to become a long-term leader in its sector. In the past 18–24 months, Intentia repositioned itself from being a traditional ERP developer to an e-collaboration supplier. During the same period, we carried out a comprehensive shift in our technology.

The initial impact was high costs for product development and, to a lesser extent, for sales. Since this repositioning effort occurred during a period when the market was weak, it had a heavy negative impact on earnings. As a result of this effort, which has been necessary for Intentia's long-term success, we have carved out a very strong position in a growing market.

Intentia is now entering a new growth phase, which will bring rapid increases in license sales during the upcoming quarters. This growth phase will reflect not only the positive impact of our efforts over the past few years, but also the balancing of our cost structure. We will expand our volumes while maintaining a focus on profitability. We now have the basis for achieving considerably higher license sales within the framework of our current marketing and product development organization. Thus, we will not allow our product development costs to increase until license revenue has grown by 50 percent, corresponding to license revenue of approximately SEK 1.2 billion on an annual basis.

Owing to continued improvements in both capacity utilization and the commercial terms of the contracts signed this year, Intentia's consultancy margin will steadily increase. As capacity utilization improves, the current surplus capacity in Intentia's consultancy organization will steady shrink. The consultancy organization will not expand further until the consultancy margin has reached 15 percent.

A necessary condition for long-term expansion is that a satisfactory operating margin can be sustained. Intentia has initiated efforts in 2000 aimed at creating the framework for a high level of efficiency during the upcoming growth phase. These efforts entail increased integration of Intentia's various operating units, as well as more efficient utilization of the Group's overall resources in areas such as administration, marketing, IT and product development. This will enable us to launch new products much more rapidly, while coordinating operations and sharpening the focus in our sales and service organizations.

Performance in 2000

Based on our sales this year and the major increase in our prospect base, we see the market returning to rapid growth. Companies will be investing increasing sums to develop business processes and adapt them to new business models. These trends place greater demands on enterprise applications, given that integrated e-business applications are a fundamental requirement for most companies that are currently purchasing new systems. Our customers are focusing more and more on complete solutions and long-term partnership in order to develop their business processes. Product features and implementation are both regarded as part of a complete solution. As a result, the procurement process has become more complex. These developments are fully in line with Intentia's fundamental approach, as well as our range of applications and services. In order to ensure success and satisfactory margins in the projects we undertake, Intentia has chosen to carry out more detailed pilot studies than has been the case earlier. Pilot studies for a number of projects in which Intentia has been chosen as supplier are now under way. Combined with the increase in the total base of procurement projects, these studies provide a solid foundation for ongoing growth.

License revenue increased 46 percent over the third quarter of 1999. The figure represents the most rapid growth in license revenue for a single quarter since the third quarter of 1998. License revenue increased 23 percent for the first nine months of the year.

The consultancy margin was unsatisfactory. The reason for the inadequate margin is that demand declined as a result of the sluggish market in the previous year and the repercussions of the turn of the millennium. Intentia has decided to accept a certain degree of surplus capacity so as to be prepared for the increase we expect in the total number of projects. Capacity utilization improved to some extent, particularly in the latter part of the third quarter.

As part of achieving greater efficiency and thereby laying the groundwork for a continuation of profitable growth, Intentia's strategy is to expand within the framework of its existing cost structure until it achieves satisfactory profitability. Following the launch of this strategy, costs for the second and third quarters of the year were stable and fully in line with our plans. From the beginning of the year until the end of the period, the total number of employees declined from 3,360 to 3,243.

Strong Product Position

Over the past year, Intentia has focused on developing a complete range of integrated components in the area of e-business. As a result, our product position is stronger than ever before. In terms of product offering, Intentia is now the leading supplier of enterprise applications with integrated e-business components—otherwise known as e-collaboration applications.

Intentia's range of products includes complete solutions in the area of e-collaboration, including Enterprise Resource Planning, Supply Chain Management, Customer Relationship Management, Partner Relationship Management, Business Performance Measurement and integrated e-business components. The e-business components consist of applications for B2B (business-to-business) and B2C (business-to-consumer) Web shops, MRO Procurement, Strategic Procurement, e-Collaborator, Employee Self-service, Corporate Portal and Enterprise Business Portal.

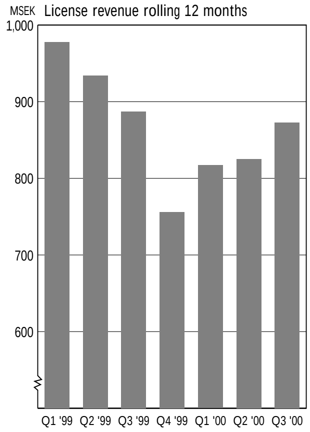
Intentia has launched products during the period that will have a major positive impact on its competitive strength and growth in new segments of the market. For example, we have launched e-Collaborator, which uniformly and efficiently handles the transmission of all types of business information among companies over the Internet.

The transformation of all business information to XML format provides a uniform procedure for exchanging information. Enterprise Business Portal is intended for large international companies that wish to create either an external marketplace or an internal portal for coordination among the group's various units. The purpose of Enterprise Business Portal is to allow traditional businesses to optimize their existing IT investments and infrastructure in order to rapidly position themselves in the new configurations that are developing for Internet-based commerce among companies.

A group can use Enterprise Business Portal internally to create a joint portal that coordinates functions such as purchasing, production, distribution and marketing. Customers, suppliers and even competitors can also be included in an external portal aimed at creating a common marketplace. Enterprise Business Portal can handle the full range of business transactions, including requests for proposal, placing orders, invoicing and payment. All communication is done over the Internet and the enterprise applications of each participant are integrated into the Enterprise Business Portal.

With its component-based and Java-based Movex NextGen technology, Intentia has now achieved technology leadership. Intentia's success in this area has been confirmed by the increasing number of application suppliers that are launching their Java initiatives.

Since product development has been highly efficient, Intentia has been able to implement these projects at a relatively low cost. Product development expense totaled SEK 322 million for the period.



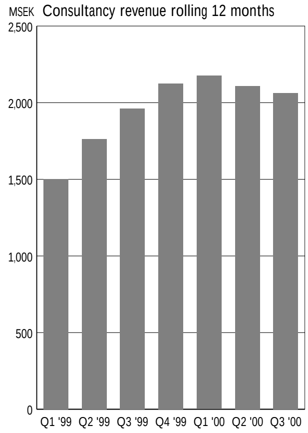
Strategic Alliances Proceeding Well

In the second quarter, Intentia and Sun Microsystems announced a strategic alliance for product development, marketing and sales. The collaboration gives Intentia access to Sun Solaris, the leading platform in the Unix market. We believe that the alliance, which has gone better than we had initially expected, will play a major role in Intentia's future growth.

Intentia has also expanded its collaboration with IBM on product development. The two companies are currently engaged in a joint project to develop e-business applications based on IBM's WebSphere technology.

Outlook for the Future

We expect a continuation of rapid growth in license sales and a steady improvement of Intentia's consultancy margin. Since these improvements will occur within the existing cost structure in the next few quarters, there will be a considerable positive impact on operating earnings. Once we have achieved satisfactory profitability, rapid long-term expansion will take off.

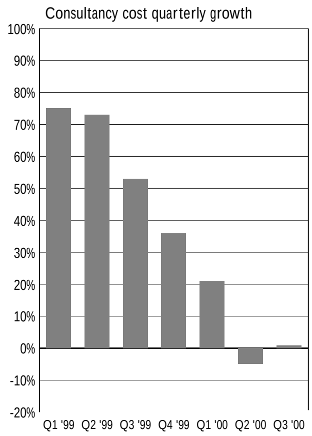


First Nine Months of the Year

January–September 2000 Revenue and Earnings

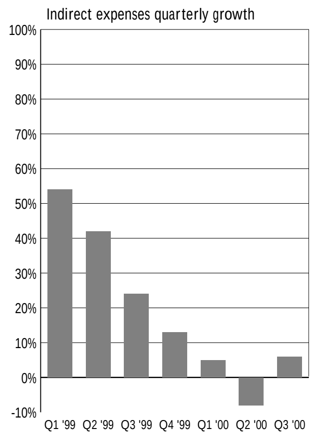
Owing to sluggishness in consultancy revenue, net revenue achieved only modest growth in the first nine months of the year. Net revenue totaled SEK 2,230 million (2,182), representing a growth rate of 2 percent. Adjusted for the impact of changes in exchange rates, net revenue grew 3 percent. As part of Intentia's focus on its core business, the company divested Informatikk-nett, its Norwegian subsidiary, in the third quarter. On a comparable basis, that is, excluding Informatikk-nett's revenue for the third quarter of 1999, net revenue grew 3 percent.

License revenue for the period increased 23 percent, to SEK 620 million (503). The number of procurement projects continued to grow. Owing to lengthy negotiation processes for procurement projects already under way, growth will be uneven from quarter to quarter, although the trend of a return to growth was confirmed by the first three quarters of this year. Intentia's license revenue was up sharply from 1999 for most operations, including those in the Americas, Australia, the Benelux countries, Japan and Switzerland.



Consultancy revenue was SEK 1,482 million (1,542), down 4 percent. As license revenue increases, capacity utilization in the consultancy organization will steadily improve, leading in turn to a better consultancy margin. Capacity utilization, and thus the consultancy margin, improved in the third quarter in comparison to the first half of the year. Stringent cost restraints during the year, aimed at permitting Intentia to grow within its existing structure, continued to reduce the rate of increase in consultancy expense as compared to 1999. The increase was 4 percent in the first nine months. Consultancy expense for the period amounted to SEK 1,385 million (1,328). The consultancy margin was 7 percent, which was 7 percentage points less than in 1999.

The development of indirect costs remained fully in line with Intentia's plans. Indirect costs totaled SEK 1,017 million (1,009), up by less than 1 percent from the same period the preceding year. Sales and marketing expenses amounted to SEK 525 million (490), while expense for product development was SEK 322 million (333) and administrative expense was SEK 169 million (186).



Operating earnings were SEK –319 million (–259). The total decrease of SEK 60 million resulted from the contribution of consultancy operations being down SEK 116 million and that of hardware sales being down SEK 42 million, only partially offset by higher license revenue. The impact of exchange rates upon consolidation reduced earnings by SEK 11 million, compared with earnings for the same period in the preceding year. As a result of ongoing efforts to increase effectiveness, the number of employees declined by 117 during the year and totaled 3,243 at the end of the period. Since the divestment of Informatikk-nett occurred at book value, it did not affect operating earnings.

Financial items for the period were SEK –64 million, while earnings after financial items were SEK –382 million (–267). Operating earnings after tax were SEK –393 million (–310), a decrease of SEK 83 million.

July–September 2000 Revenue and Earnings

Net revenue for the third quarter totaled SEK 624 million (643), down 3 percent. Adjusted for the divestment of Informatikk-nett, net revenue for the quarter increased 1 percent. Changes in exchange rates upon consolidation had a negative impact of 2 percentage points for the quarter. License revenue grew 46 percent, the largest single increase for a single quarter since the third quarter of 1998, when the global decline in demand began. License revenue totaled SEK 151 million (104) for the quarter. Intentia's performance remained unchanged for the quarter from the previous two quarters of the year. In other words, the operations that were hit hardest by the decline in the market during 1999 experienced a stable return to growth. The operations that had suffered a lesser impact in 1999 showed slow, sometimes negative, growth.

Consultancy revenue continued to hold back total revenue increases. Consultancy revenue for the quarter was SEK 459 million (503), a decline of 9 percent from the same quarter in 1999. Consultancy expense for the quarter was SEK 416 million (420), whereby the consultancy margin improved from the second quarter, to 9 percent. However, the consultancy margin was still below the figure of 17 percent for the same period in the preceding year.

Indirect costs remained stable from the first two quarters of the year. Indirect costs for the third quarter totaled SEK 335 million (316), as opposed to SEK 334 million for the second quarter. Operating earnings for the quarter were SEK –146 million (–130). The number of employees declined from 3,366 at the start of the quarter to 3,243 at the end, a decrease of 123 employees.

The depreciation of the Swedish krona had a negative impact on financial items for the quarter. Foreign exchange losses related to the convertible notes totaled SEK 11 million for the quarter. Financial items for the quarter were also reduced by costs related to the change in Intentia's loan structure which was arranged toward the end of the second quarter.

October 1999–September 2000 Revenue and Earnings

Net revenue for October 1999–September 2000 totaled SEK 3,111 million (3,042). Owing to the gradual decline in license revenue during 1999, particularly noticeable in the second half, license revenue for October 1999–September 2000 ended lower than for the same period in the preceding year. This decline for October 1999–September 2000 occurred despite the fact that the license revenue was higher for the first nine months of 2000 than for the corresponding period of 1999. License revenue totaled SEK 873 million (887) and consultancy revenue SEK 2,064 million (1,961) for the period. Consultancy expense was SEK 1,921 million (1,691), and the consultancy margin was 7 percent (14).

Indirect costs totaled SEK 1,387 million (1,335), up 4 percent. Operating earnings were SEK –319 million (–132), while earnings after financial items were SEK –392 million (–138).

Cash Flow, Capital and Financial Position

Cash flow before investments was SEK –511 million (–358) for the first nine months. The change in working capital was SEK –174 million (–171). Net working capital tied up in operations, defined as the average net working capital position for the past four quarters divided by revenue for the rolling 12-month period, continued to improve, to 17 percent (18). Accounts receivable were SEK 846 million (948), a decline of SEK 254 million since the beginning of the year. Cash flow from investing activities was SEK –53 million (–89), of which investment in goodwill accounted for SEK –23 million (–23).

Refinancing occurred in the third quarter within the framework of the syndicate for working capital financing arranged during the second quarter. A total of SEK 200 million in long-term loans were repaid and replaced by SEK 250 million in working capital financing related to the new syndicate loan, totaling SEK 400 million. An additional SEK 100 million in short-term lending has been arranged and will be taken in the fourth quarter.

The Group's liquidity was SEK 278 million (674), while net indebtedness totaled SEK –189 million (327), excluding the convertible notes, or SEK –1,141 million (–543) including the notes.

Riskbearing capital remained high, at SEK 1,215 million (1,594). The share of riskbearing capital at the end of the period was 57 percent (77).

New Stock Issued

Although Intentia intends for long-term growth to occur with balanced cash flows, an initial issue of new shares will be needed to create the financial prerequisites for rapid and continuous growth. Thus, the Board has decided to propose a special meeting of stockholders to approve an issue of new shares. Plans are for the issue to be carried out during the first half of 2001.

Parent Company

Net revenue was SEK 52 million (41) for the Parent Company, while earnings after financial items were SEK –77 million (–78). Investment in equipment was SEK 1 million (1). Excluding the convertible notes totaling SEK 852 million, borrowings totaled SEK 466 million (261), and liquidity SEK 225 million (619).

Stockholm, October 24, 2000

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INCOME STATEMENT GROUP (SEK million)

	Jul-Sep 2000	Jul-Sep 1999	Jan-Sep 2000	Jan-Sep 1999	Full Year Oct 99-Sep 00	Full Year Jan-Dec 1999
License revenue	151.4	104.0	619.7	503.3	872.7	756.3
Consultancy revenue	459.1	503.4	1,481.9	1,542.1	2,064.0	2,124.2
Other revenue	13.3	35.5	128.4	136.3	173.9	181.8
Net revenue	**623.8**	**642.9**	**2,230.0**	**2,181.7**	**3,110.6**	**3,062.3**
Consultancy cost	–416.3	–420.3	–1,384.7	–1,328.1	–1,920.8	–1,864.3
Cost for other revenues	–21.5	–46.7	–162.4	–161.0	–218.5	–217.1
Gross earnings	**186.0**	**175.9**	**682.9**	**–692.6**	**971.3**	**980.9**
Other operating items net	**3.1**	**10.1**	**15.1**	**56.8**	**40.7**	**82.4**
Product development expenses	–97.7	–110.3	–322.1	–333.0	–422.9	–433.7
Sales and marketing expenses	–182.5	–161.6	–524.9	–490.1	–724.4	–689.6
Administration expenses	–54.6	–44.0	–169.6	–185.6	–239.4	–255.4
Items affecting comparability	–	–	–	–	55.9	55.9
Operating earnings	**–145.7**	**–129.9**	**–318.6**	**–259.3**	**–318.8**	**–259.5**
Financial income and expenses	–38.9	–0.1	–63.9	–8.5	–71.5	–16.2
Participation in associated companies' earnings	0.1	–0.1	0.6	0.4	–1.3	–1.4
Earnings after financial items	**–184.5**	**–130.1**	**–381.9**	**–267.4**	**–391.6**	**–277.1**
Earnings in Group companies the part of year they did not belong to the Group	2.6	–	3.7	0.3	3.7	0.3
Earnings before tax	**–181.9**	**–130.1**	**–378.2**	**–267.1**	**–387.9**	**–276.8**
Tax on profit/loss for the period	–0.3	–1.6	–13.9	–35.7	–35.4	–57.2
Minority interest in profit/loss for the period	–0.8	0.1	–1.3	–7.0	–3.5	–9.2
Profit/loss for the period	**–183.0**	**–131.6**	**–393.4**	**–309.8**	**–426.8**	**–343.2**

BALANCE SHEET GROUP (SEK million)

	September 30 2000	September 30 1999	December 31 1999
Intangible fixed assets	364.6	368.7	374.3
Tangible fixed assets	253.7	232.8	245.9
Financial fixed assets	77.3	77.8	75.2
Total fixed assets	**695.6**	**679.3**	**695.4**
Accounts receivable	846.4	947.7	1,100.6
Other current assets	603.1	449.8	373.6
Cash and bank balances	277.5	673.9	726.6
Total current assets	**1,727.0**	**2,071.4**	**2,200.8**
Total assets	**2,422.6**	**2,750.7**	**2,896.2**
Stockholders' equity	247.2	706.5	641.9
Minority interests	13.1	11.5	13.7
Convertible notes	852.0	870.3	856.4
Provisions	3.4	6.2	1.3
Interest bearing long-term liabilities	61.1	302.0	300.3
Other long-term liabilities	11.0	3.5	6.1
Interest bearing current liabilities	405.1	44.8	51.5
Other current liabilities	829.7	805.9	1,025.0
Total stockholders' equity, provisions and liabilities	**2,422.6**	**2,750.7**	**2,896.2**

CASH FLOW ANALYSIS GROUP (SEK million)

	Jul-Sep 2000	Jul-Sep 1999	Jan-Sep 2000	Jan-Sep 1999	Full Year Oct 99-Sep 00	Full Year Jan-Dec 1999
Cash flow before change in working capital	–175.8	–64.6	–337.3	–187.2	–347.8	–197.7
Change in working capital	–62.2	–62.6	–173.7	–170.5	–94.4	–91.2
Cash flow from operations	–238.0	–127.2	–511.0	–357.7	–442.2	–288.9
Cash flow from investments	–7.4	–16.9	–52.9	–88.9	–94.4	–130.4
Cash flow from financing	79.8	712.9	119.0	988.6	130.9	1,000.5
Cash flow for the period	**–165.6**	**568.8**	**–444.9**	**542.0**	**–405.7**	**581.2**
Liquid funds, opening balance	**439.5**	**103.8**	**726.6**	**137.6**	**673.9**	**137.6**
Exchange rate difference on liquid funds	3.6	1.3	–4.2	–5.7	9.3	7.8
Liquid funds, closing balance	**277.5**	**673.9**	**277.5**	**673.9**	**277.5**	**726.6**

DEVELOPMENT PER QUARTER

		Net revenue	License revenue	Operating earnings before depreciation	Operating earnings	Earnings after financial items	Number employees*
1998	Q4	859.9	383.9	151.1	126.6	128.5	2,858
1999	Q1	686.7	184.3	–37.9	–65.2	–63.1	3,219
	Q2	852.1	215.0	–35.7	–64.2	–74.2	3,229
	Q3	642.9	104.0	–100.0	–129.9	–130.1	3,337
	Q4	880.6	253.0	35.3	–0.2	–9.7	3,360
2000	Q1	819.9	245.3	–55.6	–88.8	–75.1	3,416
	Q2	786.3	223.0	–52.2	–84.1	–122.2	3,366
	Q3	623.8	151.4	–116.9	–145.7	–184.5	3,243

** employees at end of period*

FINANCIAL RATIOS

	Jul-Sep 2000	Jul-Sep 1999	Jan-Sep 2000	Jan-Sep 1999	Full Year Oct 99-Sep 00	Full Year Jan-Dec 1999
OPERATIONAL						
Growth over previous year						
License revenue	46%	–31%	23%	–17%	–2%	–24%
Consultancy revenue	–9%	66%	–4%	81%	5%	67%
Net revenue	–3%	29%	2%	37%	2%	25%
Margins						
Consultancy margin	9%	17%	7%	14%	7%	12%
Gross margin	30%	27%	31%	32%	31%	32%
Operating margin	–23%	–20%	–14%	–12%	–12%	–9%
Net profit margin	–29%	–20%	–18%	–14%	–14%	–11%
Expenses and efficiency						
Product development/license revenue	65%	106%	52%	66%	48%	57%
Sales and marketing/license revenue	121%	155%	85%	97%	83%	91%
Administration/net revenue	9%	7%	8%	9%	8%	8%
Average number of employees for period	3,268	3,259	3,361	3,221	3,341	3,212
Revenue per employee	191	197	663	677	931	953
Added value per employee	97	130	371	407	525	566
Personnel expenses per employee	132	160	438	461	581	609
FINANCIAL POSITION						
Working capital 4 quarters/net revenue 12 months	17%	18%	17%	18%	17%	18%
Debt/equity ratio (excluding convertible notes)	0.7	–0.5	0.7	–0.5	0.7	–0.6
Average capital employed	1,544	1,958	1,644	1,528	1,694	1,607
Share of riskbearing capital	57%	77%	57%	77%	57%	70%
Equity/assets ratio	11%	26%	11%	26%	11%	23%
Cash flow/net revenue	–39%	–22%	–25%	–20%	–17%	–14%
RETURN						
On average capital employed	–9%	–6%	–18%	–16%	–17%	–14%
On average stockholders' equity	–67%	–19%	–94%	–37%	–92%	–44%
NET INDEBTEDNESS (excluding convertible notes)						
Opening balance	72.2	425.7	374.8	–90.5	327.0	–90.5
Closing balance	–188.8	327.0	–188.8	327.0	–188.8	374.8
Cash flow for the period	–165.6	568.8	–444.9	542.0	–405.7	581.2
Funds borrowed	251.4	195.1	306.3	250.0	313.0	256.7
Amortization of loans	–185.2	–110.3	–235.7	–160.9	–211.2	–136.4
SHARE DATA						
Number of outstanding shares (thousand)						
Basic, end of period	24,311	24,121	24,311	24,121	24,311	24,121
Basic, average for period	24,311	24,121	24,231	24,121	24,204	24,111
Diluted, end of period	30,352	29,958	30,352	29,958	30,352	29,158
Earnings per share (SEK)						
Basic, average for period	–7.5	–5.5	–16.2	–12.9	–17.6	–14.2
Diluted, average for period	–5.7	–4.0	–12.1	–10.8	–12.9	–11.4
Riskbearing capital per share at end of period	50.0	66.1	50.0	66.1	50.0	62.7
Stockholders' equity per share at end of period	10.2	29.3	10.2	29.3	10.2	26.6
Cash flow per average number of shares	–10.1	–6.0	–23.3	–18.5	–22.2	–18.1

This report has not been audited by the Company's auditors.