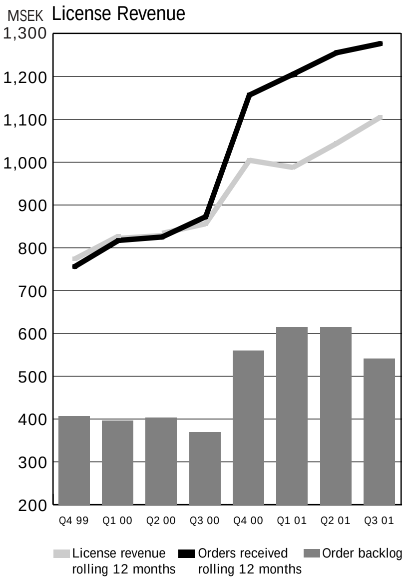
Intentia Group / January-September 2001

January–September 2001 Interim Report



Best Third Quarter Ever—Growth in a Weak Market and an Operating Profit

- Earnings continue to improve according to plan In the traditionally weaker third quarter. Operating earnings rose by SEK 114 million to SEK 2 million (–112). Operating earnings increased by SEK 274 million to SEK –6 million (–281) for the first nine months.
- License revenue grew by 33 percent to SEK 246 million (185), while new orders were up by 14 percent to SEK 173 million (151) during the third quarter. For the first nine months, license orders received rose by 19 percent to SEK 740 million (620). The backlog of orders increased by 47 percent to SEK 542 million (370).
- Consulting operations continued to experience favorable growth. For the third quarter, consulting revenue was up by 33 percent to SEK 608 million (459) with a consulting margin of 15 percent (9). Consulting revenue for the first nine months increased by 30 percent to SEK 1,922 million (1,482), while the consulting margin was 16 percent (7).

Group Progress

Economic Slump Continues to Depress the Market

Intentia's highest priority remains that of securing profitability and balanced cash flows. The organizational and process development effort is proceeding according to plan. The downturn in the global economy continued to depress the market in the third quarter. There remains a great deal of uncertainty about international affairs and their impact on the last part of the year. The dampening of the market manifested itself during the first three quarters in the postponement of investment decisions by customers, particularly with regard to major license orders. Since license orders with volumes below EUR 1 million are less susceptible to the slowdown, Intentia's strong product offering is enabling license volumes to grow and to further strengthen the company's position in the market. Some companies are taking advantage of the dip in the business cycle and the relief it affords to purchase enterprise applications, thereby positioning themselves to operate more competitively and efficiently once a recovery begins. Intentia's ability to provide a full-scale, cutting-edge range of products while assuming responsibility for projects and implementation is taking on increasing significance during the procurement process. This in a market characterized by the search for efficient solutions in which customers can control the total cost of the enterprise applications they select.

Intentia continues to anticipate strong, long-term growth stemming from the underlying need for applications that facilitate the radical productivity improvements available to Intentia's target group through collaboration in the value chain.

License and Consulting Revenue During the Period

Based on the large number of ongoing procurement projects, license orders continued to increase. Orders received rose by 19 percent to SEK 740 million (620) for the first nine months. The backlog of contracted but not yet profit-recognized license revenue was up by 47 percent to SEK 542 million (370) at the end of the third quarter. License revenue increased by 15 percent to SEK 758 million (658) for the period. There were fewer orders representing license revenue in excess of EUR 1 million than for the same period of 2000. Orders with license revenue above EUR 1 million numbered 13 (18) for the first nine months. The fact that the number of license orders below EUR 1 million continued to increase contributed considerably to the growth of total license revenue.

The number of ongoing implementation projects rose further, thereby improving the utilization of consulting capacity. Consulting revenue increased by 30 percent to SEK 1,922 million (1,482) for the period.

Net revenue for the period was up by 21 percent to SEK 2,736 million (2,268). Net revenue grew by 24 percent on a comparable basis, adjusted for Informatikk net in Norway, which was divested at the end of the second quarter of 2000. The effects of exchange rate differences on consolidation boosted net revenue by 6 percentage points.

All Regions Exhibit Growth in Combination with Better Profitability

Every region has succeeded in combining growth with improved profitability this year. While profitable operations have enjoyed higher operating earnings, loss-bringing operations have begun to earn a profit or considerably cut their losses.

Adjusted for Informatikk net in Norway, which was divested at the end of the second quarter of 2000, net revenue for the Northern European region increased by 12 percent. Net revenue for the period totaled SEK 1,108 million (1,043). Both license and consulting revenues showed solid trends. All operations in the region posted considerably higher operating earnings. Central Europe enjoyed a 40 percent increase in net revenue to SEK 359 million (257). License revenue grew by 53 percent. Operating earnings were up substantially, emphatically so in Austria, Germany and Switzerland. Northwestern Europe's net revenue rose by 35 percent to SEK 401 million (297), while license revenue climbed 20 percent. All operations in the region posted considerably higher operating earnings. Southern Europe's net revenue increased by 35 percent to SEK 473 million (350). While license revenues grew by 3 percent, consulting revenues were sharply higher, a reflection of numerous ongoing implementation projects. Operations in both France and Spain posted solid increases in operating earnings. Net revenue in Asia Pacific grew by 28 percent to SEK 235 million (184) and license revenue increased by 31 percent. The region's operating earnings improved. New license orders were robust in both Japan and the Association of Southeast Asian Nations (ASEAN) area. The operation in Japan had posted losses throughout an extended establishment phase. However, during the past year, its financial position has steadily strengthened in the wake of substantially higher license revenue and the associated improvement in the utilization of consulting capacity. Japan showed an operating profit in the third quarter for the first time ever. Net revenue in the Americas grew by 47 percent to SEK 202 million (137). License revenue declined by 9 percent, while operating earnings improved.

Efficiency Continues to Improve According to Plan

Activities aimed at substantially improving efficiency by means of growth within the framework of a fixed organizational structure continue. The objective is to establish a profitable base from which effective, sustainable growth can be launched with continued profitability. After having steadily increased from quarter to quarter, the gross margin was up by a total of 5 percentage points to 37 percent (32) at the end of the first nine months. Both higher license revenue and a considerably stronger consulting margin contributed to the improved gross margin. The consulting margin rose by 9 percentage points to 16 percent (7) for the period. Greater project efficiency combined with the larger number of ongoing projects to substantially boost the consulting margin.

Revenue per employee rose again, this time by 22 percent to SEK 824 thousand (675). The value added ratio per employee (added value per employee divided by personnel expenses per employee) for the first nine months was 106 percent, as opposed to 87 percent for the same period of 2000. The total number of employees rose by 115 to 3,358 (3,243) during the first nine months. The number of employees grew by 60 during the third quarter. The first source of this increase was recruitment to meet the growing demand for implementation services in consulting operations characterized by high capacity utilization. The second source was recruitment aimed at boosting efficiency within the constraints of the existing organizational structure. Since the effort to restore profitability began in the first quarter of 2000, the total number of employees in the Group has declined by 2 percent while revenue has grown by 20 percent on a rolling 12-month basis.

Indirect expenses rose by 2 percent to SEK 1,041 million (1,017). Exchange rate differences had a negative impact on indirect expenses of SEK 46 million upon consolidation, of which a large part can be attributed to sales expenses. Expenses totaled SEK 627 million (525) for sales and marketing and SEK 173 million (170) for administration. Product development expenses were SEK 330 million (322), of which SEK 90 million (0) was capitalized during the period. Indirect expenses fell to 38 percent of net revenue from 45 percent during the first nine months of 2000.

A series of measures were launched following the third quarter to boost revenue and reduce costs during the critical fourth quarter. The program, which will minimize Intentia's vulnerability to the uncertain market, will consist of voluntary, temporary salary reductions during the fourth quarter, ongoing cost-effectiveness moves and action to promote sales. Operating earnings for the year in excess of SEK 100 million will be distributed as bonuses to employees in relation to the wages they relinquish. The program has been favorably received and 90 percent of employees have agreed to temporary salary reductions.

Earnings Continue to Improve

Operating earnings before depreciation and amortization grew by SEK 285 million to SEK 98 million (–187). Operating earnings increased considerably to SEK –6 million from SEK –281 million in the first nine months of 2000.

The depreciation of the krona substantially hurt net financial income, which fell to SEK –155 million (–63) for the first nine months. SEK 93 million of the SEK 92 million decline stemmed from translation differences related to the impact of the lower exchange rate on Intentia's convertible notes. Earnings after financial items totaled SEK –161 million (–344), while earnings after tax amounted to SEK –144 million (–321).

Continued Focus on Balanced Cash Flow

Cash flow from operating activities improved by SEK 462 million to SEK –49 million (–511) for the first nine months. Cash flow before changes in working capital was SEK 15 million (–299). Cash flow from changes in working capital totaled SEK –64 million (–212). Working capital in the third quarter, which is normally characterized by weak cash flow, suffered from the fact that a greater percentage of sales occurred toward the end of the period. As a result, accounts receivable increased to SEK 1,135 million (846) at the close of the quarter following an extended period of decline. Interest payment related to the convertible notes combined with a decrease in liability for vacation pay to further restrict cash flow for the quarter.

Cash flow after investing activities totaled SEK –201 million (–53). A total of 26 percent of outstanding shares in Intentia Australia were acquired during the first nine months. Thus, Intentia had a 77 percent stake at the close of the third quarter. In addition, Intentia West in the USA was acquired and an additional purchase sum was paid for Intentia Spain and Intentia Belgium. In Norway, 49 percent of the shares in Scase AS were acquired. These acquisitions reduced cash flow by a total of SEK 56 million. Investment in intangible fixed assets amounted to SEK 108 million, while investment in tangible assets was SEK 37 million.

Cash flow from financing activities totaled SEK 111 million (119). Loans in a net amount of SEK 315 million were paid off during the first nine months, while the issue of new shares raised SEK 431 million. A total of 500,000 shares were issued during the third quarter to finance acquisitions. The total value of the issue was SEK 44 million.

Liquid funds and short-term investments came to SEK 280 million (278) at the end of the period. Net indebtedness at September 30 was SEK –52 million (–189) excluding the convertible notes and SEK –1,026 million (–1,041) including the convertible notes.

The proportion of riskbearing capital was 45 percent (48), while the equity/assets ratio was 13 percent (6).

Earnings Continued to Grow During the Third Quarter

Owing to the slower market during vacation time, the third quarter is normally the weakest of the year. This affects both license sales and consulting revenues.

New license orders rose by 14 percent to SEK 173 million (151) in the third quarter. License revenue increased by 33 percent to SEK 246 million (185). The continued improvement in capacity utilization boosted consulting revenue for the fourth straight quarter. The figure increased by 33 percent to SEK 608 million (459). Net revenue came to SEK 879 million (658) for the quarter.

The gross margin continued to improve, growing by 4 percentage points to 37 percent compared to the third quarter of 2000. The consulting margin for the quarter strengthened further to 15 percent (9). After SEK 327 million (335) in indirect expenses, operating earnings for the period climbed by SEK 114 million to SEK 2 million (–112).

The impact of the weaker krona on the convertible notes lowered net financial income by SEK –56 million (–11) during the quarter. The loss after financial items was SEK –77 million (–151). The fact that the Group's profitability improved by virtue of greater earnings at operations that were already profitable and smaller losses at loss-bringing operations resulted in less balancing out of the tax load. The loss after tax for the quarter was SEK –92 million (–147).

Progress from October 2000 to September 2001

For October 2000 through September 2001, net revenue rose to SEK 3,713 million from SEK 3,094 million during the same period of 1999-2000. License orders grew once more to SEK 1,277 million (873), while license revenue rose by 29 percent to SEK 1,105 million (856). Consulting revenue was SEK 2,538 million (2,064) and the consulting margin 15 percent (7) for the period. Operating earnings climbed to SEK –16 million (–335). Excluding items affecting comparability in the fourth quarter of 1999, operating earnings rose by SEK 375 million. Largely due to the weaker krona, net financial income declined considerably. Thus, earnings after financial items totaled SEK –217 million (–408). Earnings after tax rose to SEK –167 million (–395).

Product

The launch of Movex Collaboration Applications (version 12) was given priority during the third quarter. The product was launched on a wide-ranging basis to both existing and prospective customers. More than 1,000 people attended seminars for the launch in Scandinavia. The new version has been very favorably received. That is particularly true of the new applications, including Demand Planner, Supply Chain Planner, Multi-Site Planner, Mobile Sales, e-Collaborator, Call Center Integration and Business Performance Measurement Models, that make collaboration within and among businesses and other organizations more efficient. Thanks to Movex's component-based architecture, most of the new applications in version 12 are compatible with earlier versions. Thus, the majority of Intentia's customers can take advantage of a large part of the new collaborative applications without upgrading all of Movex.

Development began during the second quarter on an improved new ultra-thin client for Movex. The new client will eventually replace the existing Movex Explorer and Movex Web Explorer clients. Since the clients are based on Java in the application servers and HTML in the client, Movex can be made available from a Web browser without the necessity of local logic. That considerably simplifies access via the Internet and reduces application administration costs. The new interface will be usable either as an integral part of Intentia's corporate portal or entirely on its own. The first delivery is scheduled for early January, 2002.

Parent Company

The Parent company's net revenue totaled SEK 30 million (52), while earnings after financial items fell to SEK –185 million (–77) as the result of the substantial impact that translation differences exerted on the convertible notes. Investment came to SEK 1 million (1), and liquidity was SEK 162 million (225). Excluding the convertible notes, borrowings were SEK 250 million (360). Issues of new shares during the first nine months boosted shareholders' equity in the Parent company by SEK 434 million, of which SEK 44 million was attributable to the third quarter.

Outlook for 2001

The economic slowdown and volatile state of world affairs make for uncertain market prospects going into the fourth quarter. Despite the more sluggish market this year, Intentia has exhibited positive volume trends and is well positioned with respect to prospective new customers. Based on our backlog of orders, customer prospects and solid competitive strength we continue to believe that Intentia will post both an operating profit and considerably improved cash flow for the full year.

Stockholm, October 25, 2001

Björn Algkvist
President and Chief Executive Officer

Accounting Principles

This interim report was prepared in accordance with the Annual Accounts Act and the recommendations of the Swedish Financial Accounting Standards Council (Redovisningsrådet). Intentia's accounting principles have changed since its 2000 annual report in compliance with Redovisningsrådet recommendations to take effect on January 1, 2001 and January 1, 2002. Intentia has implemented changes in accordance with RR 11 Revenue Recognition, RR 9 Income Taxes, RR 15 Intangible Assets, RR 18 Earnings Per Share and RR 20 Interim Reporting. Historical figures related to RR 9 and RR 15 have been recalculated. "Change in Shareholders' Equity" shows the impact of the recalculation on shareholders' equity. In accordance with the Redovisningsrådet's recommendation, comparison figures related to RR 15 have not been recalculated.

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Financial Information

Information on the Group's development during 2001 will be provided as follows:

Announcement of 2001 accounts
January 30, 2002

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FINANCIAL INFORMATION

	Jul-Sep 2001	Jul-Sep 2000	Jan-Sep 2001	Jan-Sep 2000	Full Year Oct '00-Sep '01	Full Year Jan-Dec 2000
ORDER DATA (SEK million)						
Orders received	172.6	151.4	739.9	619.7	1,277.0	1,156.8
Order backlog, end of period	541.7	369.5	541.7	369.5	541.7	560.0
INCOME STATEMENT GROUP (SEK million)						
License revenue	246.2	185.3	758.2	657.9	1,104.8	1,004.5
Consulting revenue	608.4	459.1	1,921.8	1,481.9	2,537.9	2,098.0
Other revenue	24.0	13.4	55.7	128.4	70.3	143.0
Net revenue	**878.6**	**657.8**	**2,735.7**	**2,268.2**	**3,713.0**	**3,245.5**
Consulting cost	–519.0	–416.2	–1,616.9	–1,384.7	–2,149.8	–1,917.6
Cost for license	–32.0	–15.0	–69.1	–63.7	–122.2	–116.8
Cost for other revenues	–6.7	–6.6	–34.7	–98.7	–46.3	–110.3
Gross earnings	**320.90**	**220.0**	**1,015.0**	**721.0**	**1,394.7**	**1,100.8**
Other operating items net	**8.1**	**3.1**	**19.1**	**15.1**	**33.2**	**29.2**
Product development expenses	–68.6	–97.7	–240.0	–322.1	–362.0	–444.1
Sales and marketing expenses	–205.0	–182.6	–627.2	–524.9	–847.0	–744.7
Administration expenses	–53.0	–54.5	–173.3	–169.6	–234.7	–231.0
Operating earnings	**2.4**	**–111.8**	**–6.4**	**–280.5**	**–15.8**	**–289.8**
Financial income and expenses	–79.9	–38.9	–155.1	–63.9	–201.5	–110.3
Participation in associated companies' earnings	0.4	0.1	0.6	0.6	0.3	0.3
Earnings after financial items	**–77.1**	**–150.6**	**–160.9**	**–343.8**	**–217.0**	**–399.8**
Earnings in Group companies the part of year they did not belong to the Group	–	2.6	–	3.7	–	3.7
Earnings before tax	**–77.1**	**–148.0**	**–160.9**	**–340.1**	**–217.0**	**–396.1**
Tax on profit/loss for the period	–13.8	2.2	20.7	20.7	55.2	55.2
Minority interest in profit/loss for the period	–0.70	–1.0	–3.4	–1.3	–4.8	–2.7
Profit/loss for the period	**–91.6**	**–146.8**	**–143.6**	**–320.7**	**–166.6**	**–343.6**
Earnings per share (SEK)						
Basic, average for period	–3.1	–6.0	–5.2	–13.2	–6.1	–14.2
Diluted, average for period	–1.3	–10.7	–1.7	–10.5	–5.4	–10.2
Number of outstanding shares (thousand)						
Basic, end of period	29,673	24,311	29,673	24,311	29,673	24,311
Basic, average for period	29,673	24,311	28,233	24,231	27,252	24,251
Diluted, average for period	33,001	28,593	32,250	28,625	31,112	28,507

BALANCE SHEET GROUP (SEK million)

	September 30 2001	September 30 2000	December 31 2000
Goodwill	393.5	349.0	337.8
Capitalized product development	101.2	15.6	14.3
Tangible fixed assets	253.6	253.7	245.4
Financial fixed assets	452.6	346.3	420.8
Total fixed assets	**1,200.9**	**964.6**	**1,018.3**
Accounts receivable	1,135.3	846.4	1,266.5
Other current assets	782.2	509.8	445.1
Liquid funds	280.3	277.5	400.9
Total current assets	**2,197.8**	**1,633.7**	**2,112.0**
Total assets	**3,398.7**	**2,598.3**	**3,130.8**
Stockholders' equity	417.3	152.0	133.0
Minority interests	18.3	11.5	13.0
Convertible notes	974.1	852.0	885.7
Provisions	23.2	3.4	1.1
Interest bearing long-term liabilities	61.5	61.1	58.6
Other long-term liabilities	6.6	11.0	6.8
Interest bearing current liabilities	270.5	405.1	558.7
Other current liabilities	1,627.2	1,102.2	1,473.9
Total stockholders' equity, provisions and liabilities	**3,398.7**	**2,598.3**	**3,130.8**

CHANGE IN STOCKHOLDERS' EQUITY (SEK million)

	September 30 2001	September 30 2000	December 31 2000
Stockholders' equity at beginning of period	355.2	641.9	641.9
Effect of changed accounting principles	–222.2	–171.2	–171.2
Stockholders' equity after changes in accounting principles	**133.0**	**470.7**	**470.7**
New stock issue/retransfer of options	**433.5**	**56.1**	**48.1**
Profit/loss for the period	–143.6	–320.7	–343.6
Translation differences for the period	–5.6	–54.1	–42.2
Stockholders' equity at end of period	**417.3**	**152.0**	**133.0**

CASH FLOW ANALYSIS GROUP (SEK million)

	Jul-Sep 2001	Jul-Sep 2000	Jan-Sep 2001	Jan-Sep 2000	Full Year Oct '00-Sep '01	Full Year Jan-Dec 2000
Cash flow before change in working capital	41.9	–141.8	14.8	–299.1	12.9	–301.0
Change in working capital	–195.8	–96.2	–64.1	–211.9	–77.6	–225.4
Cash flow from operations	**–153.9**	**–238.0**	**–49.3**	**–511.0**	**64.7**	**–526.4**
Cash flow from investments	–59.7	–7.4	–201.1	–52.9	–207.0	–58.8
Cash flow after investing activities	**–213.5**	**–245.4**	**–250.4**	**–563.9**	**–271.7**	**–585.2**
Cash flow from financing	33.9	79.8	110.5	119.0	254.3	262.8
Cash flow for the period	**–179.6**	**–165.6**	**–139.8**	**–444.9**	**–17.3**	**–322.4**
Liquid funds, beginning of period	**448.1**	**439.5**	**401.0**	**726.6**	**277.5**	**726.6**
Exchange rate difference on liquid funds	11.8	3.6	19.1	–4.2	20.1	–3.2
Liquid funds, end of period	**280.3**	**277.5**	**280.3**	**277.5**	**280.3**	**401.0**

DEVELOPMENT PER QUARTER

		Net revenue	License revenue	Operating earnings before depreciation	Operating earnings	Earnings after financial items	Number of employees*
1999	Q 4	825.9	198.3	–19.5	–54.9	–64.4	3,360
2000	Q 1	830.3	255.7	–45.3	–78.5	–64.8	3,416
	Q 2	780.2	216.9	–58.3	–90.1	–128.3	3,366
	Q 3	657.8	185.3	–82.9	–111.8	–150.6	3,243
	Q 4	977.2	346.6	36.9	–9.4	–56.1	3,224
2001	Q 1	879.3	238.0	16.4	–15.9	–50.1	3,247
	Q 2	977.9	274.0	44.2	7.1	–33.7	3,299
	Q 3	878.6	246.2	37.9	2.4	–77.1	3,358

**employees at end of period*

FINANCIAL RATIOS

	Jul-Sep 2001	Jul-Sep 2000	Jan-Sep 2001	Jan-Sep 2000	Full Year Oct '00-Sep '01	Full Year Jan-Dec 2000
OPERATIONAL						
Growth over previous year						
License revenue	33%	14%	15%	14%	29%	30%
Consulting revenue	33%	–9%	30%	–4%	23%	–1%
Net revenue	34%	–6%	21%	1%	20%	5%
Orders received license	14%	46%	19%	23%	46%	53%
Order backlog license	47%	5%	47%	5%	47%	37%
Margins						
Consulting margin	15%	9%	16%	7%	15%	9%
Gross margin	37%	33%	37%	32%	37%	34%
Operating margin	0%	–17%	0%	–12%	0%	–9%
Net profit margin	–10%	–22%	–5%	–14%	–4%	–11%
Expenses and efficiency						
Product development/license revenue	28%	53%	32%	49%	33%	44%
Sales and marketing/license revenue	83%	99%	83%	80%	77%	74%
Administration/net revenue	6%	8%	6%	7%	6%	7%
Average number of employees for period	3,315	3,268	3,319	3,361	3,338	3,380
Revenue per employee	265	201	824	675	1,112	960
Added value per employee	188	106	556	381	744	561
Personnel expenses per employee	176	132	527	438	704	607
FINANCIAL POSITION						
Working capital 4 quarters/net revenue 12 months	6%	5%	6%	5%	6%	6%
Debt/equity ratio (excluding convertible notes)	0.1	1.2	0.1	1.2	0.1	1.5
Average capital employed	1,668	1,261	1,600	1,341	1,550	1,358
Share of riskbearing capital	45%	48%	45%	48%	45%	38%
Equity/assets ratio	13%	6%	13%	6%	13%	5%
Cash flow/net revenue	–24%	–37%	–9%	–25%	–7%	–18%
RETURN						
On average capital employed	0%	–8%	0%	–19%	1%	–19%
On average stockholders' equity	–27%	–	–58%	–263%	–89%	–258%
NET INDEBTEDNESS (excluding convertible notes)						
At beginning of period	119.3	72.2	–216.3	374.8	–188.8	374.8
At end of period	–51.6	–189	–51.6	–188.8	–51.6	–216.3
Cash flow for the period	–179.6	–165.6	–139.8	–444.9	–17.3	–322.4
Funds borrowed	40.0	251.4	90.0	306.3	343.8	560.1
Amortization of loans	–45.9	–185.2	–404.8	–235.7	–514.5	–345.4
SHARE DATA						
Riskbearing capital per share at end of period	47.7	46.0	47.7	46.0	47.7	42.5
Stockholders' equity per share at end of period	14.7	6.3	14.7	6.3	14.7	5.5
Cash flow per average number of shares, basic	–7.2	–10.1	–8.9	–23.3	–10.0	–24.1

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