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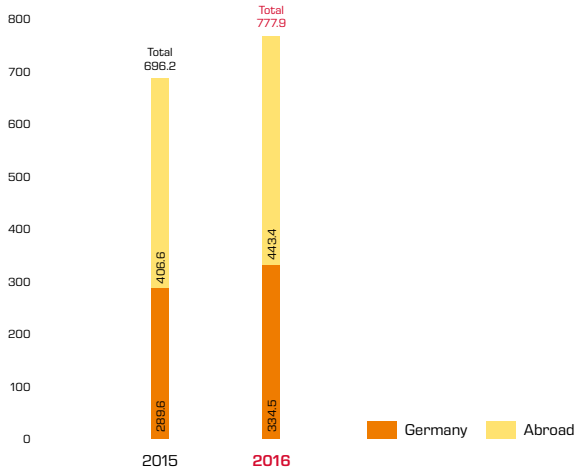


ITELLIGENCE KEY FIGURES

MEUR	IFRS 2016	IFRS 2015	IFRS 2014	IFRS 2013
Total revenues	777.9	696.2	556.8	457.1
Revenues by area				
Consulting	331.4	310.1	246.6	214.9
Licenses	79.0	69.4	56.9	56.9
Cloud Subscription	6.5	2.7	0	0
Managed Services	360.2	310.6	252.4	184.8
Other	0.8	3.4	0.9	0.5
Revenues by segment				
DACH (Germany/Austria/Switzerland)	364.6	321.2	255.0	192.9
Western Europe	177.6	154.8	120.2	104.7
Eastern Europe	83.3	74.6	63.1	48.1
USA	135.7	130.8	107.0	100.5
Asia	12.5	10.7	7.0	7.1
Other	4.2	4.1	4.5	3.8
EBIT in MEUR				
EBIT margin	4.5%	5.2%	4.1%	4.9%
EBITA in MEUR				
EBITA margin	5.4%	6.2%	4.9%	5.7%
EBITDA in MEUR				
EBITDA margin	8.2%	9.0%	7.8%	8.3%
Earnings IFRS				
Earnings per share	0.56	0.63	0.11	0.48
Cashflow per share	0.11	0.50	-0.04	-0.08
Return to sales	2.3%	3.0%	1.2%	3.5%
Cashflow in MEUR				
Balance sheet total in MEUR	544.7	459.3	397.2	333.2
Equity in MEUR				
Equity ratio	30.4%	33.7%	33.5%	36.6%
ROE (Return on equity)	11.0%	13.6%	5.1%	13.3%
ROA (Return on assets)	4.4%	5.8%	3.9%	4.4%
ROCE (Return on assets employed)	6.2%	8.6%	5.6%	6.4%
Investments in MEUR				
	54.1	37.9	58.3	27.2
Employees as of December 31				
Average	5,276	4,422	3,626	2,897
– Germany	2,653	2,040	1,861	1,121
– Abroad	3,024	2,662	2,279	1,957

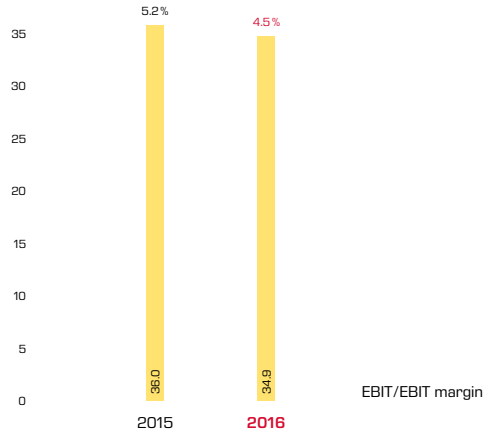
REVENUE DEVELOPMENT

MEUR



GROWTH IN EARNINGS

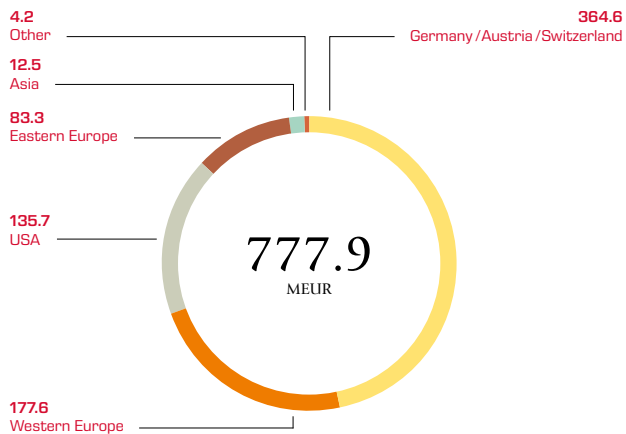
MEUR



REVENUE DEVELOPMENT BY SEGMENT

MEUR

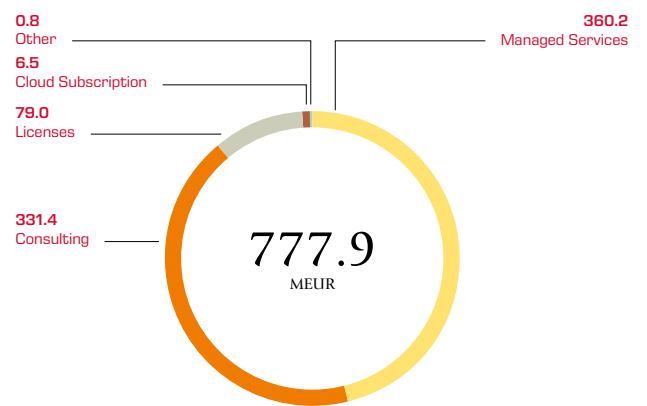
2016



REVENUE DEVELOPMENT BY DIVISION

MEUR

2016



Change	+11.7%
D/A/CH	+13.5%
Western Europe	+14.7%
Eastern Europe	+11.6%
USA	+3.8%
Asia	+17.1%
Other	+2.8%

Change	+11.7%
Consulting	+6.9%
Licenses	+13.8%
Cloud Subscription	+140.7%
Managed Services	+16.0%
Other	-76.5%

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Using freedom –
taking responsibility

Norbert Rotter has been CEO of itelligence AG since July 1, 2016. What makes him tick as a person and a manager? A profile.

When visitors enter Norbert Rotter's fourth-floor office, their gaze is instantly drawn to Bielefeld and the fields and woods of the Teutoburg Forest: Two huge windows provide a clear view. "I enjoy the feeling of having freedom," says the 49-year-old, who has been CEO of itelligence AG since July 1, 2016. "It has a calming and inspiring effect on me." Lippstadt-born Rotter first sensed a longing for freedom and broadsightedness at an early age; it has also found expression in his passion for skiing and occasional sailing. "I've always been drawn to places where I've felt free of restrictions. No idea what a psychologist would have to say about that," smiles the father of three. One thing is clear: Rotter's desire for freedom isn't just limited to his spatial perception. "I've always looked for roles with individual responsibility and creative scope," says the business administration graduate.

He found one in 1995, when he joined the auditing firm KPMG after studying business administration at Paderborn University and in Limerick, Ireland. At KPMG, he qualified as a tax consultant and auditor and assisted companies of different sizes in various industries. And he enjoyed considerable freedom: The formal hierarchies, Rotter relates, "didn't really matter" in practice. This particularly applied to his time in New York, where he assisted US subsidiaries of German companies between 2000 and 2004 – from an office on the 42nd floor of a skyscraper on Park Avenue that had an even better view than his current workplace. Rotter recalls how he would often stand for a few minutes looking out on the city and the East River. However, there wasn't much time for this – alongside his job, Rotter was studying for his Certified Public Accountant exam in order to be registered as an auditor in the US as well. All this was "really hard work," he says.

Back in Germany, after three more years at KPMG, Rotter turned down an offer to become a partner. Instead, he went to the up-and-coming itelligence AG, whose founder and CEO Herbert Vogel he already knew well, having assisted the company as an auditor.

The next evolutionary step for itelligence

Vogel and Rotter enjoyed a trust-based working relationship; from the outset, the newcomer was closely involved in strategic decisions and made his mark – primarily as the head of Mergers & Acquisitions. In this role, Norbert Rotter advanced the firm's expansion in conjunction with Herbert Vogel. Rotter was responsible for the purchase and integration of over 20 companies, through which itelligence progressed to become an internationally aligned IT consulting firm and the world's largest SAP service provider for the midmarket segment – partly through the support of the long-standing major shareholder and current sole owner, NTT DATA of Japan.

Having stepped up as CEO, Norbert Rotter intends to make further progress with expansion and evolution and establish itelligence as a global company that helps SMEs in Europe, America, and Asia with their digital evolution. As a result, the pace is set to remain high: "One to two acquisitions a year" are planned according to the manager, who makes decisions on the basis of objective analyses rather than gut instinct. In doing so, he engages in open discussion on an equal footing: Norbert Rotter is a team player who doesn't talk down to people, and consults with his employees in depth. And he counts on them to develop their own ideas and initiatives – which is why he gives them the considerable freedom that he himself needs and values. In his view, if people are constricted in a tight corset, they have no opportunity to create impetus.

Rotter firmly believes that this kind of freedom is becoming increasingly important in the age of digital transformation. Ultimately, companies need to become more agile in view of disruptive developments and shorter innovation cycles. Rigid, hierarchical structures in which bosses also want to decide on the details are a thing of the past. "In the consulting sector, another factor is that we deal with a very high proportion of highly qualified employees," says Rotter. "You wouldn't get far with an autocratic management style."

Rotter's philosophy: Make something from it

Yet Rotter's approachability and team spirit are by no means forced or insincere. Anyone who sees him in the cafeteria or in the corridor talking with employees soon notices that dialog on an equal footing is typical of his nature. The family man who encourages a culture of informality at itelligence is a good listener with a genuine interest in what others have to say. "Norbert Rotter has an integrating, modernizing management style," relates an itelligence business partner who has known him for many years. However, it would be wrong to think that his friendliness points to a lack of assertiveness. The CEO combines his relaxed, cooperative manner with a level of expectation that he expresses very clearly. "We need people with a hunger for responsibility and the courage to take decisions." Rotter insists that itelligence's managers and consultants must use their leeway to come up with their own ideas, initiatives, and decisions. "For me, this also includes the willingness to head in new directions." Norbert Rotter's management philosophy could be loosely summed up as "Make something from it."

Here is one specific example: Consultants should feel responsible for the entire customer relationship rather than just one project. "In this respect, willingness and ability to communicate is essential," reminds Rotter. "Our projects are usually significant investments for our midmarket customers," he explains. "Therefore, consultants must keep an eye on the big picture as well as small project tasks." Consequently, as well as engaging with customers' IT experts, itelligence consultants should also seek dialog with employees of other departments and the management. Ultimately, as a rule, this doesn't just apply to IT itself, but also to change projects in the context of the digital transformation and evolution.

"It's all the more important here to talk not only with the IT department, but with employees from the whole company and explain the new structures and processes."

The ideal outcome is "to make everyone involved equally enthusiastic about the digital transformation and our solutions," says Rotter. As "pioneers and implementers" of the digitalization wave, the itelligence consultants must impress – and not simply persuade, insists Rotter.

In addition to communication, he expects joined-up thinking from his employees. In an increasingly complex economy, cooperation is more necessary than ever – with other consultants and departments within the same firm, and with external ones as required. "If we don't have enough expertise in certain areas, we get partners on board – for example, smaller consulting firms with a sector focus," says Rotter. "To do this, we need to build up and cultivate networks even more intensively than we do at present." It is also necessary to consider whether and to what extent cooperations are advisable even at the project inquiry stage. "Particularly in times of fast technological change, this isn't a sign of weakness. Rather, it demonstrates solution-oriented approaches in the interests of our customers." It comes down to the right mix of skills.

A flying start for the new CEO

Acquisitions, communication, networking, and holistic project responsibility: With growth drivers like these, Norbert Rotter aims to generate revenues in excess of a billion euros in the not too distant future. And he has made a promising start as CEO: Partly on the back of a strong fourth quarter, itelligence AG increased its revenues by 11.7 percent to MEUR 777.9 last year. By way of comparison, annual revenues totaled just MEUR 190.9 in 2007; and the number of employees has since risen from 1,128 to 5,677.

But Rotter has not only made a strong start in financial terms. "The transition was seamless," he says, looking back on his first few months at the helm. "That is partly down to Herbert Vogel's helpfulness and the fact that I had known the company for more than eight years and didn't need time to settle in." Easing the transition further, Norbert Rotter had also met most managers and employees from other offices frequently and knew them well. Ultimately, he wasn't a finance director who locked himself in his office and focused on poring over files and columns of figures. From the outset, he went out to

colleagues and customers; for example, as a member of steering committees that itelligence sets up for SAP implementation projects. "As a result, most employees knew what they were getting," he smiles. Consequently, he didn't regard starting out as the first external CEO after the founder Vogel as a burden.

Once Dr. Michael Dorin (see interview on page 10) arrived as the new finance director on January 1, 2017, the deadline situation eased slightly. Rotter therefore hopes to be able to get out on the tennis court at least once or twice a month and have more time to spend with his family on the weekends again. However, the schedule for the next few months is already crammed full; it includes business trips to the NTT DATA Group in Tokyo and to subsidiaries abroad – and some firms that might join them soon. After all, the expansion is ongoing.

From Eastern Westphalia to the world beyond

Despite the travel stress involved, it is clearly apparent that Norbert Rotter is looking forward to these trips. The Westphalian's interest in foreign people and cultures constantly shines through in this interview; he is always looking for new impressions and experiences. That is why the Rotters never go to the same place on vacation ("except on ski vacations, but the sport comes first then"). This curiosity was probably a key factor in his move to New York at the turn of the millennium, when the young family suddenly found themselves in one of the most pulsating big cities in the world – loud, hectic, but never boring.

"Personally and professionally, that was an incredibly rewarding time," Rotter enthuses. New York made a big impression on him as a person and as a manager. "The city buzzes with phenomenal energy. If you use the leeway you're given, you can achieve lots there." Rotter is equally impassioned when he talks of his visits to Istanbul, where he arranged the purchase of what is now the Turkish subsidiary, Elsys. "We spent some time looking round the bazaar and mosques," he relates. "I experienced Istanbul as a fascinating city with an open, tolerant atmosphere."

He also encountered a few surprises with regard to the Turkish economy – especially the high proportion of women in Turkish tech companies. "Turkey is clearly ahead of us there." Rotter has also learned to appreciate the Japanese culture – and not just because of the extremely punctual trains which many frequent travelers like him are naturally delighted about. "Japan is a really interesting country," says Rotter. He felt welcome there right from the start. "The discussions with the managers at NTT DATA were always imbued with a high level of professionalism and mutual respect."


His unassuming nature may have had something to do with this; to Rotter, it is "obvious" that owners would request information and ask detailed questions. And he never had a problem with itelligence withdrawing from the stock exchange after NTT DATA in 2013 acquired all its shares. "Elsewhere, work as a finance director would probably have been less diverse and challenging after that," he says. "But with our acquisition strategy, boredom was never going to set in – quite the opposite, in fact."

NTT DATA provides support and leeway

He is particularly impressed that NTT DATA is a strategic investor, not a financial one. "We have full support for our long-term expansion strategy – as well as the leeway to decide on precise implementation," says Norbert Rotter. So he can feel free of restrictions. This is also true in spatial terms: There are no barriers to further expansion. NTT DATA mainly supports large corporations, whereas itelligence assists primarily the upper midmarket segment with digital evolution. In actual fact, further Asian countries are right at the top of Norbert Rotter's list of destinations. And he firmly believes that despite current isolationist tendencies and setbacks such as Brexit, the trend towards an increasingly globalized, integrated economy will continue – and allow further freedom and leeway for companies and their managers. ■

Megatrend of connectivity

ON THE PATH TO DIGITAL ENLIGHTENMENT

The background of the page is a dark, almost black, field filled with a complex network of thin, glowing lines. These lines connect various nodes of different colors, including purple, blue, green, yellow, orange, and red. The nodes are scattered across the page, with some appearing as bright, out-of-focus bokeh lights. The overall effect is that of a digital or neural network, suggesting connectivity and data flow.

The megatrend of connectivity is giving rise to new social and economic models – and fundamentally changing the way we live our lives. Despite the unique forms it is taking, however, this rapid process of change is wholly consistent with evolutionary principles. We explain why there is no need for exaggerated fears about the future – and how we can reach the next stage of development.

An analysis in collaboration with the Institute for the Future (Zukunftsinstitut), Frankfurt.

Every single second, we exchange more information on the internet than was stored on the entire internet 20 years ago. 3D printing means we can create objects as easily as we can print a document. Cars can drive themselves – and navigate busy traffic more carefully than any human driver.

All of these examples illustrate the profound and lasting impact the digital revolution is having on our society and the economy. And it is only just beginning. Like the three previous waves of industrial revolution, the current fourth wave will transport humanity into a new age. What recently still belonged to the realms of science fiction will increasingly shape our everyday lives, influencing the way we live and changing how we work and do business.

Futurologists talk about the megatrend of “connectivity” – the interconnectedness of the entire world, driven by digital technologies and rapid growth in internet use. Like all megatrends, it is like an avalanche in slow motion. It may take several decades, but it is not a linear or one-dimensional process – it is varied and complex, crossing networks and industry borders.

The age of networks

Connectivity is already shaping our everyday lives in all kinds of ways, and the pace of change in many areas is accelerating rapidly:

- The Internet of Things. It is not only people who will be increasingly online and connected in future – but devices too. The International Data Corporation (IDC) estimates that the number of connected devices worldwide could be as high as 200 billion by 2020.
- Industry 4.0. Entire system sequences could be automated by self-organizing, hyperconnected smart factories in which products communicate with machines and humans. According to studies, the six most relevant industries – mechanical and plant engineering, electrical engineering, automotive, chemicals, agriculture, and information and communication technology – are set to see growth in productivity of around EUR 78 billion by 2025.
- E-commerce. 82 percent of German internet users purchased goods online in the past year. Online retail is booming – and things are only just getting started. Predictive analytics could revolutionize the market: Self-learning algorithms will be able to use the search terms entered and websites visited by internet users and their wishlists and orders to generate more accurate statements than ever before.
- Start-up economy. The digital transformation is increasingly placing established companies in competition with start-ups that can serve specific user requirements precisely and with agility. For example, a number of newer companies have developed state-of-the-art technologies for financial services – and are striving to topple the leading players in the financial industry, often accompanied by new platform and network solutions.

Driven by connectivity, another megatrend is currently gathering momentum: security. In the wake of digitalization and new technologies such as predictive analytics, people are quickly becoming more aware of the need to protect their privacy.

The combination of the megatrends of connectivity and security means the companies of the future will be required to find new ways of dealing with digital disruption and turning it to their advantage to an even greater extent than is currently the case.

Digitalization: A question of mindset

However, this requires a new mindset. As Albert Einstein once said, we cannot solve our problems with the same thinking we used when we created them. Taylorist tools are no longer good enough for the complex market environment of the digital economy.

We need new ways of thinking and new tools, a kind of “digital enlightenment” – and, building on this, pioneering management and corporate cultures that seek not only to benefit from new technologies, but to reflect them and use them carefully in line with the complex interplay of man and machine.

This “enlightenment” – a mental and cognitive realignment aimed at grasping what it really means to live and do business in a digitalized economy and society – will not happen overnight. Any mental reboot is a long-term development that begins with a process of learning.

In this respect, the first priority is to reject the alarmism and the misconceptions that are overshadowing the current debate and threatening to bring it to a halt. This includes exaggerated fears for the future. The term “robocalypse” frequently crops up in discussions, for example. It describes the loss of jobs to robots en masse.

But should we really be denying ourselves robots and other technological advances? A look back at our historical development as a civilization soon shows us that the automation of human activities has always resulted in emancipation and freedom. Instead of being forced to do monotonous work in the fields or on the factory line, countless millions of people have been able to expand their education, live their own lives, and experience more varied relationships. Workplace culture has turned its back on the old hierarchies of command in favor of more decentralized, creative, and autonomous forms of work.

A plea for optimism

This alone is reason to have greater optimism for the future – not least since past industrial revolutions have taught us that people have always feared they will be made obsolete; in other words, this is simply a feature of the eternal human inferiority complex. And these fears have always proved incorrect.

Despite this, the warnings of human superfluosity are still repeating themselves in the current age of digitalization – because we are only capable of seeing reality in terms of our individual fate, not from the perspective of the wider dynamic system. Even after the numerous waves of technological rationalization we have experienced, the level of employment is higher today than at any point in human history. But this fact is simply ignored in the discussion about robots and artificial intelligence.

As such, one important insight that could help to quell fears for the future and lead us along the path to “digital enlightenment” is as follows: The digital transformation may be unique and special in terms of the forms it is taking, but it also follows a universal pattern. It is wholly consistent with the principles of cyclical evolution and can be broken down into various phases in which the new replaces the old.

Of course, this does not automatically mean that everything will be good. Evolutionary drift can succeed only if society as a whole allows it to. In other words, we need a new mindset that allows us to let go of our fears and accept new technologies as an opportunity. We successfully managed this during the previous ages of industrial revolution, from steam engines and railroads to mass production.

However, the history of evolutionary economic paradigm shifts tells us that they are always preceded by a crisis that needs to be overcome. A period of hype and collective madness, such as the one we are currently experiencing with regard to the digital transformation, is invariably followed by a crisis. Only once this is overcome can we reach the next, more advanced level, where the benefits of the technological revolution are no longer restricted to specific industries, companies, or groups of individuals, but are harnessed for the economy and society as a whole.

Signs of an impending crisis can already be observed today in the form of a blind fixation on new growth models that promise digital technologies, for example. However, looking at the digital transformation from a holistic, evolutionary perspective illustrates why this does not mean we ought to fear the future. Quite the opposite, in fact: Only by learning from risks and mistakes and emerging from crises stronger than before can a system be truly fit for the future. ■

WHAT ARE MEGATRENDS?

Megatrends are trends with an all-encompassing, epochal character. They have a half life of at least 30 years. But the key characteristic of megatrends has more to do with their impact than their duration. They go beyond merely changing individual areas of social or economic life; instead, they fundamentally transform entire societies. The Institute for the Future (Zukunftsinstitut) addresses twelve megatrends, from connectivity, mobility and globalization through to new work, the gender shift and neo-ecology.

Always open
to new things



Dr. Michael Dorin has been CFO of itelligence AG and running the Group alongside CFO Norbert Rotter since January 2017. Dorin has joined a company with a long history of growth. itelligence posted record earnings once again in 2016 in all regions, in all segments, and with the prospect of further strong growth. The new head of finance is firmly committed to being involved in writing new chapters in this success story.

Press release dated January 13, 2017 itelligence AG publishes key figures for 2016 ...

Dr. Dorin, you joined itelligence AG at the beginning of 2017, so you still have a more distanced view of the financial statements for 2016. How does the balance sheet look to the new CFO?

Michael Dorin: The balance sheet is impressive. itelligence enjoyed very strong growth in 2016 and reported revenues of MEUR 777.9, an increase of nearly 12 percent on the previous year. That is a real highlight, as we have now posted double-digit growth for the eighth time in a row!

The annual financial statements also show that this positive performance is based on broad foundations: Every division and region is playing a key part in our success. And what also stands out is the impressive success of license and cloud business, which ended the year with a bang with a strong fourth quarter.

On January 24, 2017, in a comment piece on SAP, the business newspaper 'Handelsblatt' said ... many companies have overcome their skepticism about the cloud, partly because rented software requires less administration and ties up less capital. This is why the segment promises strong revenue growth for SAP ...

Business with cloud solutions grew strongly last year – but isn't that at the expense of on-premise business, where the licenses are bought and not rented?

The operative words are "Business is growing." Conventional license business and the cloud business are two sides of the same coin: It's about trading with software. This is constantly generating further business for our services, and is also an important indicator for the future for us in both cases. From my perspective as CFO, these are two income streams that differ in terms of how often and when they flow. The only difference in terms of whether we support our customers by selling licenses or leasing cloud solutions is that we receive the income either all at once or in a smaller volume over a long period.

In license business, consulting, and managed services, revenues have exceeded internal forecasts. By contrast, profit is below expectations. How do you explain this?

The EBIT margin is 4.5 percent, so it's below the previous year's figure of 5.2 percent and the forecast of 5.5 percent. We are not satisfied with this, but it doesn't worry us either. The causes can be found in various areas: project start-up costs for IT solutions, acquisition costs, and exchange rate losses. However, at MEUR 34.9 after MEUR 36.0 in the previous year, we ended 2016 with sound operating earnings once again. A look at the individual quarters also shows clear signs of a positive trend. The EBIT margin for the fourth quarter was 7.7 percent.

June 2, 2016 itelligence AG is expanding: With ITML, itelligence is strengthening in the CRM field and increasing its presence in southern Germany... ITML has more than 160 employees ...

June 20, 2016 SAP consulting firm itelligence AG has acquired application management and cloud specialist BIT.Group GmbH ... The multi-certified SAP partner provides a wide range of SAP services with around 380 employees ...

intelligence has been generating growth for many years on its own and through purchases. How would you describe the acquisition strategy?

Our aim is to achieve critical mass in the relevant markets. Another crucial factor for an acquisition is that a company must be the right cultural fit for intelligence. In 2016, our acquisitions were focused on Germany. Both of them bolster our presence in our domestic market: ITML GmbH strengthens our SAP expertise, our CRM skills, and the team in southern Germany. BIT.Group is a strategic cornerstone for expanding our global SAP cloud and managed services. intelligence now has more than 550 employees in Bautzen and Dresden with BIT, and we plan to expand both locations further.

Is this strategy also reflected in the financial indicators?

Clearly: The good overall results were attributable to organic growth of MEUR 40.4 and the MEUR 41.3 increase in revenues as a result of newly acquired companies.

2016 by region In the DACH segment, revenues rose by 13.5 percent from MEUR 321.2 to MEUR 364.6. Western Europe posted an increase of 14.7 percent to MEUR 177.6, and revenues in Eastern Europe rose by 11.7 percent to MEUR 83.3. The US segment improved by 3.7 percent to MEUR 135.7 and Asia by 16.8 percent to MEUR 12.5.

All regions grew last year. Were there any countries with outstanding performances?

Success was actually spread relatively evenly across all regions. They all met or even exceeded their targets. The DACH region is traditionally our strongest area, and this remains the case. Business in Turkey, Poland, the UK, and Scandinavia was definitely outstanding. In the Scandinavia region, we purchased a company in Denmark a few years ago and are now also active in Sweden and Norway. In total, we have around 340 employees in Scandinavia.

2016 by revenue segment Consulting business grew by 6.9 percent from MEUR 310.1 to MEUR 331.4. License and cloud subscription business improved its revenues by 18.6 percent to a record level of MEUR 85.5. Revenue from managed services business was up 16.0 percent to MEUR 360.2.

The revenue segments Outsourcing and Application Management Services have been combined. Is there any particular reason for this?

We now simply talk about three revenue segments: Consulting, Licenses, and Managed Services. "Managed services" covers all services that support the operation of our customers' IT systems. This ranges from complete outsourcing to management of company systems in our data centers to provision of data center capacity for our customers' infrastructure. These managed services are a key pillar for us: The contracts are often long-term, ensuring a regular income stream for us.

Managed services business has continuously increased its share of total revenues in the past and now stands at 46.3 percent, slightly higher than the share of consulting business. In conjunction with the smaller but steadily growing contribution from license income, our business is therefore based on a sound revenue mix.

Press release dated January 13, 2017 The Management Board is forecasting further growth in revenues and increased earnings for fiscal 2017. Thus, revenues are set to rise to between MEUR 820 and MEUR 830 in the current year. An EBIT margin of around 5.0 percent is projected with further growth in earnings.

Revenues and earnings are set to rise further this year according to the Management Board's outlook. So will everything carry on as before under you?

We have made a strong start to the new year, the order books are well stocked, so the chances of meeting our targets for 2017 are already good. With regard to business development, I am positive. To me, the challenge is that our organization also needs to keep with our growth. There will certainly be changes on the horizon here. But these are less down to me than to the situation in which itelligence finds itself. Precisely because of our great success on the market, we need to keep on examining whether we have the right processes, whether we are working together effectively and how we can attract the best employees. It's about continuing itelligence's success story, and I'm delighted to be involved in writing the next chapters.

Press release dated October 18, 2016 Dr. Michael Dorin is to be the new CFO of itelligence AG.

Let's shift our focus from business to you: Mr. Dorin, you took up your post as CFO on January 1, 2017. Is there an agenda for "the first 100 days"?

Definitely. First of all, I want to really get to know this company with its people and its impressive history of growth. 100 days will probably not be enough for that. But there's also lots to do: To begin with, it was important to get the annual financial statements right – the necessary regulations and the reports to be submitted are getting increasingly extensive. Then Norbert Rotter and I will be thinking about where we want to take itelligence and how we want to achieve this together.

High-school diploma, bank training, economics and business administration at Bielefeld University. A scientific role in the Faculty of External Accounting, graduation as a doctor of economics. ...

In your dissertation, you focus on improving audits of financial statements. How useful is your intensive scientific background in your current job?

I have learned to assess problems on an abstract level, deal with setbacks, and expect long timescales: When you have worked on just one mathematical topic for years, you learn to break long distances into small chunks. That is not dissimilar to work in extensive projects. In science, it's about thoroughness rather than speed. That is a good grounding.

Michael Dorin worked part-time as a postman when he was at school, did civilian national service in a rehabilitation clinic, and trained for two years to become a bank clerk at Dresdner Bank before going to university.

Would you also advise young people today to get a rounded education before starting a career?

A sound education is certainly a good basis for a successful professional life. But lots of very successful college dropouts prove that it is by no means the only way. It is important to bring passion to the table. Those who want to make good decisions amid the complex challenges of today should do so with the deepest possible knowledge of the matters in hand. Education helps enormously here.

How far each person wants to go is their individual decision. But I prefer to take a broader view of education, beyond the mere communication of training or course content. It's also about a good all-round education that helps to tackle problems from different angles and adopt different perspectives.

Dorin started his career in 2006 at the Bielefeld branch of the international auditing firm KPMG Deutsche Treuhandgesellschaft AG, where he was involved in auditing international companies. In 2008, he moved to the Corporate Controlling and Strategy department of Bertelsmann AG in Gütersloh.

Did you meet Norbert Rotter for the first time at KPMG?

In 2001, I did an internship at KPMG in Bielefeld as a student. I got to know Norbert Rotter in 2003 in New York, where I also worked as an intern for KPMG. And we eventually worked together again for two years here in Bielefeld after my studies. At the end of 2007, we went our separate ways: Norbert started out at itelligence and I moved to Bertelsmann at the beginning of 2008.

From an international auditor to a long-established German corporation: What changed for you?

I got the chance to work close to the Group Management Board in a staff department. I had highly professional colleagues there with an international background and from various specialist departments. This broadened my horizons once again compared with my time at KPMG, which was itself hugely valuable. At KPMG, it was more about checking compliance with rules, while at Bertelsmann I learned a lot about commercial approaches.

In 2011, Michael Dorin left his post as a senior director at Bertelsmann to assume corporate responsibility for Stuttgart-based Blue Ocean Entertainment. During his time there, the company significantly expanded its international business.

What attracted you to the post of CFO at itelligence?

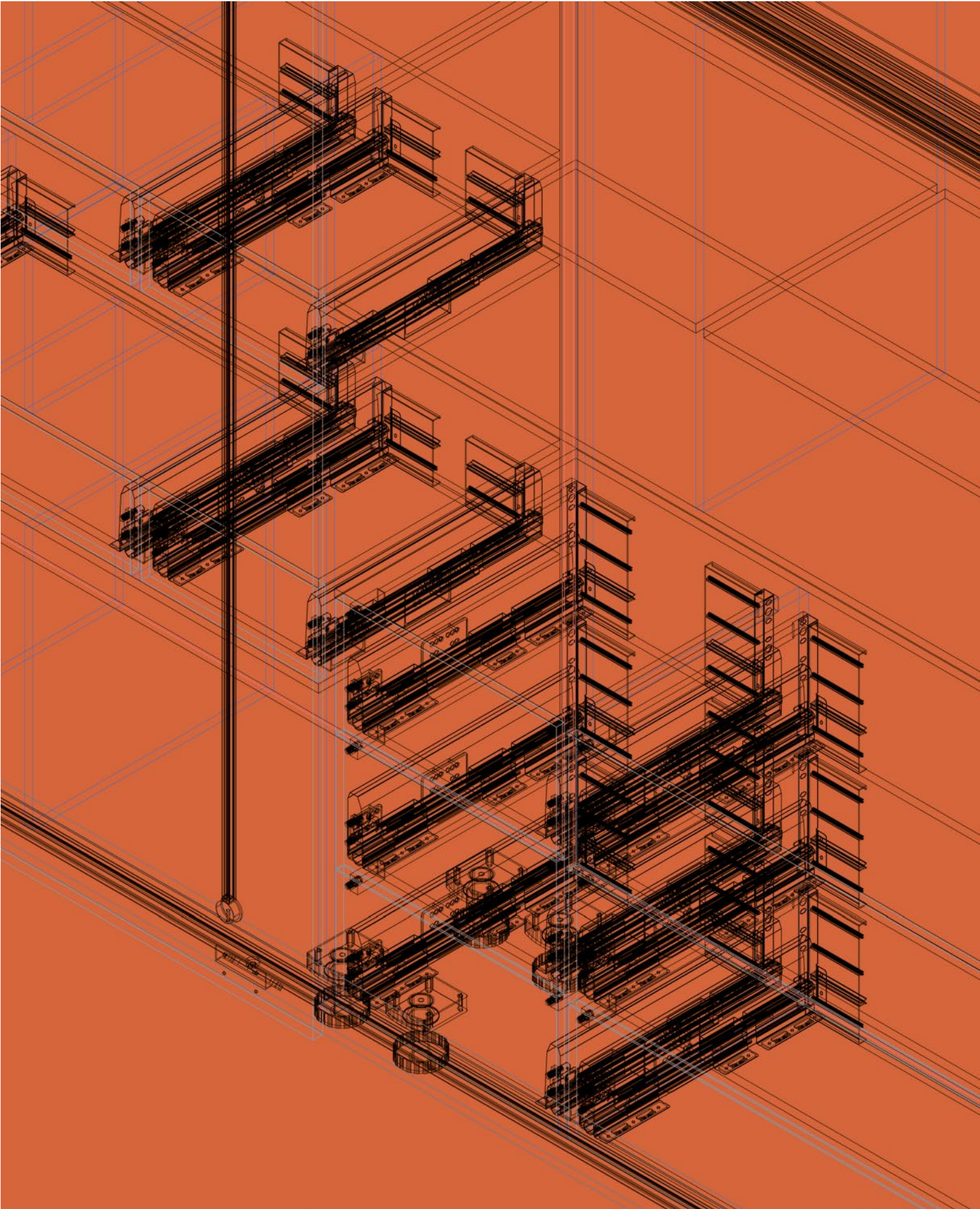
My ultimate goal was always to take on responsibility myself. That's why I made the initial move from a major corporation to a small business. I had huge scope there to address and change things. It was a great experience for me to bring about growth at a company. As well as looking after finances, I was also responsible for HR, administration, IT, and aspects of purchasing in the four years I spent on the Board of Directors. For instance, I introduced an ERP system that sharpens the focus on what our advisers do as a service for our customers. In addition to the fact that I have a keen interest in IT consulting, itelligence is obviously an extremely attractive company. After all, taking responsibility is one of the key principles of the management team here.

And had you missed Bielefeld?

There was definitely a sense of coming home. I spent several happy years in Bielefeld. I studied and got married here. As colleagues, we speak the same language – the language of open-minded Eastern Westphalia. A clear sense of purpose, but always open to new things. ■

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The collaborating customer

Products, processes, and personnel – the digital transformation is shaking up lots of established structures, especially in IT, which has to both shape and handle this change. However, at the heart of digitalization is another party that has often been overlooked so far: the customer.

There's a real paradox when it comes to furniture fittings, the better they are, the less people notice them. For instance, drawer guides attract attention only when they break. This is one reason why makers of outstanding furniture fittings like Hettich of Eastern Westphalia are virtually unknown to the general public, even though the company is active worldwide and has around 6,500 employees. In Germany, manufacturers such as Hettich operate as "hidden champions," at least as far as the outside world is concerned.

The term "hidden champion" is a classic oxymoron that bridges two apparent opposites. Much like Norbert Günther, who has been CIO of the company for five years yet doesn't have the conventional IT background. This has shaped his approach. The expert in automation in mechanical engineering has been working for 20 years at the interface between business and IT and holds a clear opinion: "I run IT for the success of the company, not for the success of IT." For instance, Günther is one of the few IT managers who gets up every morning with the disruptive philosophy "Let's try to make ourselves unnecessary."

He started out at Hettich in the mid-'90s with electronic support of catalog systems, then he programmed websites, activated online catalogs, established an e-business network and won several Office Excellence Awards before eventually setting up and heading a BPO location in India. Services from SAP developments through to order processing are performed here for the Hettich Group by over 100 employees. "Basically, I had to identify process improvements in all areas and implement them with electronic support," Günther relates.

This link between business processes and IT is certainly nothing new, but digitalization is making it ever more important – not only in collaboration with major customers and suppliers, but also increasingly in relation to smaller companies. For Günther, therefore, the priority of his work is clear: "How can IT and specialist departments work together to develop processes that make us all more competitive?" He himself differentiates between two main playing fields of digitalization: Production, which has been optimized in small steps for many years via methods such as Total Productive Management (TPM) or Kaizen, and the office environment, where the Kaizen principles of continuous improvement of activities, processes, and procedures are still far from being established everywhere by all employees.

Therefore, two four-people teams have been set up for digitalization at Hettich: Digital Industry Transformation for Production, and Digital Business Transformation for Administration. At present, several digitalization projects are being undertaken in both divisions with itelligence, Günther explains. For instance, the solution it.x-press is being introduced relatively close to Production because parcel service providers and forwarding agents are connected to the SAP system with the tool. "However," the CIO concedes, "we would have definitely gone ahead with this project even without digitalization."

Another project centers on Production itself and the adage "incorrect master data results in incorrect processes." it.mds from itelligence has been chosen here – an integrated, streamlined solution for maintaining critical enterprise master data and improving data quality. "In the future, we aim to ensure that material master data flows from Development through to the international sales companies in a synchronized, rule-based, and structured way," says the head of IT. In-house transport has now also been digitalized and equipped with iPads so that loading plans can be amended and called up during the day.

"Start out by trying out" is the motto of the digitalization staff at Hettich, whose policy is to take lots of small steps: In system maintenance, experts are increasingly working with tablets and smart watches so that they have their complete worklist constantly at hand. Around 200 measuring points on the units in a production shop regularly provide status updates. In the future, the plan is for machines in line for maintenance to notify the technicians when they are at a standstill and want to undergo dynamic maintenance.

In the business field, Hettich is building a new foundation for its e-commerce activities with Hybris. This incorporates several small individual projects in which "minimum viable products" are being created and tried out with customers. With these deliberately unfinished prototypes, the aim is to determine quickly where there are efficiency reserves, how portfolio management and bid management are to proceed in the future, how Hettich should set up a supplier portal or, under a current plan: "How can we make online business better digitally in a subsidiary?" – for example with an ordering application developed by itelligence and based on Hybris, which has been very broadly defined alongside the traditional systems of the Hettich Group.

In the Hybris project, which was undertaken using a type of dynamic Scrum method, there were hardly any input specifications, just a general target concept. It also yielded valuable lessons: Ultimately, traders and joineries helped to shape the program in line with their own requirements in the development process in the test market. "Through the lessons learned and the joint collaboration with the customer, we went on to set up new electronic business processes," says Günther. In their "innovation lab," away from headquarters, Corporate Marketing and Corporate IT, the two digitalization teams tested various approaches without putting the organization under pressure. "Now, where it is up and running, we are embedding the software at Hettich again," says the IT manager.

The linchpin of all the company's activities is still the ERP system, "the real source of truth." Yet even here, the CIO sees change on the horizon: "In the future, we will have a customer truth that sets the agenda for us – a kind of customer ERP system tailored to individual needs." Essentially, it will be the same for everyone, with different configurations for the individual countries: "It will have a different feel for each individual customer." The customers' systems will then respond to a new unit status and automatically trigger processes in the Hettich systems that extend through to production along with planning, start-up, and replenishment control.

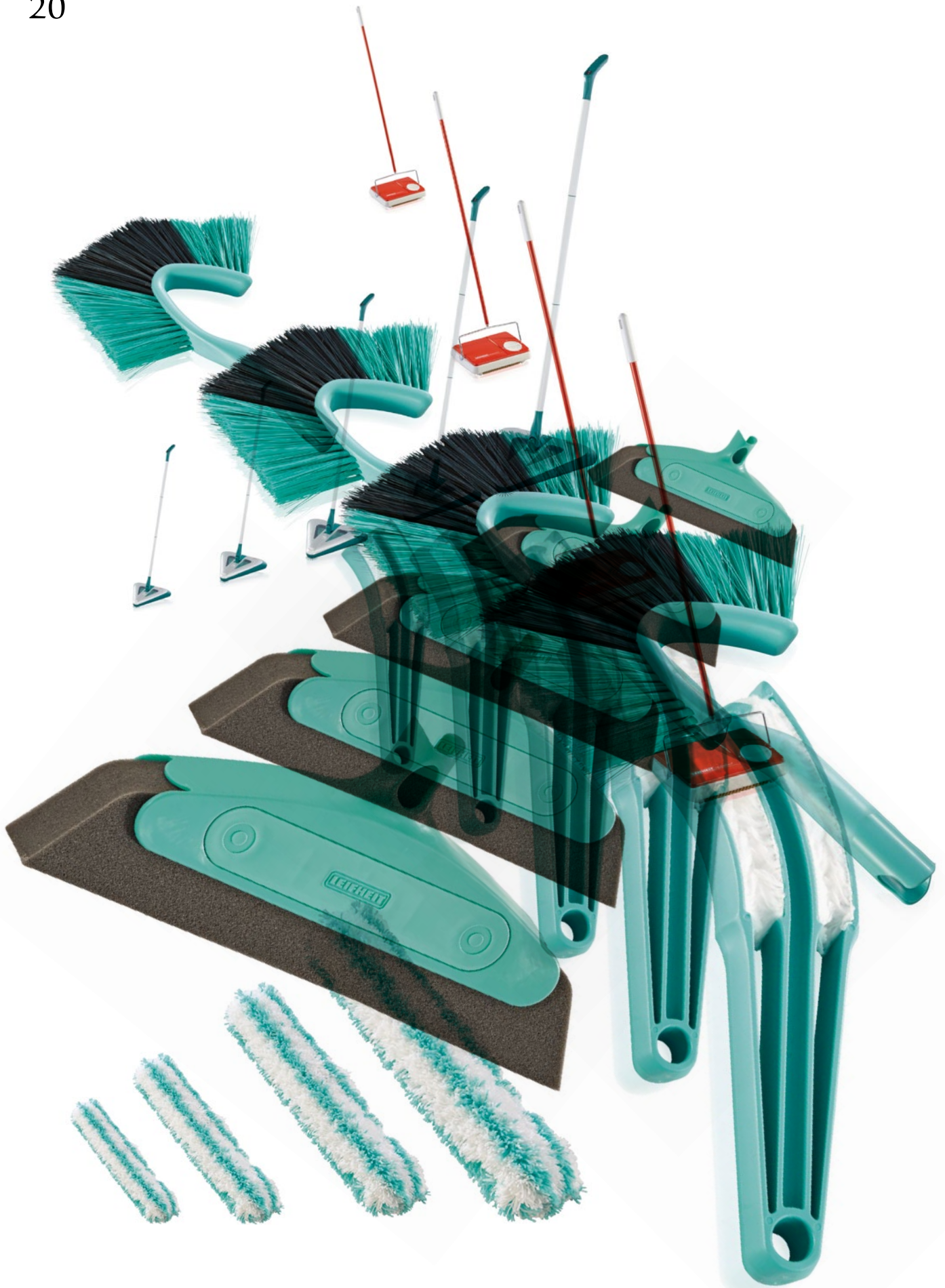
For CIO Günther, development follows the slogan: "Inspire customers to collaborate – they won't see it as a chore." Or to express it as an oxymoron: "the collaborating customer." However, this works only if all IT systems are seamlessly integrated. Hettich increasingly relies on professional partners here: "We are gearing our own IT development further towards business consultancy in order to make business processes visible and then have them implemented digitally by experts." This also takes into account the trend labeled by Gartner as "bimodal," "two-speed" IT: Stable and efficient main systems combined with agile and innovative business process support. For instance, CIO Günther is counting the days without a system failure (>550 in SAP operation), but he can leave the office, go to the digitalization teams, and ponder with them what the world will look like in the future. "Ten years ago, only a handful of IT bosses could do that."

And what will IT be like at Hettich in ten years' time? "We will have largely moved away from the desktop systems that we know today," the CIO predicts. "Wherever people are working in the world at any given time, their own data and software-based processes will always be at hand." This applies to the company's own employees as well as its customers. Only the fate of the core product will remain the same in ten years' time: If the hinge doesn't fall off, no-one will notice it. Hettich – Technology for furniture. ■



We spoke to:
Norbert Günther
CIO & Digitisation

Hettich Holding GmbH & Co. oHG
hettich.com



Ready for the future

The digital transformation makes it possible to learn what customers want – all customers anywhere at any time. But you get out what you put in: Without the right IT structures, companies are not agile enough to put the specialist departments' requirements into practice quickly and efficiently. Elephants can help here.

The digital transformation is turning the world of consumer goods on its head. Digital prototyping, a keen sense of what customers want and perfect all-round service across all steps in the value chain and communication channels are becoming the industry standard – perfect integration in the back office and logistics go without saying. For IT organizations, this means extra homework.

Leifheit AG in Nassau an der Lahn, a European provider of branded cleaning, laundry care, kitchen and wellbeing products that make home life easier and more convenient, is in the midst of this phase. The company's CIO Wolfgang Wissing has an IT strategy based on clear principles: standardization, optimization, and automation of processes as well as outsourcing of services that external partners can do better. A streamlined team of ten in-house IT staff among over 1,000 employees. Two of them deal with basic technology: "We are interested in state-of-the-art solutions and not technical showcases," says Wissing, explaining his philosophy. This has no room for individual developments, untidy interfaces, and complex management.

"What we don't want," says the Leifheit CIO, "is a software zoo with lots of small animals – for us, the ideal is two large elephants." These are Microsoft in the office environment as well as SAP across the board for material and value flows. Several years ago, Leifheit connected its supply chains to a new platform from Walldorf in order to centralize merchandise management, simplify planning, and integrate quotation management in the complete process. The old software was modified in more than 2,000 places – these days, the system has been entirely stripped of all bells and whistles. SAP operation is outsourced to itelligence, who also introduced the industry solution. This represented the first foundation stone for digitalization.

After this compulsory program, Wissing is now in the process of getting Leifheit in shape for the freestyle. "We are currently building a customer-centric and product-centric platform so that business can run as smoothly as possible." For instance, the preferences of customers and trading partners are retrieved in the standardized platform SAP Hybris so they can be transformed into suitable products on the PLM platform. The overriding aim is to digitalize business processes across the board, from generation of ideas through development, engineering, and master data maintenance to production. The platform quartet is rounded off by the inventory management package SAP EWM (Extended Warehouse Management), which is integrated with Hybris and SAP ERP.

Even though it is the full program: CIO Wissing says that the wrong approach would have been an individual solution with a garage company. "Before you have implemented anything here, you have already disappeared from the market or created an island that makes integrated standard processes across finance, accounting, internal sales, and logistics impossible." By introducing the Hybris solution, it was virtually a given that Leifheit was also implementing a CRM solution, especially as both the trading partners and the end customers are the focal point of sales. "As a result of our customer-centric approach, the cloud version SAP C4C was simply a must because of integration in the SAP environment – in particular Hybris as well."

Ultimately, the new power of the end customer is apparent everywhere, and the omnichannel field of the target-group approach is huge. "We are on hand for the customer in the orientation phase, but right now, demand is much greater than we can meet with our organization at present," added Markus Tensing, Managing Director of the Swiss consultancy firm truesto. The manager has already worked as acting head of IT and on the IT steering committees at Leifheit. He now assists the company as a quality controller and instigator. And given the relatively small internal IT organization, one thing is clear: "The entire system works only because we pursue a serious outsourcing philosophy," says Tensing. If Leifheit were to do everything itself and provide all its special expertise, IT wouldn't be able to cope, even with 15 IT employees: "It makes more sense for us to bring in specialists, but we need to get the right ones and deploy them quickly."

The C4C project partner is again intelligence, and work is roughly aligned with the Scrum approach, divided into sprints. Teams from specialist departments, IT staff and external experts are also involved. In addition to daily telephone conferences, there are larger meetings at regular intervals, where the interim results are presented to the steering committee. "We really value the fact that this is done not only using PowerPoint slides, but also with partial solutions that can be tried out," explains CIO Wissing. These include simulated payments, outward goods movements in EWM, and reduced inventories in ERP – all in a test environment hosted by intelligence. "Because we are close at hand with our agile approach, we can respond quickly and deliver high quality while adhering to budgets and deadlines."

At the same time, raised awareness of the digital transformation among employees is also changing the corporate culture. "The traditional silo mentality is on the wane, and colleagues are opening up to new approaches, forms of organization, processes, and technical solutions." Wissing is not alone in noticing this. And while customer-centric thinking is on the rise across all departments, functional and hierarchical boundaries are being eroded through work in project teams, for instance. "In the near future, once the majority of employees have fully absorbed the new paradigms and specific requirements of the specialist departments in terms of automation and digitalization become clear to us, we aim to be all set as far as IT is concerned," says truesto consultant Tensing.

Connection of sensors and production equipment and automation of logistics centers are already in progress, and digitalization of household products is not far away. Mass customization and individualization of household products – that doesn't necessarily sound like added value today, but an industry can be completely changed in a couple of years. In addition, the market is fiercely competitive. "We are ready to launch the platform with which we are prepared for the forthcoming requirements of the market," states Wissing. From robotics and artificial intelligence to a disruptive paradigm in the household – it is important not to be too late if weak signals turn into demand. "Shaping the household of today" is the claim of Leifheit. Thanks to the platforms developed with the assistance of itelligence, the message for the future is: "Shaping the digitalization of today." ■

We spoke to:



Wolfgang Wissing
CIO

Leifheit AG
leifheit.com



Markus Tensing
Interim CIO until 2013

truesto GmbH
truesto.com



A revolution in full flow

Digital transformation is an opportunity and a risk at the same time. New services can expand the market; new competitors can disrupt it. A stable basis for IT systems and processes is essential for companies wishing to safeguard themselves and avoid the “commodity trap.”

SAMSON AG is “an industrial jewel in the east of Frankfurt,” as a major German newspaper wrote on the occasion of the company’s milestone anniversary. Now over 100 years old, the company has more than 4,000 employees worldwide, generating annual revenues of around 650 million euros. A classic hidden champion, privately owned and embodying midmarket principles and virtues, it manufactures valves for media flows. From chemicals and foodstuffs to heating fluids, coolants, and oil: “We manage anything that flows,” says CEO Dr. Andreas Widl.

Right now, though, Widl and his colleagues on the Executive Board are faced with the challenge of managing changes in their market environment. Refinery business is suffering from falling crude oil prices, new competitors from abroad are buying up shares of the valve market to utilize their product capacity, and the quality of long-standing customer relationships is deteriorating: When it comes to engineering, tenders, supplier qualifications, and procurement, plant operators are increasingly turning to service providers for whom price alone counts less than innovation and customer proximity. “We still go the extra mile to provide our customers with the ideal solution,” says CEO Widl, “but this type of partnership has become something of an endangered species.”

Given this complex situation, digital transformation is arriving at just the right moment – driven by SAP implementation. “Our IT landscape with three legacy systems was obsolete,” concedes SAMSON CFO Dr. Ingo Koch, who is also the sponsor of the “SAPSON” project. There were no consistent systems and processes, and the isolated workflows were “so tangled that it was near-impossible for us to scale them or upgrade them.” Radical change was needed to meet today’s requirements: an ERP standard, few change requests and a pronounced emphasis on established best practice.

SAMSON initiated the project in autumn 2015 and expects to complete it with the go-live in summer 2017 – “a wild ride, but a necessary one,” as Widl describes it. The partner is itelligence, “because they demonstrated their understanding of midmarket companies and their familiarity with the best practices in our market.” In other words, itelligence brings the standards, experts, and industry solutions that will ensure the system remains untangled. Of course, the SAMSON organization could hardly be expected to fully adapt to SAP, but the aim was to make standalone solutions the exception rather than the rule. “As such, almost all change requests have to be approved by the Executive Board.”

One example of what has changed: SAMSON has four different value streams, namely “Pick to Order” (product is ready and can be delivered quickly), “Assemble to Order” (assembly and delivery within days), “Manufacture to Order” (raw materials are processed and parts assembled and delivered within weeks) and the supreme discipline, “Engineer to Order” (new development, production, and delivery within months). Previously, all requirements were sent through the same value channel without any differentiation. In future, there will be four suitable model processes each with access to the relevant information. This will make the organization quicker and more efficient.

CEO Widl’s argument in favor of IT modernization is clear: “The digital twin for all processes and products, including virtual tendering, configuration, and production, is one of the central success factors for the companies of the future.” The SAP system displays the available materials, delivery times, and price indications, thereby helping the company to handle the growing complexity of its sales channels. The “SAPSON” project is seen not as an IT project, however, but as a change project in which the company’s business processes are made measurable, geared towards the customer, optimized, and mirrored digitally.

“SAP will occupy us for some time,” adds CFO Koch, “but we want to show that SAP S/4HANA and a streamlined architecture can be made to work within a reasonable timeframe.” This will also benefit SAMSON’s international organization, which comprises 15 production sites and more than 50 distribution locations from China and Europe to the USA as well as various European subsidiaries. The new SAP system improves cooperation within the production network even further and allows the value chain to be distributed economically. “We are also improving our proximity to the customer by ensuring comprehensive integration with their applications.”

Although there are many direct benefits for the organization, “SAPSON” is just one step towards a bigger goal, as CEO Widl explains: “SAP implementation forms the basis for future business models shaped by Industry 4.0.” He adds that the big opportunity for SAMSON lies in collecting and evaluating data at the process level and marketing process intelligence that customers can use to improve the efficiency of their systems (TCO) or the effectiveness of their planning (CAPEX). This can only be achieved if data flows continuously throughout the various value chains.

SAMSON believes it is naturally well positioned for Industry 4.0. After all, every factory and every facility has hundreds or even thousands of valves that come into direct contact with media and alter their flow. In future, SAMSON valves will be more than just actuators in this process. They will also be sensors and aggregators of data that can be marketed to the customer in the form of information and services. Among other things, this reduces energy consumption, opens up the possibility of modular systems, and cuts system retooling times. “SAMSON wants to introduce data from the process level to its ERP systems – which is why digital transformation forms part of our strategic orientation.”

In the “Internet of SAMSON Things,” where valves talk to each other, new disciplines are being established in order to localize, secure, network, and analyze data. For example, the company is currently investing in Europe’s most state-of-the-art fluid mechanics research center for testing embedded systems and “hardware in the loop” systems. CEO Widl: “We readjust our customers’ system conditions, install valves, and improve operation in order to measure and minimize operating costs.” This allows physical processes to be adjusted using digital twins in order to construct the optimal system.

Despite the technical feats and visions involved, however, there is always one concern when it comes to digitalization: the “commodity trap.” The SAMSON Executive Board is less concerned about its direct competitors than the threat on another front: “What if one of the big web portals buys a valve company and expands its entire digitalization strategy to include valves? Then we would have a new competitor.” Disruptors from outside the industry have different business models and can fundamentally change the rules of the game – Airbnb does not own any beds, Uber does not own any taxis, and Netflix began as a distributor of rental DVDs by mail. The consequence of these disruptors is a kind of “digital Darwinism,” where network size is the deciding factor and only the biggest will survive. Adapting alone is not enough; a medium-sized hidden champion must become more agile and more interactive across the board in order to have any chance of success in this particular race.

As Widl puts it, “digital transformation is a revolution within evolution.” It is changing organizational structures as well as business models. Bringing all of this together is what he finds so appealing about the task at hand. CFO Koch also knows that the revolution would not be possible without a sensible SAP system: “IT forms the basis for operational efficiency and new business models. Companies can no longer afford to do without a rational IT backbone.” There is no alternative – failure is not an option. “Or, to put it in mathematical terms, our SAP project is the necessary condition for digitalization.”

We spoke to:



Dr. Andreas Widl
CEO



Dr. Ingo Koch
CFO



From standalone items to cogs

Industry 4.0 and digitalization – two buzzwords that are easier said than done. However, the example of a conventional vehicle and machine manufacturer shows what huge strides are required to successfully bring about an industrial revolution.

To Bernard Krone Holding SE & Co. KG, there is no difference between cornfields and highways: Ultimately, the company with 4,300 employees produces commercial trailers and agricultural machinery for the global market. Krone started out in the early 20th century in a forge in Emsland – its product range now includes refrigerated semitrailers, self-propelled forage harvesters, and round balers. Yet digital disruption has also made its mark here. Alongside the hardware, there is a growing focus on applications that offer a new competitive edge: “The battle for the market will be fought not only in fields or on roads, but also on the internet,” says Dr. Goy Hinrich Korn, CIO of the Krone Group.

The company’s eventful history perfectly mirrors the development of the industrial revolutions from the forge as the nucleus of production, on to the dawn of mechanical engineering (1.0) and electrification (2.0), through to mechatronics (3.0). There is no doubt that machines are still the focal point, and they need to operate in fields or on highways. However, they used to be standalone items – like the Krone drinking trough from 1925, the first one ever that could be operated by an animal. Yet in 2017, a machine is no longer isolated, but rather a cog in a digital gearbox, an integrated system amid other systems. And like its predecessors, the fourth industrial revolution comes down to a choice for adaptable companies, says CIO Korn: “These days, you can develop fantastic machines, but if they can’t communicate with their environment, you’re out of the market.”

For instance, the network connects the IT of the farmer, the contractor, the hauler, the dealer, and the manufacturer with each other and with the vehicles. When a cornfield is harvested, information on aspects such as the time it took, the yield, or the degree of moisture of the chaff goes to the contractor, who in turn invoices the farmer. The contractor knows how many liters of diesel the shredder has used, and when and why the shredder did not move (because there were no trailers). “Today,” says CIO Korn, “it’s all about integrating and coordinating the machines.”

For instance, empty loading vehicles move on to the next field while the shredder is still processing a couple of rows of corn automatically and under GPS control – the entire harvesting team can be organized in a targeted manner via mobile devices. Here is another example: Bales of straw can be fitted with RFID chips directly in the compaction process in the field; as a result, years later when the bales are in storage, their owner can retrieve the bale weight or check the material moisture, and also establish when and where the bales were compacted.

The cell phone has pushed out the pitchfork, and efficiency and automation are not limited to the industrial field alone – modern agriculture too is driven by the major innovators. Consequently, the key elements of Krone's digitalization strategy are "Farming 4.0" (Agricultural Machinery), "Logistics 4.0" (Commercial Trailers), and "Industry 4.0," where the focus is on internal processes. Take this example: In addition to machines, programs are sold, such as special functions in shredding machines that are used on demand for a specific period of time only. A service technician can activate these functions on the machine, but this is expected to work via self-service and cell phones in the future. "We are working hard on a portal of this kind so that we can also integrate these functions into our sales process," says CIO Korn.

Here, Korn refers to the booming games industry, which thrives on interested parties loading new game apps onto their smartphones in just a few minutes in return for payment. "This obvious approach will also take hold in the agricultural machinery sector," says the Krone manager. Yet authorization concepts, security measures, data protection functions, and a web shop are required for this. It's a challenge for working culture: There used to be programmers who dealt with operating applications, "now we need computer scientists, production technicians, developers for embedded systems, and statisticians in addition to the mechanical engineers and electricians for a new prototype in agricultural machinery." The times when an IT request was submitted and implemented a certain time later are gone. "Interdisciplinary" is the new watchword, says Korn: "These days, people come together to solve the problem of how to reconfigure and pay for the machine in the field."

This trend also impacts production, as there is growing demand for individual versions, at least in the case of large machines. Mass customization or batch size 1 means that instead of following a rigid plan, production and service operation are carried out in line with demand and consumer requirements. The biggest sales volumes of agricultural machinery are of course generated in the spring – just before the start of the harvest season. Krone engages intensively with its sales partners all over the world in order to forecast market trends as accurately as possible. Preproduction is carried out accordingly at the factory, and in the final phase of production, the machines are then put together on an order-specific basis, in other words customized for the respective customer. "Highly scalable final assembly for market-ready machines that are reconfigured on an order-specific basis," says Korn, setting out his aim. "We also need to develop these production processes in the years ahead."

The computer scientist and doctor of mechanical engineering has been CIO at Krone since 2003, and his IT organization has over 80 employees. He also acts as assistant to the holding-company CEO, Alfons Veer. SAP has been prescribed here as the central ERP platform for the subsidiaries, and its operation has been outsourced to itelligence. The central business processes were designed jointly over the past 13 years, Korn relates. A stated aim of the management is "expansion of competitive, flexible production through digitalization, automation, and integration." This requires strong partners like itelligence who can handle the technical basis as well as the conventions and trends of the respective sector.

By contrast, in the CAD sector, Krone's Agricultural Machinery and Commercial Trailers divisions use different applications. "With some platforms that have evolved over time, we are not pushing for centralization and standardization," says the CIO, describing his current IT approach – which is not set in stone in view of digital disruption: "In a growth phase and after a merger, we have learned to decentralize more rigorously and give the divisions the opportunity to structure their business themselves." As part of this, they are also given control of their specific processes, which are then implemented by IT, for instance new programs for increasing settlement via rental, leasing, and pay-per-use: "To do this, we need to prepare our IT systems right now."

The huge importance of IT in agricultural machinery is also reflected by the programs for managing the machinery fleet and agricultural resources. After a major market player developed its own platform and made it available to customers, Krone set up the open consortium DKE-Data with nine other agricultural machinery manufacturers. This data hub for machinery enables all entities in the value chain to exchange information seamlessly. It is impossible to ignore parallels with the IT sector and its conflicts such as the "browser war" between Microsoft and Netscape in the 1990s: The objective is to ensure customer retention through de-facto standards – anyone who has already spent hundreds of euros in an app store will not suddenly change their system.

So the increasing prevalence of IT is both the solution and the problem. Ultimately, disruption is generally triggered not by managing directors and owners, but by competitors or newcomers from outside the sector. "We need to embrace all these new developments and adapt them for our market," says Korn. This also includes reinventing the company and maybe even questioning its philosophy. Nevertheless, the principles of IT remain unchanged: "Databases, embedded systems, and artificial intelligence already existed 20 years ago, it's just that they weren't used properly back then." Now, everything is coming together, to the CIO's pleasure: "As a trained computer scientist and mechanical engineer, I obviously think that the digital transformation is an incredibly exciting time." ■



We spoke to:

Dr. Goy Hinrich Korn, CIO
Bernard Krone Holding SE & Co. KG
krone.de

REPORT OF THE SUPERVISORY BOARD

LADIES AND GENTLEMEN, DEAR FRIENDS OF THE COMPANY,

itelligence AG can look back on a highly successful fiscal year 2016 that was characterized by extraordinarily strong growth. At the start of the past year, the Management Board was forecasting revenues of MEUR 720. The actual figure recorded at the end of 2016 was MEUR 777.9. This excellent performance clearly underlines itelligence's strong market positioning. In terms of our earnings, substantial project start-up costs, project risks outside Germany and acquisition costs in Germany meant that EBIT was essentially unchanged at MEUR 34.9 compared with MEUR 36.0 in the previous year. In light of current market developments, we can be satisfied with our performance. Our aim for the coming years remains to generate further revenue growth and, in particular, earnings growth as our customers' business models become increasingly digitalized.

One major event in the past fiscal year was the departure of Herbert Vogel, founder of itelligence AG and its CEO since 2001. Herbert Vogel formed the predecessor company, S&P Consult, in Bielefeld on June 21, 1989, and had been a managing director and Management Board member ever since. Thanks in particular to his influence, the company began using SAP technologies for industry solutions at a very early stage, adopting a focus on small and medium-sized enterprises. This strategy proved to be extremely successful. This was followed by the IPO of SVC AG, the successor to S&P Consult, and the merger into itelligence AG. This was accompanied by a pronounced process of internationalization that ultimately resulted in the partnership with NTT DATA. Herbert Vogel retired on June 30, 2016. The Supervisory Board would like to thank him for his work and the important contribution he made to shaping itelligence and helping the company to become so successful.

Norbert Rotter, who had been the CFO of itelligence AG since January 1, 2008, took over as CEO on July 1, 2016 in the spirit of ensuring continuity while strategically positioning the company for the future. itelligence AG also succeeded in obtaining a recognized expert as its new CFO in the shape of Dr. Michael Dorin. Together with his fellow Management Board member

Norbert Rotter, he will press ahead with itelligence AG's growth strategy as the leading SAP consulting firm. Dr. Michael Dorin took up his position on January 1, 2017.

In the year under review, the Supervisory Board performed the tasks allocated to it by law, the Articles of Association, and its Rules of Procedure. It regularly advised and monitored the Management Board in its management activities and was involved in all decisions of material importance to the Company immediately and at an early stage. The Supervisory Board voted on the reports and proposed resolutions by the Management Board following a detailed examination and discussion.

The Supervisory Board received detailed, timely information from the Management Board in both written and verbal form on the Group's position, with a particular focus on the development of its net assets, financial position, results of operations, fundamental issues of corporate planning and strategy, the financing and liquidity situation, the risk situation, risk management, compliance requirements, and significant transactions. In all cases, the reporting by the Management Board met the requirements of the Supervisory Board in full. Above and beyond this, the Chairman of the Supervisory Board was regularly informed about current business developments, the medium-term outlook and other key issues and discussed the outlook and the future focus of the divisions with the Management Board. No conflicts of interest arose within the Management Board or the Supervisory Board in the year under review.

The Supervisory Board held a total of seven meetings in fiscal year 2016. All of the members of the Supervisory Board regularly attended the meetings of the Supervisory Board. More than half of the members were present at all meetings. In some cases, Supervisory Board members were connected by video or telephone. Members unable to attend submitted their votes on resolutions in writing.

The Supervisory Board meetings regularly discussed the Company's economic position and development, the financial and liquidity situation, planned investments, the risk situation and risk management, and corporate planning and strategy. In

addition, the meetings in the past fiscal year focused on the following topics and resolutions in particular:

1. Approval and adoption of the single-entity and consolidated financial statements for 2015
2. Commissioning of KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as auditor for fiscal year 2016
3. Budget definition and budget review for 2016
4. Investments and planned acquisitions
5. Election of new Supervisory Board members and composition of committees
6. Monitoring of the risk early recognition system established by the Management Board
7. Management Board matters

In fiscal year 2016, the Audit Committee met on March 16, September 26, and December 8. At these meetings, the Audit Committee intensively discussed the audit of the single-entity and consolidated financial statements, new accounting provisions and their future inclusion in the audit of the Company, matters relating to the planning process and risk management, and matters relating to SOX and J-SOX.

The Personnel Committee met on March 16, September 26, and December 8, 2016, to discuss matters relating to employee development, the recruitment process and developments in the management team and the management structure.

In addition, the Strategy Committee met on December 8, 2016. The meeting addressed primarily the expansion strategy, the Company's strategic focus within the NTT DATA Group, and the strategic development of the SAP partnership, particularly with regard to the new SAP technologies.

The Annual General Meeting on March 17, 2016, resolved in particular on the appropriation of the unappropriated surplus and the approval of the actions of the members of the Management Board and the Supervisory Board. It also elected new shareholder representatives to the Supervisory Board. The election of new employee representatives to the Supervisory Board took place at the same time using the procedure established for this purpose.



Friedrich Fleischmann, Chairman of the Supervisory Board

The Supervisory Board would like to express its heartfelt gratitude to the departing employee representatives, Dr. Stephan Kremeyer and Carsten Esser, for their work as members of the Supervisory Board of itelligence AG and their commitment to the Company.

As in the previous years, the Supervisory Board regularly addressed the adherence to and further development of corporate governance at the Company and intensively discussed the recommendations and suggestions of the German Corporate Governance Code together with the Management Board in fiscal year 2016. The Management Board and Supervisory Board of itelligence AG identify with the objectives of the German Corporate Governance Code, namely to promote good, trustworthy company management that is oriented towards benefiting shareholders, employees, and customers. On December 9, 2016, the Management Board and the Supervisory Board jointly submitted an updated declaration of compliance in accordance with section 161 of the German Stock Corporation Act and made this available on the Company's website.

The Annual General Meeting on March 17, 2016, elected KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, as the auditor of the single-entity and consolidated financial statements for fiscal year 2016. Prior to the proposal for election, KPMG had declared to the Supervisory Board that there were no circumstances that could compromise its independence as an auditor. KPMG examined the single-entity financial statements of itelligence AG, the consolidated financial statements and the management reports of itelligence AG and the itelligence Group in detail. As stated in its unqualified audit opinion, this examination did not give rise to any objections. The dependent company report prepared by the Management Board was also audited and issued with an unqualified audit opinion by the auditor. The audit opinion is worded as follows:

"Following the completion of our audit in accordance with professional standards, we confirm that

- a. the factual statements made in the report are correct,
- b. the Company's compensation with respect to the transactions listed in the report was not inappropriately high based on the circumstances known at the time the transactions were executed and, where it was, whether the disadvantages have been compensated,
- c. there are no circumstances that would justify a materially different opinion of the measures listed in the report than that held by the Management Board."

At its meeting on March 14, 2017, the Audit Committee discussed the single-entity and consolidated financial statements for 2016 and the management reports with the Management Board and the auditors. The relevant documents, including the audit reports, were provided to all of the members of the Audit Committee and the Supervisory Board in good time prior to the meeting. The responsible auditors informed the members of the Audit Committee of the key findings of their audit and answered additional questions. The Committee concluded by recommending that the Supervisory Board approve and adopt the financial statements.

At the meeting of the Supervisory Board to adopt the financial statements on March 15, 2017, the consolidated financial statements and Group management report prepared in accordance with the International Financial Reporting Standards (IFRS), the single-entity financial statements and management report prepared in accordance with the German Commercial Code (HGB), the audit reports, and the dependent company report were discussed in detail by the Supervisory Board in the presence of the Management Board and the auditor. The auditor reported on the key findings of its audit and was available to provide additional information and answer questions as necessary.

Based on its own careful examination of the documents relating to the financial statements and the audit reports, the Supervisory Board did not raise any objections and approved the findings

of the audit by KPMG. It thereby approved the annual financial statements of itelligence AG and the consolidated financial statements of the itelligence Group prepared by the Management Board for the year ended December 31, 2016, meaning that the annual financial statements of itelligence AG have been adopted. Following its own examination, the Supervisory Board also approved the Management Board's proposal on the appropriation of net profit. Based on its own careful examination of the dependent company report and the audit report, the Supervisory Board did not raise any objections to the declaration by the Management Board at the end of the dependent company report and approved the findings of the audit by KPMG.

The Supervisory Board will continue to actively support itelligence AG's strategic focus and course of business in the future, thereby making a contribution towards the continued positive development of the itelligence Group in close cooperation with the newly composed Management Board. The Supervisory Board would like to expressly thank the employees around the world and the members of the Management Board for their high level of personal commitment and performance in the challenging fiscal year 2016. They have made a major contribution to another extremely successful year of business for itelligence. ■

Bielefeld, March 15, 2017
For the Supervisory Board

A handwritten signature in black ink, appearing to read 'Fleischmann', with a horizontal line extending to the right and a vertical stroke at the end.

Friedrich Fleischmann
Chairman

CORPORATE GOVERNANCE REPORT 2016

The Management Board and the Supervisory Board of itelligence AG attach great importance to all aspects of corporate governance, as they believe responsible company management is the only way to achieve a sustainable increase in enterprise value in the long term. Accordingly, both bodies are committed to the principles of the German Corporate Governance Code and consider their implementation to be an important element of responsible corporate management that reinforces the trust of customers, employees, and the public in the Company at a high level. The Management Board and the Supervisory Board therefore largely complied with the recommendations of the Code again in fiscal year 2016.

To this end, both bodies addressed corporate governance topics on several occasions during the past fiscal year and jointly submitted a revised declaration of compliance in accordance with section 161 of the German Stock Corporation Act (AktG) on December 9, 2016. According to this declaration, itelligence AG continues to comply with the majority of the principles set out in the current version of the Code dated May 5, 2015 and deviates from these principles only where it has good cause on account of its size, structure, or other company-specific factors. The declaration is published on the Company's website.

MANAGEMENT BOARD AND SUPERVISORY BOARD

As a stock corporation under German law, itelligence AG has a two-tier management and supervisory structure consisting of the Management Board and the Supervisory Board. The Management Board is responsible for managing the Company. The Supervisory Board monitors the Management Board and is responsible for appointing and dismissing Management Board members. These two bodies of itelligence AG work together in a trustful and efficient manner.

In fulfilling its duties, the Management Board regularly, promptly, and comprehensively informed the Supervisory Board on all material aspects of planning, business development, and the position of the Group by way of written and verbal reports in fiscal year 2016. Focal points included

the risk situation, risk management, and compliance. Transactions of material importance require the approval of the Supervisory Board.

The Management Board of itelligence AG has had two members since January 1, 2017: Norbert Rotter (CEO) and Dr. Michael Dorin (CFO). Herbert Vogel, the founder of itelligence AG, was the CEO until June 30, 2016. There were no conflicts of interest within the Management Board in 2016.

The Supervisory Board of itelligence AG advises and monitors the Management Board in its management of the Company and is of the opinion that it has a sufficient number of independent members. The Supervisory Board ensures that its composition takes into account the principles of diversity and is appropriate with regard to the geographical, industry-specific, and other material requirements of the Company. As in previous years, the Supervisory Board formed an Audit Committee, a Personnel Committee, and a Strategy Committee from among its members in 2016. There were again no conflicts of interest within the Supervisory Board in 2016.

Information on the remuneration paid to the members of the Management Board and Supervisory Board can be found in the remuneration report in the management report of this annual report.

Further information on the cooperation between the Management Board and the Supervisory Board and the work of the Supervisory Board and its committees can be found in the report of the Supervisory Board, which is also included in this annual report.

SHAREHOLDER STRUCTURE AND ANNUAL GENERAL MEETING

NTT DATA EUROPE GmbH & Co. KG is the sole shareholder of itelligence AG. itelligence AG therefore does not hold public General Meetings.

TRANSPARENCY

itelligence AG provides timely, comprehensive, and detailed information. The Company's website – www.itelligencegroup.com – is a central communication instrument and is available in various languages, reflecting the Company's global activities.

ACCOUNTING AND AUDITING

The Management Board prepares consolidated financial statements for the full year and condensed consolidated financial statements for the half-year reports. Group financial reporting is consistent with the International Financial Reporting Standards (IFRS), thereby ensuring a high degree of transparency and international comparability. The audit for fiscal year 2016 was conducted by the auditor chosen by the Annual General Meeting following the proposal of the Supervisory Board and the recommendation of the Audit Committee, namely KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin.

In accordance with Article 161 of the German Stock Corporation Act (AktG), the management and supervisory boards of listed companies are obliged to issue an annual declaration stating whether the recommendations of the Government Commission on the German Corporate Governance Code, as published by the German Federal Ministry of Justice in the official section of the *Bundesanzeiger* (Federal Gazette), have been and are being complied with or which of the Code's recommendations have not been or are not being applied.

DECLARATION BY THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD OF ITELLIGENCE AG ON THE GERMAN CORPORATE GOVERNANCE CODE

Although the shares in itelligence AG (itelligence shares) are no longer listed, the Board of Management and Supervisory Board of itelligence AG identify with the objectives of the German Corporate Governance Code, namely to promote good, trustworthy company management that is oriented towards benefiting shareholders, employees and customers. The aim of itelligence AG is to achieve a sustainable increase in enterprise value. Accordingly, the Board of Management and Supervisory Board of itelligence AG endorse the recommendations and provisions of the German Corporate Governance Code and decided to issue an annual declaration on the German Corporate Governance Code, although the listing of the itelligence shares ended in the fiscal year 2013.

itelligence AG acted in accordance with the recommendations of the German Corporate Governance Code throughout the 2016 financial year and will continue to do so in future based on the version of the German Corporate Governance Code last amended on May 5, 2015, on which this declaration is based. itelligence AG departed from the recommendations of the German Corporate Governance Code in some aspects. Details of the individual departures are provided below. With regard to the following declaration, it should be taken into account that, after implementation of the squeeze-out in the fiscal year 2013, NTT DATA EUROPE GmbH & Co. KG meanwhile holds all shares in itelligence AG and, in connection therewith, the listing of itelligence shares has ended. Therefore, itelligence AG will no longer conduct a public General

Meeting and the statutory provisions for listed stock corporations do no longer apply to itelligence AG.

The following recommendations of the German Corporate Governance Code have not been implemented:

SECTION 4.2.3: SEVERANCE PAY CAP

“In concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his/her contract, including fringe benefits, do not exceed the value of two years’ compensation (severance pay cap) and compensate no more than the remaining term of the employment contract.”

After the listing of the itelligence shares has ended, the contracts of the members of the Board of Management do no longer provide for a severance pay cap. The Company is convinced that the Supervisory Board will negotiate an adequate severance payment with a Management Board member in case of a premature termination.

SECTION 4.2.4 AND 4.2.5, PARAGRAPH 3 AND 4: DISCLOSURE OF THE COMPENSATION OF MANAGEMENT BOARD MEMBERS IN THE COMPENSATION REPORT

“In addition, for financial years starting after December 31, 2013, and for each Management Board member, the compensation report shall present:

- the benefits granted for the year under review including the fringe benefits, and including the maximum and minimum achievable compensation for variable compensation components,
- the allocation of fixed compensation, short-term variable compensation and long-term variable compensation in/ for the year under review, broken down into the relevant reference years,
- for pension provisions and other benefits, the service cost in/for the year under review.

The model tables provided in the appendix shall be used to present this information.”

In the past, itelligence AG has disclosed the individual compensation of the members of the Board of Management in accordance with section 4.2.4 and section 4.2.5, paragraph 1 and 2, for each member of the Board of Management in a compensation report which was part of the Management Report. itelligence AG intends to continue to do so in the future. According to the German Corporate Governance Code, the additional requirements of section 4.2.5, paragraph 3 and 4, as well as the model tables provided in the appendix to the Code shall find application as of the financial year 2014. The Code regulates in detail how the information on the individual compensation of each of the members of the Board of Management shall be presented in the compensation report and how this information shall be illustrated in the model tables. In order to ensure the comparability with past reports and to limit the effort in connection with the reporting on the compensation of members of the Board of Management, Management Board and Supervisory Board intend to continue to disclose the compensation of the members of the Board of Management in line with past practice. As a result, the requirements of section 4.2.5, paragraph 3 and 4, are not fully complied with.

SECTION 5.1.2: AGE LIMIT FOR MEMBERS OF THE BOARD OF MANAGEMENT

“An age limit for members of the Management Board shall be specified.”

An age limit has not been included in the contracts of members of the Board of Management in the past, nor does itelligence AG plan to implement such an age limit in the current or future contracts of members of the Board of Management.

Contracts with members of the Board of Management are always concluded for a limited term. The age of the respective member of the Board of Management will be taken into account to a sufficient extent when determining the term of the contract. This makes the specification of an age limit in the respective contract unnecessary.

SECTION 5.3.3: FORMATION OF A NOMINATION COMMITTEE WITHIN THE SUPERVISORY BOARD

“The Supervisory Board shall form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the Supervisory Board for recommendation to the General Meeting.”

itelligence AG has not formed a nomination committee and does not intend to do so in future. itelligence AG does not consider a nomination committee to be necessary on account of the size of its Supervisory Board.

SECTION 5.4.1: SPECIFICATION OF CONCRETE OBJECTIVES REGARDING THE COMPOSITION OF THE SUPERVISORY BOARD

“The Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, the number of independent Supervisory Board members within the meaning of number 5.4.2, an age limit to be specified and a regular limit of length of membership to be specified for the members of the Supervisory Board as well as diversity. In listed companies for which the Codetermination Act, the Codetermination Act for the Iron and Steel Industry or the Codetermination Extension Act apply, the Supervisory Board shall comprise at least 30 percent women and at least 30 percent men. In other companies covered by the Equality Act the Supervisory Board shall determine targets for the share of women.

Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report.”

From the Company’s perspective, the composition of the Supervisory Board complies with the requirements of the German Corporate Governance Code, particularly with regard to the number of independent Supervisory Board members and the aspect of diversity. The aforementioned objectives will

be formally taken into account in future proposals for election. Concrete objectives and a regular limit of length of membership are not specified. Hence, there will be no publication thereof in the Corporate Governance Report. A specification and publication of concrete objectives and their periodical amendment would create a significant effort, which is not justified on account of the shareholder structure and size of the Company and the Supervisory Board. The Company complies with the statutory regulations regarding the determination of a target share of women in the Supervisory Board and the reporting thereon in the Management Report.

SECTION 6.3: TRANSPARENCY AND FINANCIAL CALENDER

“As part of regular information policy, the dates of essential regular publications (including the Annual Report, interim financial reports) and the dates of the General Meeting, balance-sheet press and analysts’ conferences shall be published sufficiently in advance on the Company’s internet site.”

itelligence AG does not publish a “financial calendar” and does not conduct balance-sheet press and analysts’ conferences. As all shares in itelligence AG are held by NTT DATA EUROPE GmbH & Co. KG, dates of the General Meeting are not published as well. The public will be informed about the course of business of itelligence AG through the annual report, the semi-annual report and press releases. Press releases are published on the internet site of itelligence AG. itelligence AG does no longer publish quarterly reports or interim reports. Central communication instrument is the Company’s internet site.

Bielefeld, December 9, 2016
itelligence AG



For the
Board of Management
Norbert Rotter



For the
Supervisory Board
Friedrich Fleischmann

GROUP MANAGEMENT REPORT

FOR FISCAL YEAR 2016

→ KEY FIGURES IN FISCAL YEAR 2016

CONSOLIDATED REVENUES RISE 11.7% TO MEUR 777.9

- Organic growth stands at 5.8%
- Revenues up 5.9% as a result of acquisitions
- Revenue distribution: 57.0% outside Germany, 43.0% within Germany

EARNINGS BEFORE INTEREST AND TAXES (EBIT) OF MEUR 34.9 VIRTUALLY ON PAR WITH THE STRONG PRIOR-YEAR FIGURE OF MEUR 36.0

- Outstanding fourth quarter with EBIT up 13.0% to MEUR 17.4 (previous year: MEUR 15.4)
- At 7.7%, the EBIT margin in the fourth quarter was at exactly the same level of the high-income fourth quarter of 2015
- EBIT margin for 2016 as a whole amounts to 4.5% (previous year: 5.2%)
- EBIT impacted by large-scale risk projects in Germany, negative developments in the Czech Republic, acquisition costs, and exchange rate losses in fiscal year 2016

SIGNIFICANT GROWTH IN ORDERS ON HAND

- Orders on hand up 17.0%, from MEUR 659.5 at end of 2015 to MEUR 771.7 on December 31, 2016
- Non-current orders on hand account for MEUR 152.4 (previous year: MEUR 154.0)

NUMBER OF EMPLOYEES INCREASES BY 20.7% TO 5,677 (PREVIOUS YEAR: 4,702)

- Addition of 1,141 employees through new appointments and a further 542 employees through acquisitions
- Successful integration of the two acquisitions ITML GmbH and BIT.Group GmbH in Germany

FORECAST FOR 2017 AS A WHOLE

- Revenues forecast at MEUR 820
- itelligence aims for continued organic and inorganic growth
- Further improvement in EBIT margin to around 5.0% expected
- EBIT of MEUR 42 planned

BASIC INFORMATION ON THE ITELLIGENCE GROUP

BUSINESS ACTIVITIES

itelligence AG was formed in 1989 as an SAP consulting company and is now a leading international full-service IT provider and partner of SAP SE. The main target group of itelligence AG is customers in the traditional and upper midmarket with a strong international presence. At present, itelligence operates at 62 locations in 24 countries, supporting more than 5,500 customers.

itelligence focuses on the sale of usage rights for SAP software solutions for midmarket companies and SAP consulting. For customers, itelligence AG is a long-term partner that shapes their IT business processes efficiently and flexibly, thereby achieving a sustainable improvement in their company management and economic value added. In addition, itelligence offers SAP maintenance as well as global support and hosting services. These strategically important areas also make a substantial contribution to revenues. This is where a long-term, benefit-oriented relationship of trust with its customers is particularly valuable to itelligence.

itelligence has used its extensive expertise to develop various industry solutions for the more efficient implementation of SAP in Germany and abroad. Key sectors addressed by the Group include manufacturing and the automotive supply industry, food processing, mechanical and plant engineering, steel and non-ferrous metals, the wood and furniture industry, the process and pharmaceutical sector, the service industry, retail, and expertise in the area of educational institutions. itelligence is also driving ahead the industry-specific integration of mobile and analytical solutions.

ORGANIZATION

itelligence has a regional strategic organization and is represented by subsidiaries with local sales and consulting teams in the following regions: DACH (Germany/Austria/Switzerland), Western Europe (Spain, France, Belgium, Netherlands, United Kingdom, Denmark, Norway, Sweden), Eastern Europe (Russia, Ukraine, Poland, Czech Republic, Hungary, Slovakia, Turkey), the USA, Canada, Qatar, and Asia (China, Malaysia, and India).

The organization of the application management and hosting areas has been as "Global Managed Services" since mid-2014. With its matrix organization, the resulting unit operates globally, enabling it to meet customer requirements for an internationally scalable and cost-efficient range of services in the best possible way. As an international provider of managed services, itelligence operates state-of-the-art data centers in Germany, Poland, Malaysia, Denmark, Switzerland, and the USA. itelligence provides hosting and AMS for more than 1,300 customers from 20 local service centers, supported by 6 global off-shore and near-shore centers. itelligence complements its geographical and portfolio-based structure by working closely with affiliates of the NTT Group.

With its International Sales & Operations, focused on international business, itelligence has a uniform, consistent global presence. The tasks of this unit include networking the various internal competence centers and developing and driving ahead global projects and initiatives. It is also focused on the development of a specific methodology for international projects based on the roll-out of sector-specific solutions.

Including the companies acquired in 2016, the organizational structure of the itelligence Group encompasses a total of 41 subsidiaries around the world. The largest subsidiaries are located in Germany, the USA, Switzerland, the United Kingdom, Denmark, and Turkey. itelligence AG is domiciled at its head office in Bielefeld. itelligence AG is a wholly-owned subsidiary of NTT DATA EUROPE GmbH & Co. KG.

GROWTH STRATEGIES

itelligence AG's success is based on a clear, long-term corporate strategy and its systematic implementation and further development. itelligence ensures sustainable, partnership-based relationships with its customers and assumes responsibility for the success of the IT projects initiated.

As itelligence's customers are faced with intensive global competition, they must permanently adjust to this dynamic environment. Continuous improvements of internal structures and the value chain are particularly important here. itelligence sees itself as a strategic partner that support its customers in their challenges with innovative IT solutions geared towards the most recent opportunities. This particularly includes managing the constantly rapid advancement of digital technology. itelligence's aim is to ensure greater efficiency and transparency in its customers' workflows.

Growth strategies are the cornerstone of itelligence's long-term focus. This includes:

- Transfer of the successful business model to even higher-revenue international customers
- Expansion and globalization of recurring business, particularly application management and hosting
- Targeted expansion of regional coverage through acquisitions and expansion to growth markets
- Strategic positioning as an SAP service provider in NTT DATA's international network and within the NTT Group
- Investments in IT innovations and their implementation as customer offerings
- Expansion of general business involving SAP cloud products (HANA Suite)
- Reinforcement and expansion of global knowledge management
- Investment in quality improvements and project management
- Becoming an even more attractive employer in the SAP environment
- Sustainable improvement in profitability to ensure continued growth

CONTROLLING SYSTEM

To manage its operating business, the itelligence Group uses selected financial and non-financial key figures that are consolidated into central performance indicators at Group level. These are set out on pages 75 to 77.

ANNUAL AND MULTI-YEAR PLANNING FOR ALL REGIONS AND DIVISIONS

An established planning process forms the basis for all management and control processes at itelligence. Building on strategic multi-year planning, the Management Board manages the itelligence Group's long-term focus and derives annual operating targets applying a top-down approach. The annual plans developed at the level of the national subsidiaries are then coordinated with the overall targets. The results of planning are compared with rolling forecasts on a quarterly basis in order to identify deviations. In addition, target and actual figures are compared on a monthly basis and provided as management information so that itelligence can identify deviations from the agreed targets at an early stage and implement measures aimed at ensuring target achievement in good time.

MARKET POSITIONING

itelligence has an excellent position as one of the leading international full-service IT providers for the SAP environment, particularly in the traditional and upper midmarket segment. itelligence provides its customers with a coordinated range of solutions and services over the entire lifecycle of an IT investment. The company's portfolio consists of consulting, development, and system integration in the SAP environment, sale of SAP licenses and cloud subscriptions as well as managed services. These products and services are offered to itelligence's customers around the world. Alongside Germany, itelligence has a long-established market presence in Western Europe, Eastern Europe, the USA, and Asia. As has been done successfully in the past, this extremely strong market position will be expanded in future through organic growth and targeted acquisitions.

ACQUISITIONS

itelligence recorded further growth in fiscal year 2016, both organically and through acquisitions. Consequently, itelligence continued its expansion strategy with additional purchases and extended its range of services in a targeted manner. With the acquisitions made, itelligence is pursuing its strategic objective of being one of the leading SAP partners in each of its key sales markets and further consolidating this position.

itelligence acquires application management and cloud specialist BIT.Group GmbH

In June 2016, BIT.Group GmbH, Bautzen, and itelligence AG announced the 100 percent acquisition of BIT.Group GmbH by itelligence. With this acquisition, itelligence is cementing its position as one of the leading IT service providers in Germany with a strong focus on cloud and SAP managed services.

BIT.Group was established in 2004 and stands out thanks to its innovative service portfolio for national and international customers. The multi-certified SAP partner has around 380 employees and offers extensive SAP services – focusing on SAP application management, technology services, application lifecycle management, and cloud services.

BIT.Group is a strategic cornerstone for expanding itelligence's global SAP cloud and managed services. itelligence now has more than 550 employees with BIT in Bautzen and Dresden. Further expansion is planned for both locations.

itelligence already operates several data centers in Bautzen. An additional office building was opened in 2016 and a further data center is currently being constructed.

With ITML GmbH, itelligence is reinforcing its position in the CRM field and increasing its presence in southern Germany

Also in June 2016, itelligence AG and ITML GmbH, Pforzheim, announced the acquisition of ITML by itelligence AG. itelligence acquired 100 percent of the shares in the renowned southern German SAP consulting company and SAP Gold Channel Partner with effect from June 1, 2016.

With this transaction, itelligence AG is pressing ahead with its expansion in Germany and significantly increasing its regional presence in southern Germany. ITML's specialists also serve to reinforce itelligence's position in the promising and fast-growing CRM segment, particularly in cloud solutions for customer relationship management (CRM), and in the area of customer commerce.

As an SAP Gold Channel Partner, ITML is one of SAP's most important partners and a CRM specialist for the German-speaking countries. Its core competencies include SAP consulting and implementation as well as its own software suite for customer relationship management (CRM), which is fully integrated in SAP. ITML GmbH has more than 160 employees.

PARTNERSHIPS

Partnerships are central to itelligence's business model. itelligence's focus is on its customers. With more than 5,500 customers around the world, the company seeks long-term relationships that are trust-based and profitable for both parties. Other long-standing partnerships also serve to provide a solid basis for the company's long-term success.

SAP partnership

itelligence AG is a partner of SAP, whose products form the core of its service portfolio along with the related services. itelligence regularly demonstrates its importance within the SAP partner environment by winning awards and obtaining the most important partner status titles that SAP currently confers to strategic partners. The most important awards include SAP Global Platinum Reseller (formerly SAP Global Value Added Reseller), SAP Global Strategic Services Partner, and Global SAP-Certified Provider of Hosting Services. itelligence is one of a select group of only nine SAP partners that are certified for these three global categories. In addition, itelligence is still an SAP Global AMS Partner and SAP Global Cloud Services Partner.

In November 2010, itelligence signed a Global Platinum Reseller (formerly Global VAR) agreement with SAP SE. itelligence is one of nine companies worldwide to have entered into this exclusive global agreement on the sale of SAP on-premise and cloud solutions. Global Platinum Reseller is the highest status in SAP SE's PartnerEdge program. Global Platinum Resellers sell SAP software licenses and SAP cloud applications. They also develop industry-specific solutions as well as other preconfigured adaptations on the basis of SAP platform technologies. itelligence offers a total of 15 certified SAP Business All-in-One industry solutions, all of which were transferred to the in-memory technology SAP HANA back in 2014. The Global Platinum agreement sets out strict quality criteria that are evaluated by SAP in an extensive selection process. For the customers, that means that a Global Platinum Reseller such as itelligence is quality-certified and is closely involved in the latest developments, product strategies, release updates and new technologies of SAP worldwide at an early stage.

itelligence AG has been one of the closest partners and most successful SAP consulting firms for the midmarket for over 25 years. This is underlined by the SAP awards that itelligence won once again in 2016.

For instance, in April 2016, itelligence won two SAP Pinnacle Awards in the categories of Global Platinum Reseller (formerly Global Value-Added Reseller) for its customer proximity and SAP S/4HANA Adoption Partner of the Year for fast and exemplary implementation of the latest SAP technology. itelligence excelled here with the highest number of S/4HANA projects of all partners. The SAP Pinnacle Awards are presented each year to leading SAP partners that have shown outstanding performance in the development and growth of their partnership with SAP and thus significantly boosted their customers' success. The finalists and winners in the 19 different categories were selected on the basis of recommendations from the SAP segment, customer feedback, and performance indicators in three categories: Build, Service, and Sell. Each category contains a Customers' Choice Award (an SAP partner nominated by the customer). Only 16 companies in the SAP partner ecosystem of more than 13,000 partners receive this accolade.

The SAP Pinnacle Awards showcase notable achievements of SAP partners. They recognize the partners' commitment to teamwork, innovative approaches, and the ability to overcome particular challenges in order to help customers achieve their goals. The SAP partners are largely responsible for fast introduction of the latest SAP technologies, particularly with regard to the digitalization of companies.

Furthermore, in April 2016, itelligence was recertified as a Partner Center of Expertise (Partner CoE). The aim of the demanding SAP certification process is to guarantee a uniform level of service and support for SAP users worldwide in the context of software maintenance. SAP Global Platinum Partners must undergo recertification every two years, in conjunction with a complex audit.

The certification process consists of a strict evaluation of the entire support system, including the employees as well as the support processes and support infrastructure. With certification, SAP confirms that itelligence AG meets all essential requirements for offering its customers services of the highest quality – on both a technical and an organizational level. Partner CoE certification is a precondition for Global Platinum Resellers to be allowed to offer product maintenance (SAP Standard Support or SAP Enterprise Support) for the various areas of the SAP software landscape. In addition to the SAP Business All-in-One solution, SAP analysis solutions, the SAP HANA platform, and the SAP mobile solutions, support authorization for SAP Hybris Commerce was added to the scope of certification this year. With the inclusion of this certification in the support portfolio, itelligence AG's top-quality service and support for the leading omnichannel solution for e-commerce from SAP is now officially recognized.

itelligence AG has developed a global service and support strategy with SAP. The aim of this strategy and the delivery model based on it is to give the best possible support to customers in the Managed Services unit worldwide. This year, the itelligence branches in Turkey and Ukraine also adopted this global approach. Consequently, itelligence agencies in 19 countries received recertification for the next two years in 2016.

In addition, itelligence has been a member of the partner program “Run SAP” since January 2016. As part of its involvement in Run SAP, itelligence is stepping up its use of SAP Solution Manager to further optimize its support. Furthermore, itelligence AG has been successfully recertified in application management, hosting, cloud, and operations services for SAP HANA, at global level in each case. These certificates demonstrate outstanding expertise in dealing with customers at global level.

SAP launched the SAP Partner Advisory Council for Innovation in April 2016. This is a forum for managers to engage with each other on pioneering ideas and best practices in development and market launch on applications based on the SAP HANA cloud platform. The panel comprises handpicked managers of partner companies in the Build collaboration category of the SAP PartnerEdge program and managers of SAP. itelligence is also well represented on this panel.

The aim of the panel is to help partners within the SAP ecosystem to efficiently develop and sell groundbreaking applications. Other focal points are the devising, promotion, and implementation of an industry-leading partner ecosystem.

In December 2016, the itelligence customer BLEISTAHL Produktions-GmbH from Wetter an der Ruhr won a gold SAP Quality Award in the Fast Delivery category. A key factor in this great success was implementation of an SAP ERP project with the support of itelligence. The decision to collaborate with itelligence was primarily based on the company’s industry expertise and its user-oriented approach to SAP implementation.

Other success factors for the SAP Quality Award included soft skills such as the transparent collaboration between SAP consultants and users as well as the rigorous use of prototypes for the SAP ERP environment.

As a specialist in high temperature-resistant materials, BLEISTAHL has been a development partner for the global automobile industry and helping customers to develop innovative, low-emission engines for three generations. The company produces valve seat inserts and valve guides for combustion engines. Its scope of supply extends from prototypes and series production to servicing. The international company has a successful history stretching back more than sixty years.

itelligence AG is therefore one of the world’s most successful SAP consulting firms for the midmarket and one of the most frequent recipients of awards among all SAP partners globally.

NTT DATA

The long-standing partnership with the Japanese NTT DATA Group is the strategic basis for itelligence to keep on significantly expanding its own international market position. itelligence AG is a wholly-owned subsidiary of NTT DATA EUROPE GmbH & Co. KG. This relationship under company law forms the basis for a tightly-knit partnership within the framework of a cooperation agreement.

With NTT DATA as a strong partner, itelligence intends to press ahead with its development as an international provider of IT systems and services for SAP. As a company that operates independently within the growth-oriented NTT DATA Group, through its close relationship with NTT DATA, itelligence will increase its growth potential on the international stage, particularly in Asia. NTT DATA is also an extremely strong partner for itelligence in terms of its financial and capital resources. A number of joint international customer projects serve to underline the successful partnership between NTT DATA and itelligence.

NTT DATA and itelligence are investing in developing and improving a joint global strategy for outsourcing services. The growing application-management outsourcing (AMO) business is a key element in this. By 2020, AMO is expected to account for more than a third of all the outsourcing business of NTT DATA alone.

The AMO Global One Team initiative is intended to translate the company's global vision and strategy into business success of the operating companies. The global AMO management team comprises more than 100 managers from the various companies of the NTT DATA Group with the aim of continuing to significantly increase the outsourcing business and further expanding the market position as a leading player in this business segment. itelligence AG is one of the main drivers of this AMO Global One Team initiative, particularly in NTT DATA's global SAP business. As the worldwide SAP hub of the NTT DATA Group and with a fast-growing AMO business, itelligence supports multinational corporations.

The acquisition of BIT.Group by itelligence in June 2016 was a further strategic cornerstone for expanding global SAP cloud and managed services.

NTT DATA and itelligence: NTT DATA Business Solutions Company

NTT DATA and itelligence bundle their expertise in NTT DATA Business Solutions Company as part of their global market strategy in the SAP environment. This combined company is one of the largest solution-based SAP service providers in the world.

Norbert Rotter, CEO of itelligence AG, coordinates the activities of the Business Solutions Company. The Business Solutions Company forms part of NTT DATA's global strategy of assigning its foreign subsidiaries to four regions: Americas, EMEA, APAC, and China, and the

international Business Solutions Company. The Business Solutions Company bundles solution-based services worldwide in a single global unit. For itelligence, these activities mean expanding its own range of SAP consulting services in the Asia Pacific region (APAC), a significant cornerstone of its own global presence.

This gives customers in the APAC region access to the world's largest jointly coordinated network of SAP consultants. The organization in the APAC region therefore serves as the point of contact for global and multinational companies, government agencies, and internationally active SMEs, thus providing an interactive, global network for the most varied of local customer requirements. The aim is to achieve a leading position for SAP project implementation and consulting in the Asia Pacific region.

Other partnerships and awards

itelligence AG and another Bielefeld-based company, apsolut GmbH, concluded a strategic partnership in September 2016. As a result, customers can benefit from the combined expertise of the two IT specialists for automation and optimization of their procurement processes.

Purchasing is becoming an increasingly important factor in the value chain, and not only in corporations. In the course of the digital transformation, automation of procurement processes is increasingly common across all sectors. The applications SAP Supplier Relationship Management (SAP SRM) and SAP Supplier Lifecycle Management are frequently used here. apsolut GmbH helps users with process and IT consulting for electronic purchasing based on the applications SAP SRM/SAP Supplier Lifecycle Management and SAP Ariba.

Within the strategic partnership, in conjunction with apsolut GmbH, itelligence will offer its customers even stronger expertise in the optimization of business processes for strategic and operational purchasing.

In February 2017, the Experton Group classified itelligence AG as one of the leading consulting firms in the SAP HANA environment for the second successive time. itelligence AG again achieved a position among the leaders in the "Experton SAP HANA Vendor Benchmark 2017" – in four out of five evaluation categories.

itelligence was placed among the leaders in the following categories: SAP HANA Multi-Service Provider, SAP S/4HANA Service Provider, SAP HANA Process Service Provider, and SAP HANA SME Service Provider. Other categories are Market Challenger, Product Challenger, and Follower.

In an age of ever shorter development cycles, including for software solutions used company-wide, it is important for users to find a reliable partner for SAP ERP, SAP S/4HANA, SAP HANA Cloud Platform, and other SAP solutions. The independent study by Experton Group AG helps users to choose suitable partners for their SAP projects.

For its process models, the expertise of its leaders and other reasons, itelligence was named the leader among SAP HANA multi-service providers. In the category for SAP S/4HANA services, itelligence prevailed because its SAP S/4HANA methods are underpinned by numerous excellent references. Its large collection of templates for almost every application also helped itelligence to be classified as a leader in services for SAP HANA processes.

itelligence also maintains a number of other technology partnerships with the aim of expanding its own expertise and solutions portfolio. The objective of these partnerships is to meet the needs of existing itelligence customers even more effectively by offering additional services and complementary solutions, as well as acquiring new customers through technology issues, SAP industry solutions, and partner recommendations. itelligence achieves this by way of joint customer information days, trade fairs, advertising on partner portals, and marketing campaigns.

ITELIGENCE'S CUSTOMER PROJECTS AND DEVELOPMENTS

Licensing and Consulting

2016 was a successful year for itelligence AG that again included numerous SAP awards and innovative customer projects. A large number of new customers rely on itelligence AG's in-depth industry expertise and SAP know-how.

GfK SE chose itelligence AG as a partner for managing its global SAP solution including joint devising of a bespoke service concept. The main challenges were meeting the requirements for change processes in a project-driven company, and jointly developing an economically efficient model for the requested support, including continuously reducing the significant backlog of unprocessed support tickets.

Nuremberg-based GfK is one of the four largest market research companies in the world, and the undisputed number 1 in Germany. Around 13,000 employees in more than 100 countries combine global knowledge with precise analyses of local markets. The company is particularly known for the GfK Consumer Confidence Index and for gathering TV audience figures in Germany.

At GfK, the gradual introduction of end-to-end processes such as order to cash, procure to pay, and record to report went hand in hand with implementation of the applications SAP ERP and SAP Supplier Relationship Management as well as the SAP BusinessObjects Business Intelligence platform. This is a particularly challenging task in a project-driven company. In an intensive joint review process, GfK and its new SAP partner itelligence AG overcome these difficulties together. This process included devising consistent and effective processes for support enquiries and change requests, which also rectified the backlog of support tickets.

Other new companies that opted for itelligence as a consulting firm in fiscal year 2016 include Thomas Sabo GmbH & Co. KG, Lauf, Oslandersche Buchhandlung GmbH, Tübingen, Mayersche Buchhandlung KG, Aachen, Montanhydraulik GmbH, Holzwickede, Ter Hell & Co. GmbH, Hamburg, FLASH international, Contern (Luxembourg), Bilkent Holding A.Ş., Ankara (Turkey), ZPUE SA (part of the Koronea Group), Wloszczowa (Poland), Zhuzhou Times New Material Technology Co. Ltd. (part of China Railway Rolling Stock Corporation Ltd.), Zhuzhou (China), Pure Romance, Loveland (Ohio, USA), and Jarden Home Brands, Fishers (Indiana, USA).

Everlam, the Belgian manufacturer of PVB interlayer, was one of the first companies in the Benelux countries to use SAP S/4HANA Enterprise Management. By having the solution implemented by itelligence, Everlam took a major step towards further business growth.

itelligence AG was heavily involved in redesigning and simplifying Everlam's IT environment in its role as SAP implementation partner. The measures were necessary after the company moved its headquarters from Germany to Belgium while generating rapid growth. After several scenarios had been worked out, the combination of SAP HANA and SAP S/4HANA Enterprise Management proved to be the optimum solution.

Everlam manufactures high-quality polyvinyl butyral (PVB) film for the production of laminated safety glass. The clear and colored PVB films are used by glass laminators all over the world. Everlam's headquarters and technology center are located in Mechelen, Belgium.

As a next-generation ERP suite for in-memory computing, SAP S/4HANA gives companies immediate access to detailed real-time information and with it the opportunity to implement the "run live" concept. SAP S/4HANA is fully based on the SAP HANA platform and delivers an outstanding user experience with SAP Fiori. In addition, SAP S/4HANA Enterprise Management allows companies to digitalize all activities and processes from the outset.

Through provision of SAP S/4HANA, all aspects of Everlam's digital value chain are now linked together in real time. The focus here is on the logistics of business processes.

The French company MOTUL SA of Aubervilliers (France) has been producing high-performance motor oils and industrial lubricants for 160 years. itelligence successfully implemented the it.mds itelli package to rationalize master-data management processes.

EURENCO SA of Massy (France) develops, produces, and sells a wide range of state-of-the-art energetic materials for the military sector and commercial markets. itelligence assisted with the extensive implementation of an SAP core model, went live at several locations in France, and is planning further rollouts throughout Europe, particularly in Belgium and Sweden.

At NICE FRUIT COLD CORPORATION S.L. in Castellbisbal (Spain), ERP implementation was carried out in the context of a nine-month project. This was followed by various rollout phases that took place alongside enhancement of the business model. All core modules were implemented, for example finance, controlling, and all supply-chain and production processes.

Another major customer is TOMY Company Ltd. in Exeter (UK). TOMY Europe is world famous for its high-quality, innovative baby and toy products, and has been an intelligence customer since 2008. In 2016, TOMY took the first step towards switching to SAP S/4HANA with a project to update and migrate its SAP landscape – including ERP master data and Business Warehouse (BW) – to the HANA platform.

intelligence assisted TOMY from the first drafts and plans through to project implementation and training of the in-house team. The project was also significant in that it enabled TOMY to utilize the existing infrastructure more effectively through use of the HANA platform and thus benefit from prior investment. This approach is known as tailored data-center integration (TDI), and also helps to minimize additional expenditure on hardware appliances.

intelligence India Software Solutions Pvt Ltd. enabled the successful go-live of SAP S/4HANA at the Shree Malani Group, a leading provider and the first manufacturer of sleep solutions in India.

The Shree Malani Group produces items such as high-quality foams for a highly discerning market, and had to overcome a host of challenges – for instance in the areas of transparency, cross-divisional goods product tracking, manual tracking of serial numbers, promotion and campaign management, manual pricing, stocktaking and maintainability, accounts receivable, discounts, payment flows, credit management, and credit control. Up to that point, the company had no efficient IT system for this.

The solution implemented via variant configuration works with selected conditions and processes of bill of material items. This variant configuration covers series production of modules, standardized process sequences in the context of a multi-mix production scenario in the operating environment, and handling of unit management. intelligence India implemented a rigorous and extensive solution for this.

intelligence India provides customer-oriented SAP solutions at the highest level when it comes to advice on SAP S/4HANA as well as implementation, cloud products, and application management services. Customers benefit from the technological expertise, customer-oriented cooperation models, and global resources provided by intelligence that helped make the go-live a success for the Shree Malani Group.

Following a successful production start-up in May 2016, the international management consultancy Simon-Kucher & Partners is now working with the industry solution it.service from intelligence. intelligence AG impressed the management consultants with the proven solution it.service based on SAP Business All-in-One as well as extensive industry expertise.

The strategy consultancy Simon-Kucher & Partners, with 860 employees and branches in Europe, America, and Asia, has been providing its corporate customers with bespoke strategies for growth, profit enhancement, and competitive success for 30 years. The company thinks and acts across borders and is committed to international growth. To overcome the challenges of globalization and boost its growth prospects, Simon-Kucher & Partners decided to replace its existing system structures with the fully integrated solution it.service from itelligence. Following the successful production start-up, it.service supports all processes in financial accounting, sales, and HR management at Simon-Kucher & Partners. The standalone solutions previously used will therefore be superseded and replaced by a reliable, flexible system.

At our long-standing customer MD Elektronik in Waldkraiburg, one of the leading companies for data transmission solutions in vehicles, HCM was introduced for the locations in Germany and the Czech Republic in fiscal year 2016. The project covered all key HCM applications and was successfully completed in approx. 450 project days in time for go-live in January 2017.

itelligence achieved other successful production start-ups in fiscal year 2016 for companies including Arvos GmbH (Schmidtsche Schack Division) in Kassel, BECKER Chemie GmbH, Leopoldshöhe, Carl Werthenbach Konstruktionsteile GmbH & Co. KG, Bielefeld, Saxion University of Applied Sciences/Hogeschool Saxion, AB Enschede (Netherlands), Topcon Europe Medical Bv, LJ Capelle aan den IJssel (Netherlands), Porsche Russland LLC, Moscow/Khimki (Russia), and Buckman Laboratories International, Memphis (Tennessee, USA).

Global Managed Services

At the end of fiscal year 2014, the Management Board and the Supervisory Board decided to bundle Application Management Services, Hosting Services, and Maintenance Services more closely, enabling itelligence to respond even more effectively to forthcoming challenges on the market. Following successful implementation and the associated sharpened focus, implementation, and expansion of Global Managed Services came to the fore in 2016.

This progressed against a backdrop of constantly increasing momentum that related to the five influencing factors of our business:

- the market from a political, economic, and technological viewpoint
- SAP as our most important business partner
- the NTT Group with increasingly intercompany initiatives and service commitments
- our customers with their challenges associated with the digital transformation
- and, not least, our employees and the need for additional talents.

All three business segments bundled under the umbrella of Global Managed Services (GMS) – Application Management Services (AMS), Hosting Services, and Maintenance Services – continued their strong growth. This is evidenced by a CAGR (compound annual growth rate) over the last seven years of over 20% in each case, and as much as 37% in AMS. Consequently, GMS business increased its share of the company's total revenues from 45.0% to 46.3% in 2016.

In addition to securing and optimizing our proven services for midmarket customers, itelligence gained further international customers in hosting and application management and successfully met the related requirements.

An important basis for this was optimization of the range of services in order to assume a leading role as a managed-services provider in the field of digital transformation and cloud services. This range of services enables itelligence to deliver our services on-premise, in the private cloud, public cloud, or in flexible hybrid environments. itelligence works closely with SAP here to ensure it can develop innovative solutions and provide them to itelligence customers.

One crucial step in terms of SAP partnership and innovation was the acquisition of the German SAP service provider BIT.Group, which is involved in several strategic services development topics of SAP, particularly in the cloud services environment. By integrating BIT.Group, itelligence has strengthened and expanded its range of Global Managed Services.

In conjunction with the national organizations, the Global Managed Services organization has intensified market access via corresponding sales models as well as customer-oriented sales and marketing tools, enhanced its quality-management approach with a view to the increased requirements in terms of data protection, security, and compliance, and continued to establish global delivery through the German-language AMS near-shore center in Dresden/Bautzen as well as the Indian off-shore center.

This has laid the foundations for further strong, sustainable growth as well as intensive, long-term loyalty, and support of itelligence customers.

International Sales & Operations

The transformation towards a digital future has begun. Nevertheless, reservations and uncertainty are holding many companies back from embracing the digital transformation, even though it is one of the top items on their strategic agenda. However, there is growing pressure to act – and so all companies, of any size and in any industry, need to press ahead with technological changes so that they can continue to meet their customers' requirements in the future.

Digital technology is wide-ranging, and the associated opportunities for process optimization and value creation are diverse. In the context of digitalization, new IT infrastructures and platforms for retaining and integrating with other in-house platforms and intercompany networks are essential.

Integration into the tradition-steeped structures and processes of many companies is an essential aspect of the digital transformation and key to ensuring competitiveness. Yet how can companies be made fit for digitalization? What activities must decision-makers gear up for, what skills do they need, and who can accompany them on their journey into a digital world?

What all these questions have in common is that IT needs to become much more flexible in order to be able to respond quickly to economic and organizational changes. The purpose of IT is to make business processes more efficient, reliable and agile. As well as technical challenges, the companies have to resolve a host of organizational ones here. IT services such as consulting, system integrations, and outsourcing can help to overcome these hurdles.

In 2016, the International Sales & Operations (IS&O) organizational unit focused fully on the use of S/4HANA and SAP Cloud Platform here as the basis for rigorously gearing a company towards the digital economy.

Development on the SAP HANA platform, SAP S/4HANA was precisely tailored to these requirements and challenges. The next-generation SAP Business Suite enables companies to optimize existing processes and implement entirely new innovative processes so that they can become established on the digital market. If companies opt for SAP S/4HANA in combination with SAP Cloud Platform as the digital core of their IT architecture, they can gear themselves towards digital processes more easily and rigorously.

The role of partner is an essential factor for SAP as a software manufacturer. New services for analyzing the current IT landscape and preparing timetables for the transition to S/4HANA and SAP Cloud Platform provide a focal point for future consulting services.

Therefore, the global IS&O department is currently developing solution expertise relating to S/4HANA and SAP Cloud Platform as well as for the aspects of process and business-model transformation. Consequently, it is preparing intelligence in the medium term for the switch from fast, low-cost implementation of SAP systems to delivery of transformation projects incorporating IT with significant support of the specialist departments.

Targeted measures for developing consultant skills in the direction of automated workflows, for system integration as well as in process consulting, e.g. for process transformation towards real-time and for designing new business processes, are a key factor here.

EMPLOYEES

The itelligence HR motto “This is our company, a company where we can learn and grow” remained the focal point of personnel activities in 2016. itelligence creates the framework for talents and employees to develop and learn new things face-to-face.

The Group had 5,677 employees as of December 31, 2016 (December 31, 2015: 4,702), of whom 2,653 were employed in Germany (December 31, 2015: 2,040) and 3,024 outside Germany (December 31, 2015: 2,662). This meant that the number of employees increased by 20.7% compared with the previous year – just under half of this rise is attributable to organic growth.

One of itelligence AG’s main success factors is its positive corporate culture, which itelligence particularly fosters in times of organic and, in particular, acquisition-based growth. A review process of our values was conducted in 2016 in an extensive, joint process with many different stakeholder groups of the company – both local and global. As a result, itelligence reformulated its people values on the basis of the existing guiding principles.

Our people values were also discussed intensively during the annual NTT DATA Vision & Values Week in 20 workshops with over 350 employees, although they are directly linked with the NTT DATA corporate values clients first, foresight, and teamwork.

itelligence is gaining new colleagues with these lived-out values. Recruitment in 2016 focused mainly on the aspects of ongoing digitalization and the attractiveness of the company to millennials. Industry 4.0 and the Internet of Things are increasingly evolving from buzzwords to specific requirements for the profiles of candidates. Preparation for and orientation towards these areas were top priorities last year. In addition, Hybris, technology consulting, and strategic topics such as the expansion of Supply Chain Management teams demanded considerable attention.

itelligence continued to invest in HR marketing measures, for instance using advertisements in regional newspapers for targeted recruitment of local talents, engaging with interested visitors at trade fairs, and making increased use of digital media to position itself as an attractive employer.

Employees are our most important success factor, particularly in the consulting business. itelligence is therefore especially committed to supporting and developing its own talents in a future-oriented, requirements-based way. In terms of our talent management, 2016 was dominated by lasting and extensive implementation of our competency model, redeveloped in 2015. To this end, itelligence transferred the contents of the model to the itelligence world in order to derive changed requirements from it as well as identifying and implementing development opportunities. Along with implementing measures derived from the 2015 employee survey "One Voice," Corporate HR worked with the country managers and local HR teams to make progress on country-specific and international matters. As a result, itelligence has tangibly improved the working environment for employees in many countries and achieved greater satisfaction. The measures were consolidated again at the end of 2016. In addition, preparation for many topics to be addressed in 2017 was started in order to ensure that itelligence remains a place where employees can learn and grow.

As was also the case for other areas of itelligence AG in Germany, key tasks for our German HR colleagues in 2016 were the integrations of ITML GmbH, which became part of the German consulting organization, and BIT.Group GmbH, which is being integrated in the Global Managed Services organization.

The integration of BIT.Group was accompanied by quarterly short workshops as a forum for colleagues to give and receive direct feedback. Under the heading "Stronger together," itelligence also sought the commitment of new colleagues, adapted processes, and bundled strengths in HR in relation to the ITML integration. The culmination of these activities in 2016 was an integration workshop with all HR managers throughout Germany and intensive reflection on the future needs of employees.

itelligence continued its successful measures for strengthening and developing organization-internal networks in 2016. Around 175 employees worldwide are now active in the DELTA (Develop Expert and Leadership Talents) high-potential program. The first joint meeting of the current DELTA intake with around 30 representatives of our third management tier, the CyNergy network (CyNergy stands for Cooperation, Culture, Communication, Synergy, and Energy), gave rise to dialog across hierarchy levels and national borders. Both networks engaged in direct discussion with itelligence top management. In this way, despite its increasing size, itelligence maintains direct contact between the various groups within our organization.

Further networker meetings such as an innovation summit or a DELTA regional meeting in the USA ensure that our motto "This is our company, a company where we can learn and grow" can also be lived out personally and directly in virtual teams.

For several years now, all these activities have been following our HR strategy of making itelligence AG an attractive employer for all employees: "Create an attractive home for talents at itelligence worldwide."



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ECONOMIC REPORT

GENERAL ECONOMIC SITUATION IN 2016

As a wholly-owned subsidiary of the Japanese NTT DATA Group, itelligence AG is a global company. Customers around the world are served by 24 foreign subsidiaries and more than 50 branches. This international presence means that itelligence AG's economic development is heavily dependent on global economic trends and the resultant investment decisions of itelligence's roster of over 5,500 customers.

According to calculations by the International Monetary Fund (IMF), at 3.1% and 3.2% respectively, growth in global domestic product (GDP) in 2016 and 2015 was in line with the multi-year average (average GDP growth 2008 to 2015: 3.2%). Overall, global economic development progressed unevenly in 2016. The developed economies grew more strongly than originally forecast, whereas the growth rates of the emerging economies progressed at different rates. Oil prices rose sharply towards the end of 2016 following OPEC's agreement to reduce output levels. The UK's decision to leave the European Union led to considerable uncertainty regarding future economic development in Europe. After the election of the new US President, the future policy of the USA is hard to assess. A rise in interest rates in the US and the strengthening of the US dollar against the euro mean that a more expansion-oriented fiscal policy is expected. Interest rates also rose in the euro zone, albeit less sharply than in the USA. In a long-term comparison, interest rates have remained very low, raising hopes of positive impacts on consumer demand as well as investment plans of companies.

In the euro zone, GDP growth fell to 1.7% in 2016 compared with 2.0% in the previous year. France (+1.3%, previous year: +1.3%) and Italy (+0.9%, previous year: +0.7%) in particular continued to post below-average growth. In Germany, growth amounted to 1.7% compared with 1.5% in 2015. Spain achieved a clearly above-average figure at +3.2% (previous year: +3.2%). Economic development was boosted by comparatively low commodity prices and, especially, the low interest-rate policy of the European Central Bank. German exports in particular benefited from a weaker euro. Constantly rising government debt and persistently high unemployment had a negative impact in the Southern European countries. Investment activity remained at a low level in the euro zone, and Brexit caused additional uncertainty. itelligence generated 47.9% (previous year: 45.7%) of its consolidated revenues in the euro-zone states.

With GDP growth of 2.0% in 2016 (previous year: 2.2%), the UK posted a higher rate than the euro zone. However, estimates were revised downwards as the year progressed due to increased uncertainty over the country's future economic development post-Brexit. This had a corresponding negative impact on companies' investment and recruitment decisions as well as consumers' purchasing decisions regarding consumer durables. itelligence generated 9.1% (previous year: 10.6%) of its consolidated revenues in the UK.

In the USA, the economic situation cooled once again in the course of 2016. After GDP growth of 2.6% in 2015, a figure of 1.6% was achieved last year, despite a fairly expansive fiscal policy and a slower-than-expected normalization of the interest-rate policy of the FED (Federal Reserve System). Overall, the US labor market is approaching full employment, consumer spending remains at a high level, and property prices are continuing to recover. This is countered primarily by lower capital expenditure of companies, the strengthening of the US dollar, which is hitting exports, and uncertainty after the presidential election. itelligence generated 17.5% (previous year: 18.8%) of its consolidated revenues in the USA and Canada.

After a robust start, the growth rate in Turkey tailed off to a total of 2.7% (previous year: 4.0%) as 2016 progressed. Growth was bolstered by an increase in government spending and a rise in the minimum wage. Negative factors were the political uncertainty after the failed coup attempt and the sharp downturn in tourism as a result of terrorist attacks. Despite government measures, credit growth remains weak and the profitability of companies is at a low level. itelligence generated 5.2% (previous year: 4.4%) of its consolidated revenues in Turkey.

Russia benefited from rising oil prices in 2016. This was accompanied by intensified economic activity. Economic growth improved to -0.7% in 2016 following the deep recession in 2015 (GDP growth: -3.7%). The improved prospects in Russia are demonstrated by a significant strengthening of the ruble against the euro. Sanctions arising from the annexation of Crimea were once again the main negative impact on economic development last year. itelligence generated 1.4% (previous year: 1.5%) of its consolidated revenues in Russia in the year under review.

China's GDP growth of 6.7% (previous year: 6.9%) was below the long-term average. As the world's second-largest economy, China is a hugely important trading partner for Germany. Economic growth is bolstered by an expansive fiscal policy and an increase in the credit volume, which ultimately leads to a robust consumption trend. The shift in Chinese economic policy towards production of increasingly high-value capital goods continued apace last year. China accounted for 0.6% (previous year: 0.6%) of itelligence AG's revenues.

In the Asian emerging economies excluding China, economic growth amounted to around 4.8% last year (previous year: 4.8%). itelligence generated direct revenues from managed services in Malaysia that accounted for 1.1% (previous year: 1.0%) of total revenues.

itelligence does not generate any direct revenues in Japan, the third-largest economy in the world. However, as the company belongs to the Japanese NTT/NTT DATA Group, economic development is important. Customer relationships remain in place with Japanese groups, both direct and via affiliates. Japan continued its expansive monetary and fiscal policy approach in 2016. However, GDP growth fell from 1.2% in the previous year to 0.9% in 2016. Despite a weak yen, foreign demand fell, and investment by companies continued to stagnate at a low level.

SECTOR DEVELOPMENTS IN 2016

The IT software and service market continues to post significant growth. After adjustment for currency translation effects, Gartner has forecast average growth rates of 7.1% for software and 4.8% for services for the period from 2015 to 2020. Gartner calculates global growth of the software market and IT service market at 7.0% and 4.5% respectively for 2016. Taking into account inorganic growth of 5.9%, itelligence's growth again significantly outstripped that of its competitors, with consolidated revenues rising by 11.7% overall (14.2% after adjustment for currency translation effects).

COURSE OF BUSINESS AND ECONOMIC POSITION

The following table presents the changes in revenues in the segments and revenue areas compared with the corresponding prior-year figures and the Group's earnings development:

ITELLIGENCE AT A GLANCE MEUR	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015	Oct. 1 – Dec. 31, 2016	Oct. 1 – Dec. 31, 2015
Total revenues	777.9	696.2	224.7	199.2
Revenue division				
Consulting	331.4	310.1	91.6	87.1
Licenses	79.0	69.4	35.2	28.6
Cloud Subscription	6.5	2.7	2.1	0.8
Managed Services	360.2	310.6	98.4	80.4
Other	0.8	3.4	-2.6	2.3
Revenue segment				
Germany/Austria/Switzerland (DACH)	364.6	321.2	109.7	88.4
Western Europe	177.6	154.8	53.5	49.1
Eastern Europe	83.3	74.6	23.0	25.4
USA	135.7	130.8	34.2	32.6
Asia	12.5	10.7	3.3	2.7
Other	4.2	4.1	1.0	1.0
EBIT	34.9	36.0	17.4	15.4
EBIT margin	4.5%	5.2%	7.7%	7.7%
EBITA	42.2	42.9	19.6	17.1
EBITA margin	5.4%	6.2%	8.7%	8.6%
EBITDA	64.0	62.5	25.0	22.2
EBITDA margin	8.2%	9.0%	11.1%	11.1%
IFRS net profit	18.2	21.1	10.2	9.7
IFRS earnings per share in EUR	0.56	0.63	0.33	0.31



Revenue development
2006 – 2016
Page 66

REVENUE DEVELOPMENT

In fiscal year 2016, itelligence continued the positive revenue trend of previous years and increased its market share. Revenues rose by 11.7%, from MEUR 696.2 to MEUR 777.9 (14.2% after adjustment for currency translation effects). Average revenue growth (CAGR) for the past ten years amounts to 17.1%. Consequently, revenues generated in fiscal year 2016 were also well above the revenue target of MEUR 720.



Revenues by quarter
Page 67

Revenues were up year-on-year in all quarters in 2016. In contrast with fiscal year 2015, revenues were also up by more than 10% on the same quarter of the previous year in 2016. At 5.8% (of which exchange rate effects: 2.5%), organic growth was in excess of the market growth rate. The companies acquired in 2016 contributed a further 5.9% to the increase in revenues (acquisition-based growth). This effect is chiefly attributable to the acquisitions of ITML and BIT.Group in Germany in the 2nd half of 2016. After adjustment for currency translation effects, itelligence grew by 14.2%.



Change in revenue by regional
segment, by division
Page 66

itelligence breaks down revenues both by segment and by division.

46.9% of revenues were attributable to the DACH segment (previous year: 46.2%), 22.8% to Western Europe (previous year: 22.2%), 10.7% to Eastern Europe (previous year: 10.7%), 17.4% to the USA (previous year: 18.8%), 1.6% to Asia (previous year: 1.5%), and 0.6% to the Other segment (previous year: 0.6%).



Recurring business as a
share of total revenues
Page 67

The breakdown of revenues by individual unit is as follows: Consulting 42.6% (previous year: 44.5%), Licenses 10.2% (previous year: 10.0%), Cloud Subscription 0.8% (previous year: 0.4%), Managed Services 46.3% (previous year: 44.6%), and Other 0.1% (previous year: 0.5%).

REVENUE DEVELOPMENT IN THE REGIONS

The itelligence AG segment with the highest revenues, Germany/Austria/Switzerland (DACH), increased its revenues by 13.5% to MEUR 364.6 (after adjustment for currency translation effects: 14.2%), partly through the acquisitions of ITML and BIT.Group. Organic growth in the region amounted to 3.1% in the period under review. Acquisition-based growth totaled 10.4% and was largely influenced by these purchases.

The highest increase in revenue in the DACH segment was achieved in the Managed Services unit, which grew by MEUR 31.9 (20.5%) from MEUR 156.0 to MEUR 187.9. This growth is particularly attributable to the rise in revenues of the existing companies and the acquired BIT Group and ITML. License revenues increased by 14.4% to MEUR 32.5. Cloud Subscription revenues rose from MEUR 1.4 to MEUR 2.1. Consulting revenues increased by 5.0% (after adjustment for currency translation effects: 7.3%), from MEUR 133.9 to MEUR 141.9.

In the Western Europe segment, revenues increased by 14.7% (after adjustment for currency translation effects: 21.1%) to MEUR 177.6 as a result of the positive business development in the Denmark/Norway/Sweden region and France/Canada as well as Benelux. In Denmark/Norway/Sweden, revenues increased by MEUR 17.7 to MEUR 76.6, a key factor in the above-mentioned overall rise. At MEUR 72.4, revenues were up by MEUR 0.4 on the previous year in the UK despite Brexit and the associated fall in the British pound. After adjustment for currency translation effects, revenues would have grown by MEUR +8.3.

Consulting revenues in Western Europe enjoyed significantly positive development in 2016, increasing to MEUR 97.4. This represents growth of MEUR 12.3 or 14.4% (after adjustment for currency translation effects: 17.2%). The Nordics region saw a particularly strong increase in consulting revenues of MEUR 10.5, while the other national subsidiaries also enjoyed positive development. Consulting revenues were down on 2015 only in French-speaking Canada, which is assigned to the Western Europe segment for organizational reasons.

License revenues in this segment amounted to MEUR 22.5, up MEUR 1.6 on the previous year. In addition, cloud subscription posted a two-fold increase from MEUR 1.4 to MEUR 2.5 as a result of the strong performances of the UK and Nordics regions. Managed services also achieved an 18.7% rise from MEUR 47.6 to MEUR 56.5. This is attributable mainly to the Nordics region.

The Eastern Europe segment generated revenues of MEUR 83.3 in the past fiscal year. This represented an increase of MEUR 8.6 or 11.5% on the previous year. After adjustment for currency translation effects, revenue growth in the segment amounted to 19.7%. Turkey in particular expanded its market share compared with the previous year and increased its revenues by MEUR 10.5, from MEUR 33.2 to MEUR 43.7. Revenues at the Polish subsidiary declined by MEUR 0.6 year-on-year to MEUR 16.5. The negative revenue trend of the previous year is therefore almost at an end.

License and managed-services business developed positively, making up for the slight decline in consulting business. Despite the acquisition of Pontech, revenues in the Czech Republic fell short of the previous year, falling by around MEUR 4.0 to MEUR 7.3 due to the decline in consulting business. Consulting revenues in the Eastern Europe segment increased by MEUR 1.9 or 6.7% year-on-year to MEUR 30.1 (after adjustment for currency translation effects: +14.3%).

The positive trend in license revenues also continued in 2016. Revenues here were up by MEUR 4.7 year-on-year at MEUR 13.1 (+57.1%). After adjustment for currency translation effects, this unit posted growth of 70.1%. At MEUR 39.0, managed services achieved a year-on-year increase of MEUR 2.3 or 6.4%.

Performance in the USA segment was also positive compared with the previous year. Revenues improved by 3.7% year-on-year to MEUR 135.7. After adjustment for currency translation effects, revenue growth amounted to 3.9%.

Revenues from managed services increased by MEUR 4.8 to MEUR 66.6 (after adjustment for currency translation effects: +7.9%). License revenues declined by MEUR 0.8 to MEUR 10.1 (after adjustment for currency translation effects: -7.1%). Consulting business also performed strongly. At MEUR 58.1, this unit grew by MEUR 0.7 or 1.2% (after adjustment for currency translation effects: +1.6%).

Revenues in the Asia segment amounted to MEUR 12.5. This represented an increase of 16.8% (after adjustment for currency translation effects: 17.1%) on the prior-year figure of MEUR 10.7.

At MEUR 3.2, revenues from consulting business were up slightly on the previous year (+MEUR 0.1). License business in Asia fell slightly year-on-year to MEUR 0.3 (previous year: MEUR 0.5). Revenues from managed services in Malaysia amounted to MEUR 9.0, up 26.8% on the previous year.

The Other segment contains the revenues of ITC GmbH and Recruit GmbH. At MEUR 4.2, the revenues generated by these two companies were almost unchanged from the previous year.

REVENUE DEVELOPMENT BY DIVISION

In fiscal year 2016, all of the revenue divisions of itelligence AG saw growth compared with the previous year.

For instance, Consulting revenues increased by 6.9% year-on-year (after adjustment for currency translation effects: +9.2%) from MEUR 310.1 to MEUR 331.4. The existing consultant capacity was therefore rigorously expanded in 2016. This results from greater capacity utilization in the itelligence Group, making up for the occasional pressure on daily-rate effects.

License revenues rose by MEUR 9.6 from MEUR 69.4 to MEUR 79.0 as a result of a successful fourth quarter of fiscal year 2016.

Cloud subscription revenues rose by MEUR 3.8 from MEUR 2.7 in the previous year to MEUR 6.5 in the current fiscal year.

Revenues from managed services increased considerably by MEUR 49.5 from MEUR 310.6 to MEUR 360.2. In addition to volume-related growth, this rise is mainly attributable to the acquisitions of ITML and BIT.Group.

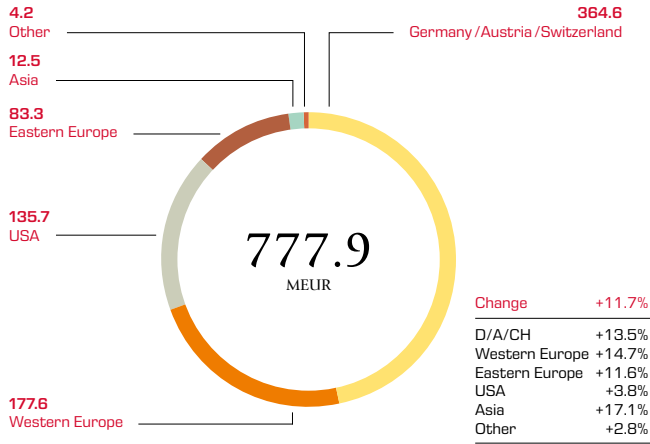
Orders on hand at itelligence AG increased by 17.0% from MEUR 659.5 to MEUR 771.7. The book-to-bill ratio for 2016 amounted to 1.14.



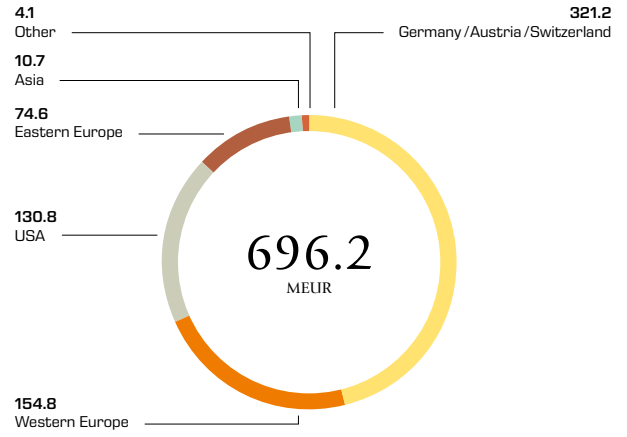
REVENUE DEVELOPMENT BY SEGMENT

MEUR

2016



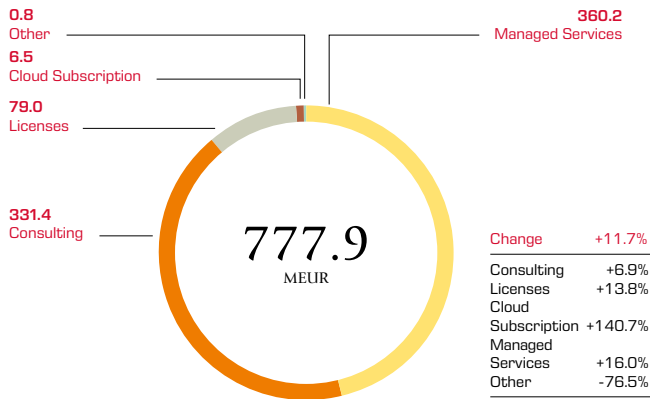
2015



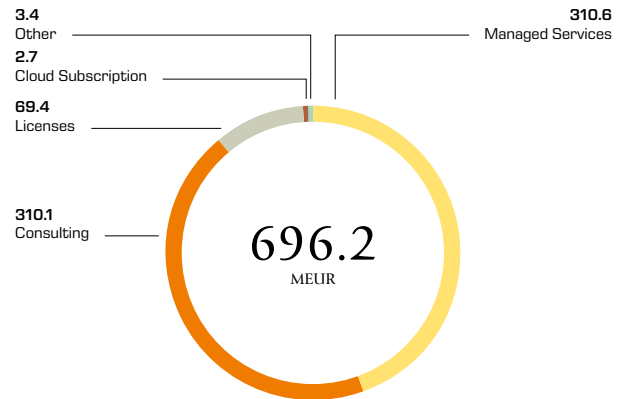
REVENUE DEVELOPMENT BY DIVISION

MEUR

2016

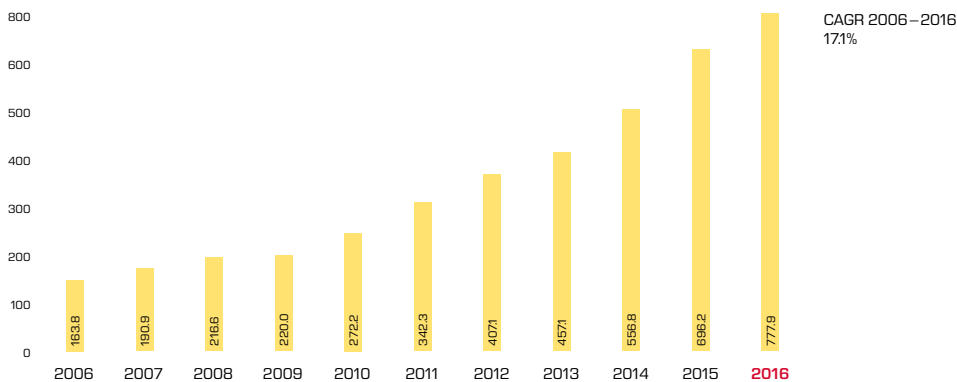


2015



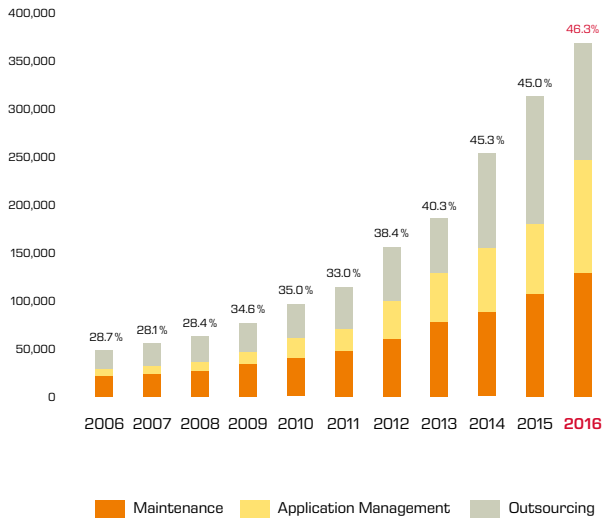
REVENUE DEVELOPMENT 2006–2016

MEUR



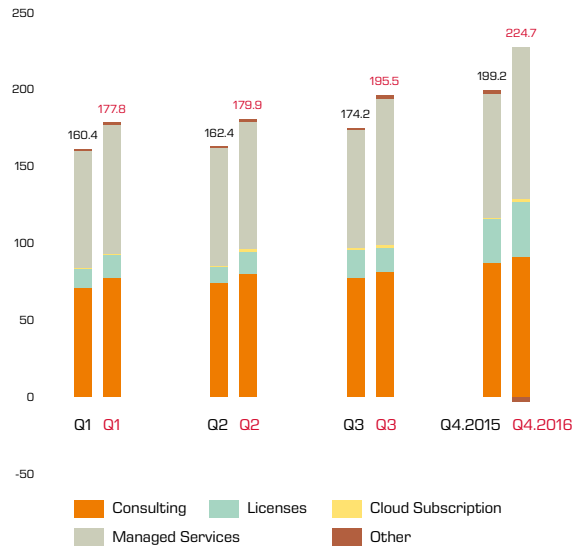
RECURRING BUSINESS AS A SHARE OF TOTAL REVENUES

MEUR



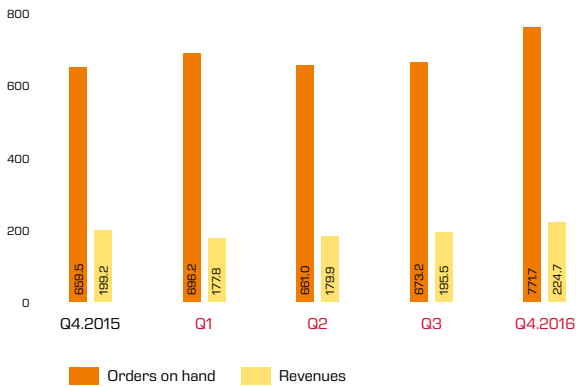
REVENUES BY QUARTER

MEUR



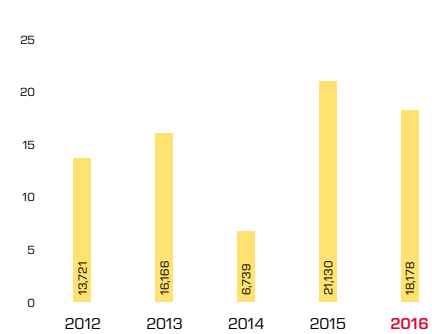
ORDERS ON HAND & REVENUES

per quarter in MEUR



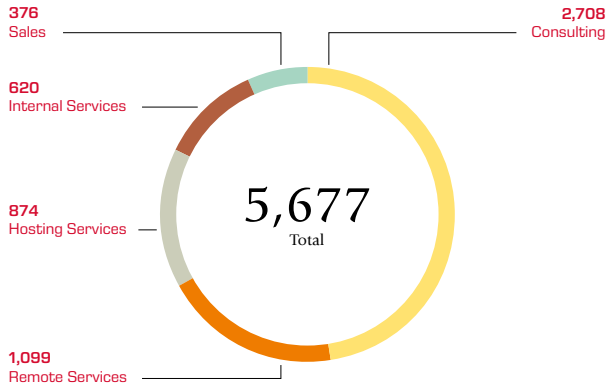
CONSOLIDATED NET PROFIT

KEUR

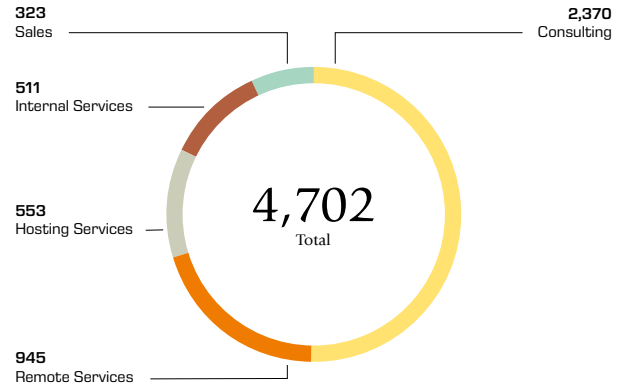


EMPLOYEES BY FUNCTION

2016

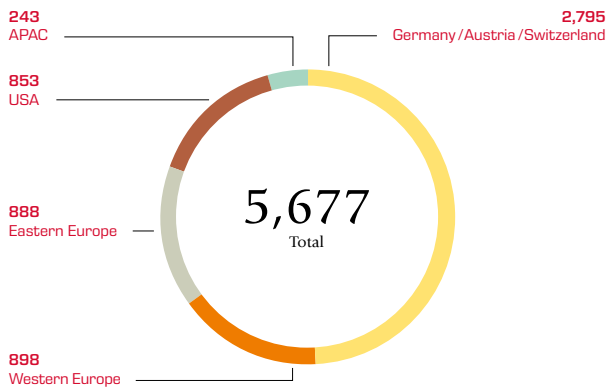


2015

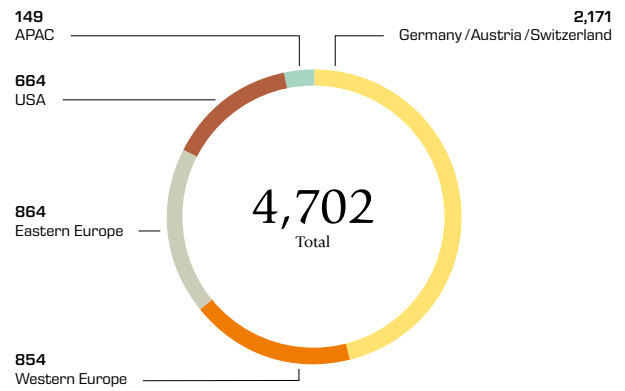


EMPLOYEES BY SEGMENT

2016

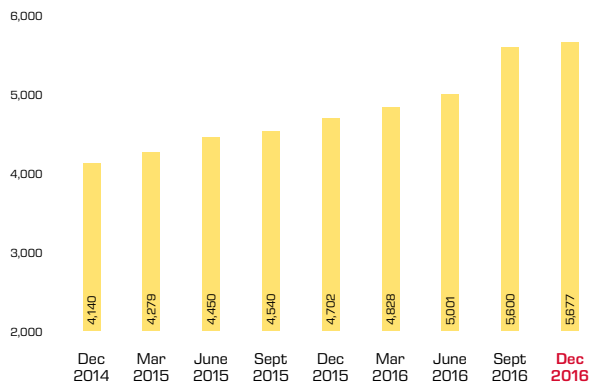


2015



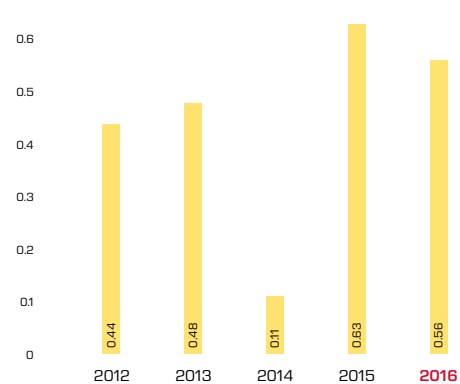
EMPLOYEE DEVELOPMENT

at the end of the month



EARNINGS PER SHARE

EUR



NET ASSETS, FINANCIAL POSITION, AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

In fiscal year 2016, itelligence AG fell just short of the previous year's earnings before interest and taxes (EBIT). EBIT decreased slightly by 3.1%, from MEUR 36.0 in 2015 to MEUR 34.9. The EBIT margin was down by 0.7 percentage points on the previous year at 4.5%. The operating EBITA margin (earnings before interest, taxes, and amortization) amounted to 5.4% (previous year: 6.2%). The difference of 0.9 percentage points compared with the EBIT margin is due to the scheduled amortization of intangible assets in the amount of MEUR 3.2. Capitalized customer relationships and orders on hand are amortized over periods that reflect the respective contractual terms. The EBIT target of MEUR 40.0 planned in the previous year was missed by MEUR 5.1 and the EBIT margin of 5.5% by 1.0 percentage point. Large-scale risk projects in Germany and a negative trend in the Czech Republic were the main reasons for this shortfall.

At MEUR 12.6, the highest absolute earnings contribution was generated by the Germany/Austria/Switzerland (DACH) segment (previous year: MEUR 12.7). Lower earnings contributions from consulting business in Germany were offset by positive earnings contributions from the acquisitions of ITML and BIT.Group. Other contributing factors were stable license sales, sound earnings from Switzerland and the profitable business of GISA GmbH.

Despite the significant weakening of the GBP, the earnings contribution in the Western Europe segment rose slightly to MEUR 11.7 in 2016 compared with the previous year's figure of MEUR 11.4. In addition to the continued positive business development in the Denmark/Norway/Sweden sub-region and in the UK, earnings in Benelux remained at the improved level of 2015, and the loss in Spain was offset overall.

The Eastern Europe segment generated an earnings contribution of MEUR 2.2, down MEUR 5.6 year-on-year (previous year: MEUR 7.8). Lower profitability in Turkey and Poland and a negative earnings contribution from the Czech Republic were only offset to a small extent by the operating companies in the other countries.

Profitability in the USA segment was higher than in the previous year: at MEUR 5.7, the EBIT contribution increased by MEUR 1.2 (+26.7%). This was also due to currency translation effects. Adjusted for these effects, earnings would have been MEUR 3.4 lower than in the previous year. The continuous cost-reduction program in the USA and the more positive business development of off-shore activities in India led to improved earnings. Canada narrowly failed to repeat its positive business development of the previous year.

The Asia segment doubled its earnings contribution to MEUR 1.4 compared with the previous year. The national subsidiary in Malaysia enjoyed positive development as expected, with its earnings contribution remaining at the same level of the previous year. The businesses in Shanghai and China improved their earnings by MEUR 0.7 to MEUR 0.1 in the past fiscal year.

The EBIT contribution in the Other segment was at the same level as the previous year. Recruit broke even, while ITC generated an earnings contribution of MEUR 0.3 (previous year: MEUR 0.3).

The various cost types had the following cumulative impact on EBIT profitability:

DEVELOPMENT OF THE EBIT MARGIN:	
EBIT margin 2015	5.2%
Third-party service provider costs	-0.2%
Personnel expenses	-0.8%
Cost of materials	-0.5%
Travel costs	-0.1%
Depreciation and amortization	+0.1%
Other income/expenses	+0.8%
EBIT margin 2016	4.5%

The ratio of staff costs to total revenues increased 0.8 percentage points year-on-year to 52.4% as a result of the targeted recruitment policy of senior managers. The utilization ratio of third-party service providers rose by 0.2% to 9.1%. This meant that the staff cost ratio (own employees and third-party service providers) increased by 1.0 percentage points, from 60.5% to 61.5%. The product cost ratio increased by 0.5 percentage points to 20.4% as a result of lower margins in license business.

In the past fiscal year, the ratio of travel costs to total revenues rose by 0.1 percentage points to 4.5%. The balance of other operating expenses and income rose by 0.8%.

The gross margin decreased by 0.7 percentage points from 23.4% to 22.7%. This was due to lower margins in Managed Services as well as the lower earnings contributions from consulting business. The ratio of selling and marketing expenses to revenues increased by 0.3% year-on-year, from 9.3% to 9.6%. At 8.3%, administrative expenses were unchanged as against the previous year.

NET FINANCE COSTS

Net finance costs amounted to MEUR -5.8 compared with MEUR -5.7 in the previous year. This figure includes finance income from short-term investments in the amount of MEUR 0.1 (previous year: MEUR 0.2) and finance costs of MEUR 2.3 (previous year: MEUR 2.7). Net finance costs also include expenses from the remeasurement of derivatives and the exercise of options in the amount of MEUR 3.7 (previous year: expenses of MEUR 2.9). This results in EBT (earnings before taxes) of MEUR 29.1 after MEUR 30.4 in the previous year.

TAX EXPENSE

Tax expense in fiscal year 2016 amounted to MEUR 10.9 compared with MEUR 9.2 in the previous year. At 37.6%, the consolidated tax rate was up the previous year's figure of 30.4%. The increase in the tax rate compared with 2015 mainly results from the lack of use of loss carryforwards abroad. Further information on income taxes can be found in note (9) of the notes to the consolidated financial statements.

CONSOLIDATED NET PROFIT AND EARNINGS PER SHARE

itelligence AG's consolidated net profit for the fiscal year under review decreased to MEUR 18.2, down MEUR 2.9 on the prior-year figure of MEUR 21.1.

Accordingly, earnings per share for the past fiscal year also fell from EUR 0.63 to EUR 0.56. Earnings per share were calculated on the basis of 30,014,838 shares.

NET ASSETS

The Group's total assets grew by 18.6% to MEUR 544.7 compared with the previous year. This is due mostly to the increase in assets resulting from the companies acquired in Germany and borrowings to finance these acquisitions.



Consolidated net profit
Page 67



Earnings per share
Page 68

ASSETS MEUR	Dec. 31, 2016	Dec. 31, 2015	Change
Intangible assets	165.2	128.8	36.4
Property, plant and equipment	97.1	81.0	16.1
Non-current receivables and other assets	8.4	9.6	-1.2
Non-current assets	270.7	219.4	51.3
Current receivables and other assets	216.3	185.4	30.9
Cash and cash equivalents	57.7	54.5	3.2
Current assets	274.0	239.9	34.1
Total assets	544.7	459.3	85.4

EQUITY AND LIABILITIES MEUR	Dec. 31, 2016	Dec. 31, 2015	Change
Equity (including non-controlling interests)	165.8	155.0	10.8
Financial liabilities	103.5	88.6	14.9
Provisions for pensions and other provisions	9.8	8.4	1.4
Other non-current liabilities	18.0	19.1	-1.1
Non-current liabilities	131.3	116.1	15.2
Trade payables	62.8	54.3	8.5
Financial liabilities	67.2	27.3	39.9
Other current liabilities and provisions	117.6	106.6	11.0
Current liabilities	247.6	188.2	59.4
Total equity and liabilities	544.7	459.3	85.4

At MEUR 270.7, non-current assets were up by 23.4% on the previous year's figure of MEUR 219.4. Non-current assets accounted for 49.7% of total assets at the reporting date (previous year: 47.8%). The main items under non-current assets are goodwill in the amount of MEUR 142.8 (previous year: MEUR 107.9) and property, plant and equipment in the amount of MEUR 97.1 (previous year: MEUR 81.0). The MEUR 34.9 rise in goodwill primarily resulted from the acquisition of 100% of the shares in ITML GmbH in Pforzheim, Germany, and 100% of the shares in BIT.Verwaltungs GmbH in Bautzen, Germany.

Current assets amounted to MEUR 274.0 at the end of the year under review compared with MEUR 239.9 in the previous year, thus accounting for 50.3% of total assets (previous year: 52.2%). Trade receivables showed the sharpest rise in this area. They increased by 19.4% year-on-year from MEUR 155.3 to MEUR 185.4 as a result of the acquisitions as well as the strong course of business in the last quarter of 2016. The average days sales outstanding – defined as the average number of days from invoicing to receipt of payment from the customer – rose by 5 days to 80 days at the reporting date (previous year: 75 days). Cash and cash equivalents increased by 5.9% to MEUR 57.7 compared with MEUR 54.5 in the previous year.

On the liability side of the consolidated statement of financial position, equity increased by MEUR 10.8 to MEUR 165.8 largely as a result of the consolidated net profit for the year. Despite the rise in absolute equity, the equity ratio, which expresses the ratio of equity to total assets, decreased from 33.7% in the previous year to 30.4% due to the higher total assets figure.

Non-current liabilities accounted for 24.1% of the Group's total equity and liabilities at December 31, 2016, down on the prior-year figure of 25.3%. Generally speaking, the non-current financial liabilities primarily relate to the financing of the data centers in Germany and abroad as well as the Group's acquisitions.

itelligence recorded an increase in current liabilities of MEUR 59.4 to MEUR 247.6. The increase in current liabilities was primarily due to higher financial liabilities, increased trade payables, and other non-financial liabilities at year-end. The rise in financial liabilities mainly resulted from the cash-pooling account newly concluded with NTT (MEUR 34.0) as well as the loan in relation to NTT in the fiscal year (MEUR 17.1) for financing of acquisitions in Germany. The rise in other non-financial liabilities is mainly due to higher liabilities for bonuses (MEUR +3.2) and vacation entitlement (MEUR +1.4). At 45.5%, the ratio of current liabilities to total assets was up on the previous year's figure of 41.0%.

FINANCIAL POSITION

CASHFLOW MEUR	Dec. 31, 2016	Dec. 31, 2015	Change
EBITDA	64.0	62.5	1.5
Cash flows from operating activities	40.4	35.2	5.2
Cash flows from investing activities	-75.6	-26.7	-48.9
Cash flows from financing activities	38.6	6.6	32.0
Change in liquidity	3.4	15.1	-11.7

In the past fiscal year, net cash from operating activities rose by MEUR 5.2 to MEUR 40.4. This development is chiefly attributable to the increase in EBITDA in 2016.

Net cash used in investing activities amounted to MEUR 75.6, up on the previous year's figure of MEUR 26.7. This was due in particular to purchase price payments for the acquisition of the new companies (less cash and cash equivalents acquired) in the amount of MEUR 40.6 (previous year: MEUR 8.7). Investments in intangible assets and property, plant and equipment (less investment subsidies and grants) amounted to MEUR 35.4 in the year under review, compared with MEUR 18.5 in the previous year. As in the previous years, investments in property, plant and equipment resulted primarily from the expansion of data center capacity in Germany and abroad.

In terms of geographical segments, the USA accounted for investments including finance leases of MEUR 3.6 (previous year: MEUR 5.7), DACH for MEUR 31.9 (previous year: MEUR 16.7), Western Europe for MEUR 4.1 (previous year: MEUR 2.5), and Eastern Europe for MEUR 4.3 (previous year: MEUR 2.4).

Net cash used in financing activities totaled MEUR 38.6 (previous year: MEUR 6.6). The Group entered into financial liabilities of MEUR 63.8 in fiscal year 2016. This was offset by repayments in the amount of MEUR 7.2 (MEUR 6.1 of which related to the Group parent) and finance lease payments of MEUR 8.6. Non-current financial liabilities were primarily entered into for the purpose of acquisitions as well as investments in the data centers. The interest rates ranged from 0.25% to 0.7%. Due to the fixed interest agreements for the existing financing, a change in interest rates would not have a significant impact on the intelligence Group's financial position. For future growth finance, a change in interest rates would affect the Group's financial position and net interest income. Details on the nature, maturity and interest rate structure of the liabilities can be found in note (23) "Financial liabilities" in the notes to the consolidated financial statements.

Cash and cash equivalents increased by MEUR 3.2 to MEUR 57.7 as of the reporting date (previous year: MEUR 54.5). Of this figure, MEUR 22.7 was held in the euro zone and was not subject to exchange rate fluctuations. Cash and cash equivalents held outside the euro zone in the amount of MEUR 35.0 were invested and reported in the country-specific currencies. Translation was performed at the year-end closing rates. The consolidated financial statements will continue to be subject to currency translation effects in future. The Group's liquidity reserves were invested solely in short-term investments, meaning that fluctuations in the market interest rates for such investments on the money and capital markets can have an impact on intelligence's net interest income.

In order to increase financial flexibility, additional credit facilities of MEUR 17.0 were agreed in Germany. In the year under review, these were utilized for drawing against guarantees and loans in the amount of MEUR 3.5. In addition to credit facilities in Germany, subsidiaries also applied for credit facilities abroad. These credit facilities with a total volume of MEUR 17.6 were agreed in the respective local currencies and were partially guaranteed by intelligence AG. At the reporting date, these credit facilities were utilized by subsidiaries in the amount of MEUR 0.5.

The intelligence Management Board expects the cash and cash equivalents of MEUR 57.7 together with financial reserves in the form of various unutilized credit facilities to be sufficient to cover intelligence's operating capital requirements and – together with the expected net cash from operating activities – the scheduled debt repayments and other planned short-term and medium-term investments. The partnership with NTT DATA also ensures the Group's financial flexibility.

OVERALL ASSESSMENT OF THE ECONOMIC POSITION

itelligence exceeded its growth targets once again in 2016. With the acquisitions of BIT.Group and ITML, the market position in Germany has been extended further and expertise has been purchased.

At 30.4%, the equity fell slightly from 33.7%, but remains at a sound level. itelligence has cash and cash equivalents of MEUR 57.7. Financial flexibility is sufficiently ensured by a credit facility of MEUR 17.0 in Germany and MEUR 17.6 abroad. Loans and financing can be provided at any time by the parent company NTT DATA for large-scale investment projects and further acquisitions. The Management Board rates the financial scope of itelligence as sufficiently stable to finance the envisaged growth in Germany and abroad. The Management Board continues to regard itelligence AG's economic position as satisfactory.

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

FINANCIAL PERFORMANCE INDICATORS

The most important financial performance indicators of itelligence AG are revenues and the operating indicator EBIT. EBIT is defined as operating earnings before interest and taxes. The performance indicators are presented to and discussed with the Management Board on a monthly basis as part of internal reporting, thereby allowing controlling measures to be initiated in a timely manner.

In addition to the above-mentioned key financial performance indicators, itelligence AG also uses a wide range of operational key figures to measure strategic objectives in terms of growth and efficiency improvements. This includes utilization levels, the development of daily rates and project budget compliance in the Consulting business and the number of new customers in the Licenses and Maintenance business. Sales activities in all divisions are monitored and managed centrally through the regular monitoring of the sales pipeline and the development of orders on hand.

The following financial performance indicators are also used:

- Net finance costs: This performance indicator provides information regarding interest on cash and cash equivalents as well as interest payable on borrowed funds. The measurement of derivatives and the exercise of options also features prominently here.
- Day sales outstanding (DSO): Another important aspect is working capital management through monitoring of the day sales outstanding of operating receivables. Day sales outstanding (DSO) of receivables is defined as the average number of days from invoicing to receipt of payment from the customer.
- Tax rate: The tax rate corresponds to the ratio of income tax expense to earnings before income taxes in percent.
- Net cash from operating, investing and financing activities: itelligence's statement of cash flows describes how the Group generated and used cash and cash equivalents.

NON-FINANCIAL PERFORMANCE INDICATORS

Employees

itelligence AG's business success and leadership claim as a strategic SAP full-service provider is primarily based on highly qualified and motivated employees who identify with the company. Accordingly, the company offers its employees a wide range of development opportunities. For example, individual career plans are drawn up at annual appraisal meetings and systematically pursued. With the "DELTA" (Develop Expert and Leadership Talent) high-potential program, the company has implemented an initiative for manager development, establishing the basis for recruiting new members of management from its own ranks. Selected employees are supported and challenged in international teams for a one-year period.

The Group-wide employee survey is the central instrument for measuring the progress made by the company in implementing its strategy and the development of management behavior. The survey was conducted for the fourth time in 2015. The itelligence Group has a mature corporate identity that constitutes the foundation for its success on the basis of shared core values and a uniform value system.

Customers and quality

Customer satisfaction is of central importance to the itelligence Group's business success. It forms the basis for trust-based partnership and long-term cooperation.

The success of extensive, complex projects depends to a large extent on high-quality implementation in line with the agreed budgets and deadlines. To prevent deviations from planning that could have a negative impact on its earnings situation, itelligence has established detailed, binding requirements for the tender process as well as for project and quality management.

The quality of itelligence's work is demonstrated by the number of SAP awards received, including for high-quality SAP projects in 2016.

Research and development

As itelligence does not perform any research and development in the narrower sense, it depends in particular on innovations in the area of industry solutions for the more efficient implementation of SAP to maintain and expand its international competitiveness.

VALUE ADDED STATEMENT

The value added statement illustrates the origin and application of the economic performance of the itelligence companies in the year under review and the previous year.

In the statement of origin, value added is calculated as the difference between business performance and the related expenses incurred in advance, such as the cost of materials, depreciation and amortization, and other expenses.

In fiscal year 2016, revenues increased by 11.7% to MEUR 777.9. This positive development comprised organic growth of 5.8% and acquisition-based growth of 5.9%. Growth through acquisitions results from the purchases of ACA (France), IT Performs Ltd. (UK), and Pontech (Czech Republic) in 2015, as well as the acquisitions of BIT.Group and ITML GmbH in Germany in 2016.

Product-related expenses, which contain advance expenses for software licenses and maintenance, increased by MEUR 19.9 or 14.4% year-on-year to MEUR 158.4. This absolute increase is attributable to the higher maintenance volume and the corresponding costs payable to SAP SE, as well as the higher license volume. Third-party service provider costs amounted to MEUR 70.4, up around MEUR 9.0 on the previous year.

In the past fiscal year, itelligence AG's value added amounted to 55.5% of business performance, almost unchanged from the previous year's figure of 55.4%.

The statement of allocation shows the share of value added attributable to the individual stakeholder groups, e.g. employees, lenders, the government, and minority interests. This serves to illustrate itelligence AG's output in terms of the economy as a whole.

At 92.8% (previous year: 91.5%), the largest share of value added was attributable to the itelligence Group's employees. The government accounted for 2.5% of value added in the form of taxes and levies (previous year: 2.4%).

VALUE ADDED STATEMENT			ORIGIN			
	2016		2015		Change	
KEUR						
Revenues	777,910	99.5%	696,240	99.4%	81,670	11.7%
Other income	4,252	0.5%	4,037	0.6%	215	5.3%
Business performance	782,162	100.0%	700,277	100.0%	81,885	11.7%
Product-related expenses	158,387	20.2%	138,404	19.8%	19,983	14.4%
Third-party service providers	70,417	9.0%	61,352	8.8%	9,065	14.8%
Rental expenses	19,123	2.4%	17,203	2.5%	1,920	11.2%
Depreciation/amortization	29,100	3.7%	26,525	3.8%	2,575	9.7%
Other expenses	71,110	9.1%	68,562	9.8%	2,548	3.7%
Value added	434,025	55.5%	388,231	55.4%	45,794	11.8%

			APPLICATION			
	2016		2015		Change	
KEUR						
Employees	402,673	92.8%	355,196	91.5%	47,477	13.4%
Company (retained profits)	16,868	3.9%	18,786	4.8%	-1,918	-10.2%
Lenders	2,260	0.5%	2,685	0.7%	-425	-15.8%
Government	10,914	2.5%	9,220	2.4%	1,694	18.4%
Minority interests	1,310	0.3%	2,344	0.6%	-1,034	-44.1%
Value added	434,025	100.0%	388,231	100.0%	45,794	11.8%

REMUNERATION REPORT

The remuneration report sets out the principles of the remuneration systems for the Management Board and the Supervisory Board and describes the amount and structure of the remuneration paid. The remuneration of the members of the executive bodies is disclosed as total remuneration broken down into fixed remuneration, performance-related components, and components with a long-term incentive effect.

REMUNERATION OF THE MANAGEMENT BOARD

The following table provides a breakdown of the remuneration of the Management Board for fiscal year 2016:

NORBERT ROTTER		
CEO since July 1, 2016 / CFO until June 30, 2016	2016	2015
KEUR		
Non-performance-related (fixed) remuneration	312	250
Performance-related (variable) current remuneration (current year)	134	147
Performance-related (variable) non-current remuneration (current year)	200	191
Total remuneration for the year	646	588
HERBERT VOGEL		
CEO until June 30, 2016	2016	2015
KEUR		
Non-performance-related (fixed) remuneration	250	500
Performance-related (variable) current remuneration (current year)	99	245
Performance-related (variable) non-current remuneration (current year)	273	440
Total remuneration for the year	622	1,185

The total remuneration paid to the Members of the Management Board for fiscal year 2016 was KEUR 1,268 (previous year: KEUR 1,773).

The remuneration of itelligence's Management Board consists of non-performance-related (fixed) and performance-related (variable) components. Fixed remuneration and expenses for retirement and ancillary benefits all constitute non-performance-related components. The performance-related elements are geared towards the company's short-term and long-term success. The Supervisory Board is responsible for determining the structure of the remuneration systems and the remuneration paid to the individual members of the Management Board. These matters are dealt with by the Staff Committee.

The remuneration components are broken down as follows:

- Non-performance-related fixed remuneration is paid in equal installments in the form of a monthly salary. Ancillary benefits relate primarily to contributions to accident and liability insurance and the provision of a company car reflecting the position of the respective member.
- Variable remuneration consists of a short-term incentive based on the Group's achievement of its earnings goal (consolidated EBIT) for the year, the Group's revenues target (consolidated) and personal performance. It is paid within five working days after the Annual General Meeting.
- The members of the Management Board also receive a bonus with long-term incentive effect based on a comparison of two average value added contributions (consolidated EBIT), each calculated over a four-year period. This is also paid within five working days of the Annual General Meeting for the fourth fiscal year of the relevant performance period. As the activities that give rise to a claim for remuneration were performed for the respective bonus tranches in fiscal year 2016, this is reported on a pro rata basis in the 2016 remuneration report. Any payment difference compared with the amount actually granted is included in the total remuneration for the fiscal year in which the legally binding commitment was made.
- The members of the Management Board are entitled to a life-long old-age pension from their 65th birthday irrespective of how old they were when they joined the company. The monthly pension amounts to EUR 10,000 for the departed CEO and EUR 4,500 for the current CEO. The pension commitment also includes a widow's pension amounting to 65% of the pension of the respective member of the Management Board and an orphan's pension. If a member of the Management Board leaves the company before his 65th birthday while serving as a member of the Management Board, the pension commitment will remain in place but will be reduced proportionately.
- From January 1, 2014, the members of the Management Board are entitled to receive an invalidity pension corresponding to 75% of the respective pension.

No loans were granted to members of the Management Board in fiscal years 2016 and 2015. There were also no similar benefits. The members of the Management Board do not receive any remuneration for mandates at Group companies.

There were no commitments for severance payments in the case of the regular termination or non-renewal of employment contracts or a change of shareholder or for transitional benefits. In the event of the early termination of a Management Board contract not resulting from justified extraordinary termination by the company, the members of the Management Board shall be paid the remuneration for the remainder of their contract as severance. A cap on severance has not been agreed. A post-contract prohibition on competition and post-contract customer protection has been agreed with the members of the Management Board for a period of 24 months after the end of the contract. The company undertakes to pay compensation of 50% of the final fixed remuneration of the respective members of the Management Board for the duration of the post contract prohibition on competition. The company has imposed a prohibition on competition on the former CEO for a period of 24 months and recognized provisions of KEUR 375 for remuneration for the remaining months up to December 31, 2016.

The company has pension obligations to the members of the Management Board in the amount of KEUR 3,109, for which total expenses of KEUR 73 were incurred in 2016.

The financing status developed as follows:

HERBERT VOGEL	2016	2015
KEUR		
Defined benefit obligation	2,629	2,400
Cash surrender value of the employer's pension liability insurance policy	-1,138	-1,062
Financing status	1,491	1,338
NORBERT ROTTER	2016	2015
KEUR		
Defined benefit obligation	480	384
Cash surrender value of the employer's pension liability insurance policy	-193	-165
Financing status	287	219

The company has pension obligations to former members of executive bodies in the amount of KEUR 1,218, for which expenses of KEUR 18 were incurred in 2016.

The financing status developed as follows:

KEUR	2016	2015
Defined benefit obligation	1,218	1,144
Cash surrender value of the employer's pension liability insurance policy	-589	-561
Financing status	629	583

REMUNERATION OF THE SUPERVISORY BOARD

The following table provides a breakdown of the remuneration of the Supervisory Board for fiscal year 2016 and the previous year:

KEUR	Fixed remuneration component	Committee remuneration	Attendance fees	2016 Total remuneration
Friedrich Fleischmann (Chairman)	75.0	37.5	9.0	121.5
Prof. Heiner Schumacher (Deputy Chairman since March 17, 2016)	34.8	27.5	9.0	71.3
Jens Christian Derdau-Sørensen since March 17, 2016	19.6	3.3	7.0	29.9
Mersun Sezer since April 28, 2016	16.8	8.2	6.0	31.0
Tadashi Uhira	25.0	5.0	9.0	39.0
Koji Ito	25.0	10.0	8.0	43.0
Dr. Stephan Kremeyer (Deputy Chairman until March 17, 2016)	8.0	2.7	3.0	13.7
Carsten Esser until March 17, 2016	5.3	1.1	3.0	9.4
	209.5	95.3	54.0	358.8

KEUR	Fixed remuneration component	Committee remuneration	Attendance fees	2015 Total remuneration
Friedrich Fleischmann (Chairman)	75.0	37.5	9.0	121.5
Dr. Stephan Kremeyer (Deputy Chairman)	37.5	12.5	9.0	59.0
Prof. Heiner Schumacher	25.0	27.5	9.0	61.5
Carsten Esser	25.0	5.0	9.0	39.0
Kazuhiko Nishihata until August 20, 2015 / Tadashi Uhira*	25.0	5.0	5.0	35.0
Akiyoshi Nishijima until August 20, 2015 / Koji Ito*	25.0	0.0	5.0	30.0
	212.5	87.5	46.0	346.0

* Remuneration is settled on a cumulative basis with NTT DATA EUROPE GmbH & Co. KG, Bielefeld

The remuneration of itelligence AG's Supervisory Board is regulated by Article 16 of the Articles of Association. A resolution by the Annual General Meeting on December 12, 2013 introduced new provisions for the remuneration of the activities of the members of the Supervisory Board from fiscal year 2013. In line with these provisions, Supervisory Board members receive fixed remuneration in addition to the reimbursement of their expenses.

Each member of the Supervisory Board receives fixed annual remuneration of EUR 25,000. The Chairman receives three times this amount, while the Deputy Chairman receives one and a half times this amount. In addition, each member of the Supervisory Board receives an attendance fee of EUR 1,000 per day for each meeting of the Supervisory Board or of a Supervisory Board committee attended.

Members of Supervisory Board committees receive additional fixed remuneration of EUR 5,000 for each membership of a committee. The Chairman of a committee receives three times this amount, while the Deputy Chairman of a committee receives one and a half times this amount.

Remuneration is payable quarterly after the end of each quarter. Supervisory Board members not in office for the entire quarter receive their remuneration pro rata temporis.

itelligence also reimburses the members of the Supervisory Board for any value-added tax on their remuneration to the extent that this is invoiced or disclosed in a credit note by the respective Supervisory Board member. No advances on future remuneration or loans were granted to the members of the Supervisory Board. Furthermore, itelligence did not enter into any contingent liabilities for the benefit of the members of the Supervisory Board.

COMPOSITION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD AND ALLOCATION OF OTHER MANAGEMENT ROLES

In accordance with the German Act on Equal Participation of Women and Men regarding Leadership Positions within the Sectors of Private Economy and Public Service, the following targets for the composition of the Management Board and Supervisory as well as the allocation of other management roles are stated pursuant to sections 76 (4) and 111 (5) of the German Stock Corporation Act (AktG):

A target of 0% is set for the proportion of women on the Supervisory Board and Management Board of itelligence AG. As there are currently no female members of the Supervisory Board or Management Board, this target corresponds to the current proportion of women. Consequently, no deadline has been set for meeting the target.

In the next management tier below the Management Board, the proportion of women is 0%; in the management tier below that, it is 8%. No changes are foreseeable. Therefore, targets have been set that conform to the current situation. For the next management tier below the Management Board, a target of 0% has been set for the proportion of women; for the management tier below that, the target is 8%. As both targets have already been met, no deadline has been set for meeting the targets. The Management Board will ascertain on June 30, 2017 whether the target for the second management tier below the Management Board continues to be met.

DEPENDENT COMPANY REPORT

All of the shares in itelligence AG are held by NTT DATA EUROPE GmbH & Co. KG, Bielefeld. NTT DATA EUROPE GmbH & Co. KG is a wholly-owned subsidiary of NTT DATA Corporation, Japan. As there is neither a control or profit transfer agreement in place with NTT DATA EUROPE GmbH & Co. KG nor an incorporation was planned, the Management Board of itelligence AG is required to prepare a dependent company report in accordance with section 312 AktG.

In accordance with section 312 (2) AktG, the Management Board hereby declares that, in the case of the transactions and measures contained in the dependent company report that were conducted on the basis of the circumstances known to the Management Board at the time the transactions were executed or measures were implemented or omitted, itelligence AG received appropriate consideration for each transaction and has not been disadvantaged by the implementation or omission of any measures.

OPPORTUNITIES AND RISKS

OPPORTUNITIES AND RISKS

As previously, the internal control system (ICS) of itelligence AG consists of corporate controlling, financial reporting, and Group-wide risk management. The function has also been expanded to include the operating units and information technology.

The expansion of the internal audit and reporting system in the Group and within the NTT DATA Group continued in 2016. Further controls were integrated at business process level. The functionality of the controls in the business environment and internal IT is examined by management annually.

The risk inventory is updated once a year.

OPPORTUNITIES MANAGEMENT

As a long-term partner, itelligence assumes responsibility for the success of IT initiatives and IT challenges of its customers. For itelligence, the combination of SAP consulting, software, and managed services forms the basis for customer-oriented solutions. SAP technology leadership, industry solutions, and itelligence's process expertise form the basis for successful cooperation.

Our successful business model is based on a full-service provider approach. itelligence is working to improve customers' value chains based on existing expertise. The management particularly sees opportunities in new markets with corresponding growth potential. Technological advances such as Industry 4.0, cloud computing, and mobility also offer sustainable growth opportunities for itelligence.

OPPORTUNITIES OF FUTURE BUSINESS DEVELOPMENT

As a full-service IT provider for SAP, itelligence AG continues to have a large number of economic growth opportunities at its disposal. These chiefly result from the innovations of SAP products (e.g. Industry 4.0, big data solutions, social media analytics, cloud and mobility services). This position is reinforced by the international cooperation with SAP SE. itelligence's global partnerships allow it to provide intensive support to small and medium-sized enterprises and, in particular, upper midmarket companies with a strong international focus in Germany and abroad.

The parent company NTT DATA Corporation supports itelligence AG's growth. Activities are concentrated on cooperation with NTT DATA in joint projects and developing markets. itelligence uses the capital resources provided by the partnership with NTT DATA to strengthen its position through targeted acquisitions.

RISK MANAGEMENT

In accordance with section 91 (2) AktG, the Management Board of itelligence AG has established a risk management system for the Group in order to identify risks at an early stage. The risk management system is implemented on a Group-wide basis as one of the integral components of the business and decision-making processes. It contains controls aimed at ensuring a permanent and systematic approach based on a defined risk strategy. This method comprises the integrated planning process, monitoring and controlling of business processes and the rule-compliant consolidated financial statements, which are prepared in accordance with IFRS. The defined standards are set out and published in Group-wide guidelines such as the Accounting and Account Assignment Manual, Compliance Management, the Risk Management Guideline, and the Information Security Guideline. These are based on the requirements of the NTT DATA Group.

Implementation of the US Sarbanes-Oxley Act is examined and improved by itelligence in cooperation with NTT DATA. In addition to the existing entity-level controls, process-level controls have also been in place since mid-2015. These were extended to the America, Nordics, and UK regions in fiscal year 2016. Monthly management meetings at which the operating divisions report on business developments, opportunities, and risks of their areas of responsibility are supplemented by half-yearly business reviews in the regions and international business review meetings.

Above and beyond the addressed operating processes, the opportunity and risk management system is supplemented by committees in which Management Board and Supervisory Board members regularly meet.

Furthermore, NTT DATA Corporation intends to establish a uniform global audit and reporting system for all Group companies with the aim of bundling and analyzing the information required for efficient opportunity and risk management as quickly as possible and making the findings available to all Group members in good time.

RISKS OF FUTURE BUSINESS DEVELOPMENT

BUSINESS ENVIRONMENT RISKS

SAP partnership

itelligence focuses on SAP as a provider of comprehensive IT services for the traditional and upper midmarket. Consequently, itelligence AG is dependent to a large extent on the continued market success of SAP's products. This dependence impacts on itelligence's net assets, financial position, and results of operations. As well as providing support, the SAP partner model embodies an economic risk for itelligence. The economic risk for itelligence will be reduced while SAP continues to provide customers with high-performance products.

Human resources risks and opportunities

Qualified employees and managers, and therefore the need to commit them and recruit new ones, are a key factor in itelligence AG's success. A lack of qualifications for innovative topics, obsolete expertise and insufficient motivation would impair the success of our projects.

Professional training in the form of online training is used to ensure the balanced, timely, broad-based training of employees, while our managers' skills are promoted by the international management development program.

Despite these measures, the possibility that qualified employees will leave the company or that an insufficient number of new employees will be recruited cannot be ruled out.

INDUSTRY RISKS

Industry risks result from the constant pace of technical progress. These risks affect itelligence's net assets and results of operations. The company focuses on the following risk areas:

- a) Customer-oriented market risks
This includes economic cycles, changes in exchange rates, changes in customers' investment behavior, company concentration, customer insolvency risk, and similar risks.
- b) Supplier-oriented market risks
This includes supplier services as well as service quality and similar factors.

These risks are permanently monitored by monthly lead monitoring as well as the special controlling of incoming orders and orders on hand. Despite intensive customer and supplier care, it cannot be fully ensured that all developments will be identified at an early stage or that measures will be initiated in a timely manner.

PERFORMANCE RISKS

Project risk

Project risk and resulting adverse effects on itelligence's net assets and results of operations can never be completely ruled out. itelligence works actively to reduce product risks by using qualified employees, through its advanced project methodology, and its defined project organization including meetings of the steering committee, and by incorporating customers in project work. Effective project controlling leads to increased project transparency. Starting with monitoring of the project by the project manager, the project is accompanied through to the escalation provisions. This enables everyone involved to identify risks at an early stage and take appropriate countermeasures.

Risks in the Managed Services division

The availability and reliability of data center services are key factors for Managed Services. Contractual and statutory provisions form the basis for planning of internal resources and processes, while clearly defined responsibilities, interfaces, and workflows serve to ensure compliance. Each new customer is integrated in the new or changed technology and the process structure following a defined testing and acceptance procedure. The same applies to existing customers. As a result, the expected opportunities and risks are carefully weighed up.

The audits were successfully completed in 2016, as in the previous year. The services and processes were certified in accordance with ISO/IEC 20000-1:2011 and ISO/IEC 27001:2013. itelligence Outsourcing & Services GmbH's internal control system has also been successfully tested and audited in accordance with ISAE3402. Comprehensive security measures – from building access restrictions through to the internal authorization concept for the responsible employees – and regular security audits with subsequent recertification have been implemented in data center operations. The change in European data protection legislation will pose new challenges for processes and technical measures in data center operations.

FINANCIAL RISKS**Liquidity risk**

At its headquarters, itelligence has established a central finance management system that constantly monitors and manages global liquidity. The weekly liquidity status report including a cash forecast enables Group-wide monitoring of cash and cash equivalents so that measures can be initiated at short notice as required. A constant level of cash and cash equivalents and credit facilities in Germany and abroad increases security and independence.

Interest rate fluctuations on the money and capital markets impact itelligence AG's net interest income only to a limited extent.

Price risk

itelligence monitors exchange rate risks on the basis of items in the statement of financial position. As the value-added process is performed almost entirely in the same currency as the corresponding revenues are generated, exchange rate risk is limited but still exists. Exchange rate fluctuations affecting intragroup receivables and liabilities and the resulting risk are monitored and documented on a continuous basis.

Goodwill impairment testing is performed each year using the DCF method. The average cost of capital is used to discount cash flows. Capital costs may change due to current developments in interest rate levels. Significant changes arising from goodwill impairment testing would have a substantial impact on earnings.

General management risk

Although itelligence examines its customers' insolvency risk at all of its national subsidiaries with regard to each contract, this risk cannot be ruled out altogether. Therefore, all receivables within the Group are examined on a monthly basis and a bad debt allowance is recognized depending on the age structure. This measure is supplemented by permanent credit checks, which also include risk provisions in the form of specific valuation allowances.

OTHER RISKS**Political risk**

As an international service provider, itelligence is also exposed to political influences and their consequences. Accordingly, political risk is taken into account in all investment decisions.

General management risk

itelligence is also exposed to general management risk. The company continuously improves its management, controlling, and steering systems and extends them to all levels with a view to preventing mistakes.

OVERALL RISK SITUATION

The Management Board does not consider there to be any individual risks that could endanger the continued existence of the itelligence Group at the date of preparation of this annual report and in the foreseeable future. Similarly, the Management Board does not consider the aggregate risk at the date of preparation of this annual report as endangering the continued existence of the itelligence Group.

RISK REPORTING IN CONNECTION WITH THE USE OF FINANCIAL INSTRUMENTS

The risks relating to financial instruments are discussed in detail in the “Financial instruments” section of the notes to the consolidated financial statements and in the additional disclosures on financial instruments.

ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal control system is a key factor in limiting and preventing risks, particularly accounting-related risks. The purpose of the financial reporting-related internal control system is to provide reasonable assurance that the financial reporting is reliable and corresponds to the generally accepted principles of proper accounting.

The accounting-related internal control and risk management system is integrated into the company-wide risk management system. At itelligence, this system comprises principles, procedures, and measures aimed at ensuring the effectiveness, economic efficiency, and correctness of accounting. The internal guidelines relating to accounting and reporting in accordance with IFRS prescribe the uniform accounting policies to be applied at the domestic and foreign companies included in the consolidated financial statements. They also contain provisions on the schedule for the preparation of the consolidated financial statements and formalized requirements to be observed by the companies included in consolidation. itelligence’s subsidiaries are responsible for ensuring that their financial statements comply with the Group-wide financial reporting framework and are supported and monitored by Corporate Accounting to this end.

New legislation, accounting standards, and other pronouncements in connection with IFRS financial reporting are analyzed in a timely manner in terms of their impact and are included and implemented in the guidelines for accounting processes where relevant.

itelligence has an extensive, uniform SAP platform and a uniform Group chart of accounts, as well as standardized, automated accounting processes. This standardization serves to ensure the uniform, correct, and timely recognition of material transactions. Binding provisions are in place for the additional manual recognition of transactions. The accounting treatment of matters such as goodwill impairment testing is the responsibility of internal experts. In individual cases, such as the measurement of pension obligations, measurement is performed by external experts.

Consolidation is performed globally by Corporate Accounting. To prepare the consolidated financial statements of itelligence AG, the single-entity financial statements of the subsidiaries are transferred to an SAP-based IT consolidation system. The financial data transferred is examined on the basis of automated controls. The single-entity financial statements submitted by the companies included in consolidation are also reviewed centrally taking into account the reports by the auditors. The automated derivation and formalized inquiry of information that is relevant for consolidation purposes serves to ensure that intragroup transactions are eliminated properly and in full. All of the consolidation processes for the preparation of the consolidated financial statements are conducted and documented in the SAP-based IT consolidation system. The components of the consolidated financial statements, including material information for the notes and the management report, are developed on this basis.

All of the IT systems used are protected against unauthorized access to the greatest possible extent through corresponding authorization concepts and access restrictions.

Internal Audit regularly examines the correctness of the internal control systems and business processes of the subsidiaries. More specifically, it examines compliance with the relevant guidelines, organizational security measures, and the key figures in the income statement and the statement of financial position. It reports directly to the Management Board and the Audit Committee of the Supervisory Board as an independent body.

REPORT ON EXPECTED DEVELOPMENTS

ECONOMIC FORECASTS FOR 2017

The global economy grew by 3.1% in 2016, roughly in line with the average of recent years (2008 to 2015: 3.2%). For 2017, the International Monetary Fund expects a 3.4% increase in global economic growth. However, this estimate involves considerable uncertainty:

- The economic impacts of any measures of the new US government are unclear. A more expansive fiscal policy could present opportunities, with tax cuts and investment in infrastructure. A shift towards protectionism, for instance through imposing punitive tariffs on imports, presents risks. This would have global consequences due to the importance of the US economic area.
- The situation in Europe is marked by uncertainty as a result of Brexit. Negotiations between the UK and the European Union are likely to be protracted. Regardless of the outcome, the unclear situation may have a long-term negative impact on the investment climate.

- Expectations of a more expansive US fiscal policy have led to higher interest rates in the USA and, as result, in Europe, albeit to a somewhat lesser extent. Rising interest rates may adversely affect the investment climate, as they mean higher refinancing costs for businesses. In addition, the debt crisis of the Southern European countries in particular has still not been overcome, meaning that an increase in interest rates could put countries such as Spain, Portugal, and Greece in financial difficulties – with corresponding repercussions for the entire euro zone. Nevertheless, interest rates remain at an all-time low.
- The situation in the emerging economies is mixed. In China, the IMF envisages a slight improvement in economic prospects compared with earlier estimates, chiefly as a result of support measures by the Chinese government. Following a sharp recession in 2016, zero growth is expected for Brazil in 2017. In Russia, GDP is expected to rise in 2017 for the first time since a series of downturns in economic development. The political repercussions in Turkey following the failed coup attempt are impacting on the economic situation. According to the IMF, Turkey will fail to achieve its potential growth in 2017.

In specific figures, the IMF expects growth of 1.5% for Germany in 2017 after 1.7% last year.

The euro zone as a whole is likely to grow by 1.6% after 1.7% in 2016. 1.3% is expected for France, as in 2016. In Italy, growth is likely to tail off from 0.9% to 0.7%. After a strong 3.2% in the previous year, growth of 2.3% is forecast for Spain in 2017. In Great Britain, due to the uncertainty surrounding Brexit, the IMF expects growth to decline from 2.0% to 1.5% in 2017.

By contrast, growth in the USA is expected to accelerate to 2.3% after reaching 1.6% in 2016.

A 6.5% increase in GDP is expected for China, only slightly lower than in the previous year (6.7%). In Japan, at 0.8%, growth in the coming year is set to remain at the same level as the previous year (0.9%).

OUTLOOK FOR THE SOFTWARE AND IT SERVICES MARKET

The outlook for the software and IT services market remains positive, as megatrends of digitalization are continuing. Many sectors and branches of industry can no longer resist the pressure generated by the Internet of Things and Industry 4.0. Networked machines and devices are increasingly exchanging data information with each other, with the growing involvement of human beings. There are opportunities for current and new business models to generate rising revenues from new services and products through big data analytics, mobility, and social business. Customer relationships can be intensified and internal processes can be structured more efficiently.

Company decision-makers are increasingly focusing on digitalization options, and IT is becoming strategic. However, adapting to these developments requires companies to invest in their IT landscapes. Old system landscapes may have to be replaced, and new concepts must be developed and implemented. IT security is also an increasingly important factor.

As an inevitable consequence, investment in IT software and IT services is rising worldwide. After adjustment for exchange rate effects, the overall IT market (enterprise software, IT services, devices, data center systems, and communication services) rose by 0.5% in 2016 according to Gartner. At 7.0% and 4.5% respectively, growth in spending on enterprise software and IT services, the business segments relevant to itelligence, significantly outstripped that of the overall IT market last year. For 2017, Gartner expects the growth of investment in enterprise software and IT services to rise to 7.4% and 4.6% respectively.

EXPECTED BUSINESS DEVELOPMENT AT ITELLIGENCE AG

itelligence again posted much stronger growth than the global market for enterprise software and IT services in the last fiscal year. Overall, revenues rose by 11.7% to MEUR 777.9. Of this increase, 5.8% is attributable to organic growth and 5.9% to growth through acquisitions. Compared with the previous year, the share of recurring business (cloud subscription and managed services) rose from 45.0% to 47.1%. The Western Europe and DACH regions posted above-average growth of 14.7% and 13.5% respectively. Asia was the region with the highest growth at 17.1%. Eastern Europe achieved almost the exact same figure as the overall Group, with growth of 11.6%. By contrast, at 3.8%, growth in the USA was lower than in Germany.

With regard to the business segments, license business in particular again recorded strong growth of 13.8%. Revenues from managed services rose by 15.9%, and the revenue growth of cloud subscription more than doubled compared with 2015 to 140.7%. Consulting business remains the main revenue driver, and grew by 6.9% year-on-year.

At MEUR 34.9, EBIT in 2016 was only just short of the company's highest-ever figure of MEUR 36.0 generated in the previous year. As a result of the sharp rise in revenues, the EBIT margin fell to 4.5% last year from 5.2% in 2015. The main reasons for the decline in profitability were higher write-downs on project stock abroad, unexpectedly high start-up costs for new projects in Germany, and higher legal and consulting costs in the context of acquisitions. As countermeasures, the Management Board took steps to reduce costs and implemented improved project management.

Orders on hand increased from MEUR 659.5 in the previous year to MEUR 771.7 at year-end 2016 (+17.0%). The Management Board expects stable daily rates for consulting business in the coming year.

itelligence will continue to benefit from customers' investment in digitalizing their processes and business models. The renewal of the SAP SE project range enables real-time enterprise management, which provides customers with significant commercial advantages. At the heart of this is the visualization technology SAP Fiori, which provides users with new and simplified views, and in particular the real-time database SAP HANA and the Business Suite SAP S/4HANA, which itelligence has played a key role in implementing. SAP estimates the globally addressable market for its product range at over USD 350 billion in 2020. itelligence also stands to benefit from this substantial market potential. The successful integration with the affiliates of the NTT DATA Group is improving itelligence's access to larger, globally active customers.

In view of the strong market position, sound economic prospects, and attractive product range, the Management Board expects organic revenue growth of 4.0% to 8.0% for fiscal year 2017. Revenues of MEUR 820 are expected for 2017. Two to three acquisitions will also be targeted in the coming year.

One focal point of the management's work will be achieving a sustainable increase in profitability. On the basis of revenue planning, an EBIT margin of over 5.0% is targeted for fiscal year 2017, while EBIT is forecast at MEUR 42. The parent company, NTT DATA, Tokyo, has stated that it again does not intend to pay a dividend for fiscal year 2016, and that all of the profits generated will instead be reinvested in itelligence AG's business model.

As well as the aforementioned estimates with regard to overall market development in the enterprise software and IT services segment, these forecasts assume a largely stable macroeconomic and global political environment. Actual results may deviate substantially from the expectations of future development.

Bielefeld, March 15, 2017

itelligence AG

The Management Board

CONSOLIDATED INCOME STATEMENT

IFRS

KEUR	Notes	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015
Revenues	1	777,910	696,240
Cost of sales	2	-601,054	-533,359
Gross profit		176,856	162,881
Marketing and distribution expenses	3	-74,896	-64,949
Administrative expenses	4	-64,579	-58,113
Other operating income	5	5,171	4,037
Other operating expenses	6	-4,476	-4,853
Amortization of orders on hand	11	-3,177	-2,988
Total operating expenses		-141,957	-126,866
Operating earnings		34,899	36,015
Investment income		89	17
Measurement of derivatives and exercise of options	7	-3,706	-2,864
Exchange rate differences from financing activities		-74	-371
Financial income	8	144	238
Finance costs	8	-2,260	-2,685
Net finance costs		-5,807	-5,665
Earnings before taxes		29,092	30,350
Tax expenses	9	-10,914	-9,220
Consolidated net profit		18,178	21,130
of which attributable to the shareholders of itelligence AG		16,868	18,786
of which attributable to non-controlling interests		1,310	2,344
Earnings per share (EUR) (basic, diluted)	10	0.56	0.63
Number of shares on the basis of which earnings per share were calculated:			
– basic, diluted		30,014,838	30,014,838

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IFRS

KEUR	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015
Consolidated net profit	18,178	21,130
Actuarial losses (previous year: gains) IAS 19 *	-589	724
Currency translation differences **	-5,361	2,351
Other comprehensive income	-5,950	3,075
Total comprehensive income	12,228	24,205
of which attributable to the shareholders of itelligence AG	10,736	22,000
of which attributable to non-controlling interests	1,492	2,205

* Items never transferred to profit or loss

** Items which can be transferred to profit or loss

CONSOLIDATED BALANCE SHEET

IFRS

ASSETS KEUR	Notes	Dec. 31, 2016	Dec. 31, 2015
Non-current assets			
Intangible assets	11	165,180	128,795
Property, plant and equipment	12	97,094	80,989
Other financial assets	13	863	1,129
Trade receivables	14	1,410	2,557
Income tax receivables		0	57
Deferred tax assets	16	6,178	5,827
		270,725	219,354
Current assets			
Inventories		775	1,543
Trade receivables	14	185,436	155,284
Income tax receivables		1,866	2,208
Other financial assets	13	4,373	4,283
Other non-financial assets	15	1,824	2,638
Cash and cash equivalents	17	57,733	54,518
Prepaid expenses	18	21,924	19,473
		273,931	239,947
		544,656	459,301

EQUITY AND LIABILITIES KEUR	Notes	Dec. 31, 2016	Dec. 31, 2015
Equity			
Share capital	19	30,015	30,015
Capital reserves	20	52,768	52,768
Net accumulated profit	21	89,830	72,962
Other comprehensive income	22	-15,526	-13,559
		157,087	142,186
Non-controlling interests		8,669	12,771
		165,756	154,957
Non-current liabilities			
Financial liabilities	23	103,489	88,554
Deferred tax liabilities	16	15,142	14,783
Other non-current provisions	24	961	245
Pension provisions	25	8,875	8,123
Government grants	26	2,276	2,691
Other non-financial liabilities	27	551	1,724
		131,294	116,120
Current liabilities			
Trade payables	28	62,836	54,305
Financial liabilities	23	67,224	27,301
Tax provisions		4,229	3,936
Other current provisions	24	9,094	9,228
Income tax liabilities		1,834	674
Other non-financial liabilities	27	93,219	84,689
Deferred income		9,170	8,091
		247,606	188,224
		544,656	459,301

CONSOLIDATED CASHFLOW STATEMENT

IFRS

KEUR	Jan. 1 – Dec. 31, 2016	Jan. 1 – Dec. 31, 2015
Consolidated net profit	18,178	21,130
Amortization of intangible assets and depreciation of property, plant and equipment	29,100	26,525
Elimination of losses on asset disposals	-29	-77
Other non-cash expenses and income	-4,483	-1,594
Net finance costs	5,807	5,665
Tax expenses	10,914	9,220
	59,487	60,869
Change in inventories	768	-746
Change in trade receivables	-19,353	-23,067
Change in other non-current assets	1,323	130
Change in other current assets	1,571	1,755
Change in prepaid expenses	-2,708	-5,576
Change in trade payables	6,481	5,902
Change in provisions for pensions	752	-1,276
Change in other liabilities and provisions	2,943	7,380
	51,264	45,371
Interest received	238	238
Dividends received	89	17
Interest paid	-2,384	-2,720
Taxes paid	-8,763	-7,674
Cash flows from operating activities	40,444	35,232
Capital expenditure for intangible assets and property, plant and equipment	-35,361	-18,556
Investment grants and subsidies received	0	74
Cash received from the disposal of property, plant and equipment and intangible assets	361	493
Subsequent purchase price payments for acquisitions	0	-79
Payments for acquisitions (less cash and cash equivalents acquired)	-40,619	-8,657
Cash flows from investing activities	-75,619	-26,725
Dividends paid to non-controlling interests	-1,429	-2,093
Decrease in long-term deposits	147	202
Payment for put/call options	-8,127	-6,826
Borrowing of financial liabilities	63,782	27,041
Repayment of financial liabilities	-15,812	-11,716
Cash flows from financing activities	38,561	6,608
Increase in cash and cash equivalents	3,386	15,115
Effects from exchange rate differences	-171	639
Cash and cash equivalents as of January 1	54,518	38,764
Cash and cash equivalents as of December 31	57,733	54,518

Cash and cash equivalents are discussed in note (17).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

IFRS

KEUR	Number of shares	Share capital	Capital reserves	Net accumulated profit	Other comprehensive income			Other comprehensive income	Equity attributable to the shareholders of the parent company	Non-controlling interests	Consolidated equity
					Foreign exchange differences	Other equity IAS 19	Other equity				
December 31, 2014	30,014,838	30,015	52,768	54,176	-1,052	-2,993	-18,068	-22,113	114,846	18,048	132,894
Consolidated net profit				18,786					18,786	2,344	21,130
Actuarial gains IAS 19						724		724	724		724
Foreign exchange differences					2,490			2,490	2,490	-139	2,351
Other comprehensive income					2,490	724		3,214	3,214	-139	3,075
Total comprehensive income				18,786	2,490	724	0	3,214	22,000	2,205	24,205
Dividend payments										-2,093	-2,093
Exercise of options without change of control							5,340	5,340	5,340	-5,389	-49
Shareholder transactions							5,340	5,340	5,340	-7,482	-2,142
December 31, 2015		30,015	52,768	72,962	1,438	-2,269	-12,728	-13,559	142,186	12,771	154,957
Consolidated net profit				16,868					16,868	1,310	18,178
Actuarial losses IAS 19						-589		-589	-589		-589
Foreign exchange differences					-5,543			-5,543	-5,543	182	-5,361
Other comprehensive income					-5,543	-589		-6,132	-6,132	182	-5,950
Total comprehensive income				16,868	-5,543	-589	0	-6,132	10,736	1,492	12,228
Dividend payments										-1,429	-1,429
Exercise of options without change of control							4,165	4,165	4,165	-4,165	0
Shareholder transactions							4,165	4,165	4,165	-5,594	-1,429
December 31, 2016		30,015	52,768	89,830	-4,105	-2,858	-8,563	-15,526	157,087	8,669	165,756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2016

A. GENERAL INFORMATION

The itelligence Group is one of the world's leading SAP full-service providers. Its range extends from SAP consulting, SAP licensing, managed services and cloud subscription through to proprietary SAP industry solutions.

The Group is represented around the world. It has international subsidiaries in the United States, Switzerland, Austria, Spain, the United Kingdom, the Czech Republic, Slovakia, the Netherlands, Belgium, Poland, Hungary, Russia, Ukraine, Canada, France, Denmark, Norway, Malaysia, Turkey, India, Sweden, Qatar, and China.

The parent company of the Group is itelligence AG, based at Königsbreede 1, 33605 Bielefeld, Germany. The company is entered in the commercial register of the Bielefeld Local Court under HRB 38247.

Since December 13, 2007, the itelligence Group has had a majority shareholder: NTT DATA EUROPE GmbH & Co. KG, Bielefeld, which is a wholly owned subsidiary of NTT DATA CORPORATION, Japan. Following the implementation of a public purchase offer in fiscal year 2012, NTT DATA EUROPE GmbH & Co. KG directly held more than 95% of the share capital of itelligence AG. Its holding in the company was increased to 100% in fiscal year 2013. NTT DATA EUROPE GmbH & Co. KG is the sole shareholder.

itelligence AG's consolidated financial statements as at December 31, 2016 are prepared and published in euro (EUR) for the fiscal year from January 1 to December 31, 2016. Within the financial statements, all figures have been rounded to thousands of euro (KEUR) in line with business practice. The consolidated financial statements have been prepared on the basis of historical cost, with the exception of certain financial instruments recognized at market value.

The Management Board of itelligence AG authorized the consolidated financial statements to be submitted to the Supervisory Board on March 3, 2017. The Supervisory Board is responsible for examining the consolidated financial statements and declaring whether it approves them. The consolidated financial statements cannot be changed thereafter. The consolidated financial statements were approved by the Supervisory Board on March 15, 2017.

To improve the clarity of presentation, various items of the statement of financial position and the income statement have been combined. These items are disclosed and explained separately in the notes to the consolidated financial statements.

B. ACCOUNTING

The consolidated financial statements of itelligence AG – hereinafter referred to as “itelligence,” “the company,” or “the Group” – for the year ended December 31, 2016 were prepared in accordance with the International Financial Reporting Standards (IFRSs) formulated by the International Accounting Standards Board (IASB) as adopted by the EU.

All of the International Accounting Standards (IASs), IFRSs and interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) that were required to be applied in the European Union for fiscal year 2016 were taken into account.

The following amended standards to be applied in fiscal year 2016 had no significant effect on the presentation in the consolidated financial statements of itelligence AG:

AMENDMENTS TO IFRS 10, IFRS 12 AND IAS 28 – INVESTMENT ENTITIES: APPLYING THE CONSOLIDATION EXCEPTION

The amendments have been made to address various issues in the application of the exception from the consolidation obligation in accordance to IFRS 10, if the parent meets the definition of an “investment entity.” As a result, parent entities are also exempted from the obligation of preparing consolidated financial statements if the ultimate parent does not consolidate its subsidiaries but accounts for them at fair value in accordance with IFRS 10.

In relation to the accounting of subsidiaries of an investment entity, the following distinction now applies: Subsidiaries that themselves are investment entities should account at fair value – in line with the principle of the investment entity exception. On the other hand, subsidiaries that themselves are not investment entities but perform services that relate to the investment activities of the parent and thus are to be considered an extension of the activities of the parent are to be consolidated.

Finally it is clarified that an investor who does not meet the definition of an investment entity and which applies the equity method on an associate or a joint venture can retain the measurement at fair value which the investment entity applies to its investments in subsidiaries.

In addition, the amendments stipulate that an investment entity which measures all its subsidiaries at fair value has to disclose the information on investment entities proscribed by IFRS 12.

AMENDMENTS TO IFRS 11 – ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS

IFRS 11 contains provisions on the balance sheet and income statement recognition of joint ventures and joint operations. While joint ventures are recognized using the equity method, the representation IFRS 11 stipulates for joint operations is comparable with proportionate consideration.

With the amendment of IFRS 11, the IASB regulates accounting for an acquisition of interests in a joint venture that represents a business in the meaning of IFRS 3 Business Combinations. In such cases, the acquirer should apply the principles for accounting for business combinations in line with IFRS 3. In addition, the disclosure requirements of IFRS 3 apply in these cases.

AMENDMENTS TO IAS 1 – DISCLOSURE INITIATIVE

The amendments relate to various disclosure issues. It is made clear that disclosure requirements are necessary only if their content is not immaterial. This also applies explicitly if an IFRS demands a list of minimum disclosures. In additional explanations on aggregation and disaggregation of items in the statement of financial position and the statement of comprehensive income are taken up. In addition, it is clarified how interests in entities measured at equity are to be presented in the statement of comprehensive income. In addition, the normal order of presentation for the notes was eliminated in favor of a consideration that is more relevant to the individual entity.

AMENDMENTS TO IAS 16 AND IAS 38 – CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTIZATION

With these amendments, the IASB provides further guidance on determining an acceptable method for depreciation and amortization. Thus revenue-based amortization methodology is not permitted for property, plant and equipment and for intangible assets only for specific exceptions (rebuttable presumption of unreasonableness).

AMENDMENTS TO IAS 16 AND IAS 41 – AGRICULTURE: BEARER PLANTS

In accordance with IAS 41, biological assets have been measured in profit and loss at fair value less costs to sell. This also applies to so-called bearer plants, such as grape vines, rubber trees and oil palms, which serve to produce biological assets over several periods, without themselves being sold as agricultural produce. According to the amendments, bearer plants are to be recognized in the same way as property, plant and equipment in line with IAS 16, as their operation is similar. However, their produce is to be recognized in line with IAS 41. In the context of the first-time adoption of the amendments, the reporter can take advantage of special exemptions. For reasons of simplification, bearer plants can therefore be measured at fair value at the transition date.

AMENDMENT TO IAS 19 – DEFINED BENEFIT PLANS: EMPLOYEE CONTRIBUTIONS

The amendments clarify the provisions concerning the allocation of employee contributions and third-party contributions to service periods when contributions are linked to service. Furthermore, convenience options were created for if contributions are dependent on the number of years of service.

AMENDMENT TO IAS 27 – EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS

With the amendment, the equity method is reinstated as an accounting option for interests in subsidiaries, joint ventures and associates in single-entity financial statements. The existing options for measurement at cost or in accordance with IAS 39/IFRS 9 are retained. Since 2005, the application of the equity method for interests in the single-entity financial statements (of the parent) was not permitted according to IAS 27.

On the basis of complaints from IFRS reporters, also relating to the high expense for a fair value measurement on each financial reporting date, especially with unlisted associates, IASB made a change to IAS 27.

IMPROVEMENTS TO IFRS 2010 – 2012

Amendments were made to seven standards as part of the annual improvement project. Amending the formulation of individual IFRSs is intended to clarify the existing provisions. In addition, there are amendments affecting disclosures in the notes. This concerns the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

Despite the application of the provisions for fiscal years beginning on or after February 1, 2015, the amendments to IFRS 2 and IFRS 3 are effective for transactions taking place on or after July 1, 2014.

IMPROVEMENTS TO IFRS 2012 – 2014

Amendments were made to four standards as part of the annual improvement project. Amending the formulation of individual IFRS/IAS is intended to clarify the existing provisions. This concerns the standards IFRS 5, IFRS 7, IAS 19 and IAS 34.

C. NEW ACCOUNTING STANDARDS

The itelligence Group does not intend to enact the early application of the following new or amended standards and interpretations that are only required to be applied in subsequent fiscal years. Unless stated otherwise, the effects on itelligence's consolidated financial statements are currently being examined.

a) EU endorsement already in place

IFRS 9 FINANCIAL INSTRUMENTS

The IFRS 9 issued in July 2014 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidance on the classification and measurement of financial instruments, including a new model of expected credit losses to calculate the impairment of financial assets and the new general accounting regulations for hedging transactions. It also takes up the guidance on the recognition and derecognition of financial instruments from IAS 39.

We expect the new model for recognizing expected credit losses to result in higher write-downs, but this cannot currently be quantified.

IFRS 9 is effective for the first time for fiscal years beginning on or after January 1, 2018. Early application is permitted.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 Revenue from Contracts with Customers specifies a comprehensive framework to determine whether, at what level and from which time revenue is recognized. It replaces existing guidance on recognizing revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for the first time for fiscal years beginning on or after January 1, 2018. Early application is permitted but not currently planned.

The impact of IFRS 15 on the accounting treatment of customer-specific construction contracts and services at the itelligence Group will be immaterial. In accordance with IAS 18 in conjunction with IAS 11, income from the performance of customer-specific construction contracts and services is currently recognized in accordance with the percentage of completion method, with project progress measured using the cost-to-cost method.

IFRS 15 defines control as the key criterion for revenue recognition. For customer-specific construction contracts, control is considered to be passed over time as the corresponding conditions set out in IFRS 15.35 are met.

We expect the existing accounting practice for sales revenue under IAS 18 to remain unchanged.

b) EU endorsement outstanding

IFRS 16 LEASES

IFRS 16 introduces a single accounting model under which leases are recognized in the statement of financial position of the lessee. A lessee recognizes a right-of-use asset embodying its right to use the underlying asset and a lease liability embodying its obligation to make lease payments. Exceptions are provided for short-term leases and leases of assets with a low value. Lessor accounting is largely unchanged compared with the current standard, i.e. the lessor continues to classify a lease as a finance lease or an operating lease.

IFRS 16 supersedes the existing guidance on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Subject to endorsement in EU law, the standard is effective for the first time in the first reporting period of fiscal years beginning on or after January 1, 2019. Early application is permitted for companies applying IFRS 15 Revenue from Contracts with Customers at the date of initial application of IFRS 16 or earlier.

The Group has not yet begun to evaluate the potential impact of the application of IFRS 16 on its consolidated financial statements.

AMENDMENTS TO IFRS 2 – CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS

The amendments relate to accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

Subject to endorsement in EU law, the amendments are effective for the first time for remuneration granted or modified in fiscal years beginning on or after January 1, 2018. Early application is permitted. Retrospective application is only permitted if this is possible without the use of hindsight.

The Group does not currently expect the amendments to have any impact on the consolidated financial statements.

AMENDMENTS TO IFRS 4 – APPLYING IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4 INSURANCE CONTRACTS

The amendments relate to the first-time application of IFRS 9 for insurers. As the effective date of IFRS 9 and the new standard for insurance contracts are different, a failure to introduce these amendments would lead to increased volatility in profit and loss during the transitional period and twice the conversion expense.

The amendments provide two optional solutions:

- Deferral of first-time application of IFRS 9: The affected entities may continue to apply IAS 39 instead of IFRS 9 for fiscal years beginning before January 1, 2021 if they apply IFRS 4 to existing insurance contracts. This only applies if IFRS 9 has not been applied previously.
- Overlay approach: For certain financial assets, companies applying IFRS 4 to existing insurance contracts may reclassify an amount from recognized through profit or loss to other comprehensive income so that the amount recognized in profit or loss in accordance with IFRS 9 is the same as in accordance with IAS 39.

The Group does not currently expect the amendments to have any impact on the consolidated financial statements.

AMENDMENTS TO IFRS 10 AND IAS 28 – SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The amendments address a known inconsistency between the requirements of IFRS 10 and IAS 28 (2011) in the case of the disposal of assets to an associate or a joint venture or the contribution of assets in an associate or a joint venture.

In accordance with IFRS 10, a parent must recognize the gain or loss on the disposal of a subsidiary in full in the income statement when the disposal results in a loss of control. On the other hand, the currently applicable IAS 28.28 requires that the gain on disposal in a disposal transaction between an investor and an at-equity investment – whether it is an associate or a joint venture – is to be recognized only at the level of the interest of the other in this entity.

In the future, the entire gain or loss resulting from a transaction may be recognized only if the sold or transferred assets represent a business as defined by IFRS 3. This is irrespective of whether the transaction is structured as a share deal or an asset deal. On the other hand if the assets do not form a business, only pro rata recognition of gain is permitted.

The date of first-time adoption of the amendments has been postponed indefinitely by the IASB.

AMENDMENT TO IFRS 15 – CLARIFICATIONS TO IFRS 15

The amendments contain clarifications on various provisions of IFRS 15 and transition relief.

Above and beyond the clarifications, the amendments contain two expedients to reduce complexity and the cost of transitioning to the new standard. These relate to options for the recognition of contracts that are completed at the beginning of the earliest period presented or modified before the beginning of the earliest period presented.

Subject to endorsement in EU law, the amendments are effective for fiscal years beginning on or after January 1, 2018.

AMENDMENTS TO IAS 7 – DISCLOSURE INITIATIVE

The amendments are intended to improve information on the changes in an entity's debt situation. According to the amendments, an entity must provide disclosures on changes in those financial liabilities whose cash flows are classified in the statement of cash flows as cash flows from financing activities. Corresponding financial assets must also be included in the disclosures (e.g. assets held to hedge financial liabilities).

The disclosures relate to changes from financing cash flows, changes arising from obtaining or losing control of companies, the effect of change in foreign exchange rates, changes in fair values, and other changes.

The IASB proposes that these disclosures be provided in the form of a reconciliation between the opening and closing balances in the statement of financial position, but other forms of presentation are permitted.

Subject to endorsement in EU law, the amendments are effective for the first time in the first reporting period of fiscal years beginning on or after January 1, 2017; early application is permitted.

To satisfy the new disclosure requirements, the Group intends to provide a reconciliation between the opening and closing balances for changes in liabilities arising from financing activities.

AMENDMENTS TO IAS 12 – RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALIZED LOSSES

The amendments clarify the accounting treatment of deferred tax assets for unrealized losses relating to debt instruments measured at fair value.

Subject to endorsement in EU law, the amendments are effective for the first time in the first reporting period of fiscal years beginning on or after January 1, 2017; early application is permitted.

The Group is currently assessing the potential impact of the amendments on its consolidated financial statements. The Group is not currently anticipating any material impact.

AMENDMENT TO IAS 40 – TRANSFERS OF INVESTMENT PROPERTY

The amendment to IAS 40 serves to clarify the cases in which a property is transferred to or from investment property when the property is still under construction or development. The existing exhaustive list in IAS 40.57 meant that the classification of property under construction or development was not previously clearly defined. This list is now explicitly stated

to be non-exhaustive, meaning that property under construction or development may now also be subsumed under the provision.

Subject to endorsement in EU law, the amendment is effective for the first time in the first reporting period of fiscal years beginning on or after January 1, 2018. Early application is permitted.

The Group does not currently expect the amendment to have a material impact on the consolidated financial statements.

IFRIC 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

IFRIC 22 addresses a question of application relating to IAS 21 The Effects of Changes in Foreign Exchange Rates. It clarifies the date at which the exchange rate is determined for the translation of transactions in a foreign currency that include the receipt or payment of advance consideration. The date at which the exchange rate is determined for the underlying asset, income or expense is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

Subject to endorsement in EU law, the interpretation is effective for the first time in the first reporting period of fiscal years beginning on or after January 1, 2018. Early application is permitted.

The Group does not currently expect the interpretation to have a material impact on the consolidated financial statements.

IMPROVEMENTS TO IFRS 2014 – 2016

The Annual Improvements to IFRSs (2014–2016) resulted in amendments to three IFRSs. In IFRS 12, it was specified that the disclosure requirements of IFRS 12 also apply to an entity's interests in subsidiaries, joint ventures or associates that are classified as held for sale within the meaning of IFRS 5, with the exception of the disclosures set out in IFRS 12. B10-B16 (financial information). In IAS 28, it was specified that the option to measure an investment in an associate or a joint venture that is held by a venture capital organization or another qualifying entity may be exercised on an investment-by-investment basis. In addition, the short-term exemptions for first-time appliers of IFRSs contained in IFRS 1.appendix E (IFRS 1.E3-E7) were deleted.

Subject to endorsement in EU law, the amendments to IFRS 12 are effective for the first time in the first reporting period of fiscal years beginning on or after January 1, 2017, and the amendments to IFRS 1 and IAS 28 are effective for the first time in the first reporting period of fiscal years beginning on or after January 1, 2018. Early application is permitted.

The Group does not currently expect the interpretation to have a material impact on the consolidated financial statements.

D. CONSOLIDATED GROUP AND CHANGES TO THE GROUP STRUCTURE

In addition to itelligence AG, all companies within and outside Germany in which itelligence AG held the majority of voting rights either directly or indirectly as of December 31, 2016, or which it controls on the basis of other rights as defined by IFRS 10, have been included in the consolidated financial statements. The following companies were included in the consolidated financial statements as follows as of December 31, 2016:

CONSOLIDATED COMPANIES	Equity interest in %	Equity	Profit/loss for the year
KEUR (unless otherwise stated)			
itelligence Services GmbH, Bielefeld/Germany	100	305	15,760 ^{1,2}
itelligence International Business Service Holding GmbH, Bielefeld/Germany	100	841	759 ¹
itelligence Outsourcing & Services GmbH, Bautzen/Germany	100	1,226	6,691 ^{1,2}
itelligence AG, Regensdorf/Switzerland	100	4,817	1,754
itelligence Business Solutions (UK) Ltd., London/United Kingdom	100	21,770	4,881
Recruit Company GmbH, Munich/Germany	100	227	23
itelligence Hungary Kft., Budapest/Hungary	100	3,499	573
itelligence Inc., Cincinnati/USA	100	30,317	2,480
itelligence International, Kiev/Ukraine	100	-159	-14
itelligence Ltd., Moscow/Russia	100	181	340
itelligence a.s., Brno/Czech Republic	95	-2,630	-3,973
itelligence Slovakia s.r.o., Bratislava/Slovakia ³	95	212	56
itelligence SP.Z.o.o., Warsaw/Poland	100	9,437	1,324
itelligence VC-Holding GmbH, Frankfurt am Main/Germany	100	-168	-9
Servicios informaticos itelligence S.A., Barcelona/Spain	100	3,729	-216
ITC Information Technology Consulting Gesellschaft für Netzwerkmanagement und Systemintegration mbH, Detmold/Germany	56	758	104
itelligence Outsourcing MSC Sdn. Bhd., Cyberjaya/Malaysia	100	3,729	1,213
itelligence Asia Holding Ltd., Hong Kong	100	597	9
itelligence Consulting Shanghai Ltd., Shanghai/China	100	-486	30
itelligence BeNeLux Holding B.V., Eindhoven/Netherlands	100	349	5
itelligence Business Solutions s.p.r.l., Brussels/Belgium	100	98	-33
itelligence B.V., Eindhoven/Netherlands	100	1,938	187
2B BBIT Deutschland GmbH, Cologne/Germany	100	-119	16
itelligence France SAS, Paris/France	100	2,991	-420
itelligence Canada Ltd., Montreal/Canada	100	385	-121
itelligence a/s Denmark, Horsens/Denmark	90	13,836	4,298
itelligence a/s Norway, Oslo/Norway ³	90	2,562	868
itelligence AB, Stockholm/Sweden ³	90	141	-67
Elsys Bilgi Sistemleri a.s., Istanbul/Turkey	100	4,573	5
itelligence Analytic System a.s., Istanbul/Turkey	100	2,531	1,699
itelligence Business Solutions Canada Inc., Toronto/Canada	100	1,942	565
itelligence India Software Solutions Privat Ltd., Hyderabad/India	100	2,185	683
GISA GmbH, Halle an der Saale/Germany	51	9,184	1,135
ICS adminservice GmbH, Leuna/Germany	51	781	17
itelligence Software Solutions W.L.L., Qatar	49	-314	-311
ITML GmbH, Pforzheim/Germany	100	4,043	1,098
ITML AG, Biel/Switzerland	100	565	271
BIT Group GmbH, Bautzen/Germany	100	3,127	0
BIT Verwaltungs GmbH, Bautzen/Germany	100	5,134	1,930
XEGO GmbH, Dresden/Germany	100	-3	21
BIT IT Services Co. Ltd, Shanghai/China	100	91	11
Companies over which no significant influence is exercised			
BfL Gesellschaft des Bürofachhandels mbH & Co. KG, Eschborn/Germany	<1	16,550	3,727
TBV ProVital Lemgo GmbH & Co. KG, Lemgo/Germany	7.47	262	-323

¹ Profit/loss for the year before profit transfer/loss absorption

² Company exercises the exemption provided by section 264 (3) HGB

³ The amount of the equity interest is reported at the successive proportionate shareholding

To the extent that there are no legal restrictions on the recognition of reserves, the profits of companies in which itelligence directly or indirectly holds the majority of voting rights can be distributed. Capital transactions, including in particular profit transfers from China, are possible only after prior approval by the State Administration of Foreign Exchange (SAFE) and proof of proper tax payment. Furthermore, the Chinese currency renminbi yuan (RMB) is not fully convertible and export is prohibited.

CONSOLIDATED COMPANIES WITH MATERIAL NON-CONTROLLING INTERESTS

The following section contains combined financial information for itelligence a/s Denmark and GISA GmbH in accordance with IFRS. This information is shown before eliminations between other Group companies.

CONSOLIDATED COMPANIES WITH MATERIAL NON-CONTROLLING INTERESTS	itelligence a/s Denmark		GISA GmbH	
	2016	2015	2016	2015
KEUR				
Equity interest	10	14	49	49
Non-current assets	9,659	7,544	16,130	14,822
Current assets	24,030	16,795	19,589	19,857
Non-current liabilities	1,004	549	10,372	10,331
Current liabilities	18,849	13,299	15,934	15,166
Equity	13,836	10,501	9,413	9,182
Equity attributable to non-controlling interests	1,384	1,470	4,612	4,499
Revenues	54,508	42,758	93,161	87,077
Profit/loss for the year	4,298	3,915	3,164	3,155
Profit/loss for the year attributable to non-controlling interests	430	548	1,550	1,546
Total cash flow	-120	6,322	-1,638	-4,403
Dividends paid to non-controlling interests	141	0	1,200	1,912

ADDITIONS TO THE CONSOLIDATED GROUP IN THE CURRENT YEAR

(Excerpt – not in the statutory form)*

Acquisition of 100% interest in ITML GmbH, Pforzheim, Germany

itelligence acquired 100% of the shares in ITML GmbH by way of a purchase agreement dated May 6, 2016. With this transaction, itelligence is pressing ahead with its expansion and significantly increasing its regional presence in southern Germany. This also serves to reinforce itelligence's position in the promising and fast-growing CRM segment, particularly in cloud solutions for customer relationship management (CRM), and in the area of customer commerce.

itelligence acquired 100% of the shares in BIT. Verwaltungs GmbH by way of a purchase agreement dated June 13, 2016

With the acquisition of BIT, itelligence is pressing ahead with its expansion and significantly increasing its regional presence in eastern Germany. BIT is a SAP service provider for national and international customers. It is a reliable partner of the SAP Group and its customers, offering standardized and customized services and support for SAP solutions.

Acquisition of other shares

On March 11, 2016 and September 19, 2016, itelligence AG acquired a further 15.0% interest in Elsys Bilgi Sistemleri Group. Accordingly, it now holds a 100% interest in the company.

The table below shows the impact in the level of the equity interest held by itelligence AG in Elsys Bilgi Sistemleri Group.

KEUR	
itelligence AG interest as of January 1, 2016	7,443
Impact of the increase in the ownership interest	297
Share in result	1,680
itelligence AG interest as of December 31, 2016	9,420

On October 7, 2016, itelligence AG acquired 4% in itelligence a/s Denmark, Horsens/Denmark, thereby increasing its interest to 90%.

The table below shows the impact in the level of the equity interest held by itelligence AG in itelligence a/s.

KEUR	
itelligence AG interest as of January 1, 2016	28,972
Exchange rate differences	-231
Impact of the increase in the ownership interest	1,348
Share in result	3,732
itelligence AG interest as of December 31, 2016	33,821

All acquisitions were performed by exercising the agreed put and call options.

E. CONSOLIDATION PRINCIPLES

itelligence AG and all the subsidiaries under the company's legal and factual control are included in the company's consolidated financial statements.

The financial statements of the subsidiaries were all prepared in accordance with IFRS as of the end of the Group's reporting period on December 31.

The effects of intragroup transactions were eliminated. Receivables and liabilities between the consolidated companies were offset against each other, intercompany profits and losses in non-current assets and inventories were eliminated and intragroup income was netted against the corresponding expenses. In accordance with IAS 12, deferred taxes were recognized on the temporary differences from consolidation as required.

* Due to contractual agreements, we are not publishing a detailed breakdown of the purchase prices for BIT. Verwaltungs GmbH and ITML GmbH.

Where subsidiaries were consolidated for the first time, the costs of acquisition were offset against the Group's share of the remeasured equity of the respective company. Any remaining excess of cost over the net assets acquired, provided that this cannot be assigned to any separable assets, liabilities or contingent liabilities, is recognized as goodwill and tested for impairment in accordance with IAS 36 at least once a year, or more frequently if there are indications of impairment. Exercising the accounting option under IFRS 3 (2008), non-controlling interests in business combinations can be measured at fair value from January 1, 2010 (full goodwill method). The fair value of non-controlling interests is derived on the basis of the purchase price for the shares already acquired.

Investments in companies in which the company holds shares of between 20% and 50% are consolidated using the equity method if the company exerts significant influence. The acquisition costs of investments are increased or reduced annually by the changes in equity of the associate attributable to the Group. No investments were consolidated using the equity method as of the end of the reporting period.

Investments in companies in which the company holds less than 20% of the shares for which there are no quoted prices on active markets and whose fair value cannot be reliably estimated are accounted for using the cost method, providing that the company does not exert any significant influence.

F. CURRENCY TRANSLATION

The annual financial statements of the Group companies outside the euro zone were translated into euro on the basis of the functional currency concept set out in IAS 21. As the subsidiaries perform transactions independently from a financial, economic and organizational perspective, the functional currency is generally identical to the respective national currency.

Assets and liabilities are recognized at the closing rate at the end of the reporting period, while income statement items are carried at the average rates for the year. In accordance with IAS 21.40, simplified translation of income statement items at the average rate for the year is permitted if there are no significant fluctuations in exchange rates. Equity was translated at historical rates.

The difference arising from the translation of the income statement at average rates and the statements of financial position at closing rates is reported directly in other comprehensive income. The currency difference arising from the translation of equity at historical rates is also netted against other comprehensive income.

Monetary items denominated in foreign currencies are translated at the closing rate. Translation differences are recognized in profit or loss in the period in which they arise.

The key currencies used in the consolidated financial statements developed as follows in relation to the euro:

	Currency	Average rate		Exchange rate at the end of the reporting period	
		2016	2015	Dec. 31, 2016	Dec. 31, 2015
	1 EUR =				
USA	USD	1.1061	1.1091	1.0541	1.0887
Switzerland	CHF	1.0901	1.0673	1.0739	1.0835
UK	GBP	0.8166	0.7257	0.8562	0.7340
Poland	PLN	4.3631	4.1813	4.4103	4.2639
Turkey	TRY	3.3375	3.0088	3.7072	3.1765
Czech Republic	CZK	27.0343	27.2825	27.0210	27.0230
Denmark	DKK	7.4454	7.4586	7.4344	7.4626
Hungary	HUF	311.440	309.826	309.830	315.980
Russia	RUB	73.8120	68.0720	64.300	80.6736

G. ACCOUNTING POLICIES

The financial statements of itelligence AG and its subsidiaries within and outside Germany were prepared using uniform accounting policies in accordance with IFRS 10 and consistent with the previous year.

USE OF JUDGMENT AND MAIN SOURCES OF ESTIMATION UNCERTAINTIES

The preparation of the consolidated financial statements requires estimates and assumptions by the Management Board that affect the reported amounts of assets, liabilities, income and expenses in the consolidated financial statements and the reporting of other financial obligations and contingent liabilities. Any uncertainty is adequately taken into account in the calculation of values. However, actual results can differ from these estimates. All estimates and assumptions are made to the best of knowledge and belief to present a true and fair view of the net assets, financial position and results of operations of the Group.

The main forward-looking assumptions and other key sources of uncertainty in estimates as of the end of the reporting period on account of which there is a significant risk that a material adjustment in the carrying amounts of assets and liabilities will be required within the next fiscal year are presented below.

Determining the value in use in the impairment test for goodwill (note 11), other intangible assets (note 11) and property, plant and equipment (note 12) requires estimates of the future cash flows of the asset or cash-generating unit and the choice of an appropriate discounting rate to calculate the present value of these cash flows. Long-term earnings forecasts based on general economic conditions and industry developments must be made to estimate future cash flows.

Key judgments are required to measure the deferred tax assets and liabilities of the Group (note 16). In particular, deferred tax assets on tax loss carryforwards require estimates of the amount and timing of future taxable income and future tax planning strategies. If there are any doubts that it will not be possible to utilize loss carryforwards, they are not recognized or written down.

Write-downs are recognized for doubtful trade receivables (note 14) to take into account expected losses arising from the possible insolvency of customers. The appropriateness of write-downs on dubious receivables is assessed on the basis of the maturity structure of net receivables, past experience of the derecognition of receivables, the assessment of the customer's credit standing and changes in payment conduct.

Furthermore, trade receivables include work on projects not yet invoiced recognized using the percentage of completion method. The percentage of completion of these projects is calculated as the number of hours worked to date compared with the estimated total hours (input-based calculation).

As part of the acquisitions, the remaining shares (non-controlling interests) can be acquired over the coming years by way of put and call options (note 23). The resulting financial liabilities are measured on the basis of the respective EBIT projections. The underlying projections contain forecasts that may deviate from future events. Any deviations will result in corresponding adjustments to the financial liabilities and will be recognized in earnings (note 7). By linking the future purchase prices to EBIT development, non-controlling interests participate in both the positive and the negative performance of the company. Participation in company development ("present access") means that the offsetting entry for the financial liability is recognized in the equity of itelligence AG.

Pension obligations (note 25) are measured based on assumptions of the future development of certain factors. These factors include actuarial assumptions such as the discounting rate, expected salary and pension increases, mortality rates and the earliest possible retirement age. In line with the long-term nature of such plans, these estimates are subject to significant uncertainty.

INCOME AND EXPENSE RECOGNITION

Revenues and other operating income are recognized when the services are rendered or the risks are transferred to the customer.

Revenues from service and support contracts and outsourcing contracts are distributed evenly over the period that performance is rendered.

Revenues from the sale of licenses are considered to be realized after delivery of the software and once the software has been installed at the customer or the customer has been provided with the installation code and receipt of payment is likely.

Consulting revenues are directly related to services from implementation and installation, which are performed on the basis of separate service contracts. Consulting and training revenues are recognized when the corresponding service is rendered.

In accordance with IAS 18 in conjunction with IAS 11, income from the performance of customer-specific construction contracts and services is recognized in accordance with the percentage of completion method. The percentage of completion is determined on the basis of the billable hours worked in relation to the estimated total number of hours for the respective contract. The application of this percentage ratio to the total contract revenue results in the income to be recognized as of the end of the reporting period. Onerous losses from these construction contracts are recognized in full under profit or loss and reported under other provisions.

Operating expenses are recognized when the service is used or the costs are incurred. Interest income and expenses are recognized in the periods to which they are attributable. Dividends are recognized when a legal claim arises. Dividends paid are deducted directly from the unappropriated surplus.

EARNINGS PER SHARE

Earnings per share are calculated in accordance with IAS 33 by dividing the earnings attributable to the holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period.

INTANGIBLE ASSETS

Acquired and internally generated intangible assets are recognized in accordance with IAS 38 if it is likely that the use of the asset will give rise to a future economic benefit and the cost of the asset can be reliably determined.

Acquired intangible assets essentially comprise concessions, licenses and standard software and are carried at cost. They are amortized on a straight-line basis over their expected useful lives, generally three to five years. As the cost of sales method is used, they are reported under cost of sales, marketing and selling expenses and administrative costs.

Internally generated intangible assets are recognized in accordance with IAS 38 when the criteria are met. Development costs in connection with the resulting industry solutions of itelligence AG do not satisfy the main criterion of control over the intangible asset. itelligence's industry solutions are not products but default parameters in the SAP system offering additional functions for specific industries. SAP software forms the basis of the solution, which would be unusable if the SAP software did not exist.

Borrowing costs are capitalized in line with IAS 23.

The excess of costs incurred in a company acquisition over the interest acquired in the fair values of the identifiable assets and liabilities at the purchase date is referred to as goodwill and is carried as an intangible asset. Exercising the accounting option under IFRS 3 (2008), non-controlling interests in business combinations can be measured at fair value from January 1, 2010 (full goodwill method). This is calculated on the basis of a linear extrapolation of the purchase price for the shares acquired. Incidental costs of acquisition are expensed as incurred.

In accordance with IAS 36, goodwill is tested for impairment once a year or more frequently if there are indications of impairment. For measurement purposes, goodwill is allocated to internal cash-generating units (CGUs). A CGU is defined as the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of those arising from other assets or other groups of assets. The company tests goodwill at the level of the regions/segments: USA, Germany/Austria/Switzerland (DACH), Western Europe, Eastern Europe, Asia and Other.

Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. The value in use is the present value of the estimated future cash flows that are expected from continuing use and disposal at the end of the useful life. The company determines the value in use of CGUs using a discounted cash flow (DCF) procedure as defined by IAS 36.

PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 16, property, plant and equipment used in operations for longer than one year is carried at cost less straight-line depreciation. Borrowing costs are carried in line with IAS 23. The useful lives applied correspond to the expected economic useful lives within the Group.

The following table shows the useful lives applied:

Buildings	15 to 40 years
IT hardware and customer systems	3 years
Mainframe computers and routers	5 years
Data processing systems	5 years
Network technology	10 years
Leasehold improvements	8 to 15 years
Operating and office equipment	8 to 10 years
Technical equipment and machinery	7 to 10 years

In the event that the carrying amount exceeds the expected recoverable amount, this amount is written down in accordance with IAS 36 and recognized in profit or loss.

When property, plant and equipment is sold or derecognized, the related acquisition costs and associated accumulated depreciation are removed from the respective accounts. Gains or losses from the disposal of non-current assets are reported in other operating income or other operating expenses. Servicing or maintenance expenses are recognized in the income statement.

LEASES

In the case of leases, the Group is considered to be the beneficial owner of the leased assets in accordance with IAS 17 if it bears substantially all the risks and rewards of ownership (finance lease). At the inception of the lease, the company recognizes such leases as assets and liabilities in its statement of financial position at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The depreciation methods and useful lives of the recognized

assets are the same as those for similar purchased assets.

The corresponding lease obligations are reported in financial liabilities. The interest element of the lease payments is recognized in profit or loss over the term of the lease period.

In leases in which the beneficial owner is the lessor (operating leases) the leased assets are accounted for by the lessor. The lease expenses incurred are expensed in full. The total lease payments during the non-cancelable basic term are reported under other financial obligations.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized at trade date amounts.

In accordance with IAS 39, financial instruments are classified as follows:

- Held-to-maturity investments
- Financial assets or financial liabilities held for trading
- Loans and receivables originated by the company
- Available-for-sale financial assets
- Financial liabilities measured at amortized cost

FINANCIAL ASSETS

- Held-to-maturity investments: Financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity – other than loans and receivables originated by the company – are classified as held-to-maturity investments and measured at amortized cost.
- Held-for-trading financial assets: Financial assets that were acquired primarily with the intention of achieving a profit from short-term price fluctuations and asset derivatives not used as hedges are classified as financial assets held for trading and measured at fair value through profit or loss. Changes in fair value are reported in profit or loss under net finance costs.
- Loans and receivables originated by the company: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded on an active market and that are not intended for short-term sale. This category includes cash and cash equivalents, trade receivables and loans and receivables included in other financial assets. The company recognizes loans and receivables at amortized cost less write-downs. Write-downs on items assigned to this category are recognized in operating earnings, interest on the basis of the effective interest method in net finance costs.
- Available-for-sale financial assets: This category includes all financial instruments that cannot be assigned to different categories. Such financial assets are measured at fair value outside profit or loss.

FINANCIAL LIABILITIES

- Financial liabilities measured at amortized cost: This group of financial liabilities includes trade payables and financial liabilities. The company recognizes these financial liabilities when there is a contractual obligation to transfer cash or other financial assets to another enterprise. Financial liabilities are measured at fair value on first-time recognition including the transaction costs directly attributed to financial liabilities not measured at fair value through profit or loss. All non-derivative financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest income relating to these items is recognized in net finance costs.
- Held-for-trading financial liabilities: Financial liabilities that were entered into primarily with the intention of achieving a profit from short-term price fluctuations and liability derivatives not used as hedges are classified as financial liabilities held for trading and measured at fair value through profit or loss. This category includes essentially the market values of put/call options entered into in acquisitions. In accordance with IAS 32.23, these put/call options are “synthetic forwards” in the context of a business combination that, after exercising an accounting option, are measured as a non-current liability at the present value of the estimated purchase price payments. The “fair value” of the synthetic forwards is calculated on the basis of internal planning for the EBIT of the respective company. The offsetting entry on first-time recognition of the options is in other comprehensive income.
- Changes in fair value are reported in profit or loss under net finance costs.

FAIR VALUE MEASUREMENT HIERARCHY

Financial and non-financial assets and liabilities at fair value are measured in accordance with IFRS 13.

Where possible, the Group uses data observable on the market to determine the fair value of assets and liabilities. Based on the input factors used in the measurement methods, the fair values are assigned to different levels in the fair value hierarchy:

- Level I: quoted prices on active markets for identical assets and liabilities
- Level II: measurement parameters that are not the quoted prices of level I, but that can be either directly or indirectly observed for the asset and liability
- Level III: measurement parameters for assets and liabilities not based on observable market data

If the input factors used to determine the fair value of an asset or liability can be assigned to different levels of the fair value hierarchy, the measurement at fair value as a whole is assigned to the level of the fair value hierarchy of the lowest input factor relevant overall to measurement.

The Group recognizes reclassifications between different levels of the fair value hierarchy as of the end of the reporting period in which the change occurred.

Further information on the assumptions in determining fair value can be found in the following note:

- Note 30 – Financial instruments

INVENTORIES

Inventories consist primarily of merchandise (software licenses held for sale) and are measured individually at cost in accordance with IAS 2.

If the cost of inventories exceeds the amount of the realizable selling prices less the costs incurred until their sale, the lower net realizable value is recognized.

TRADE RECEIVABLES

Trade receivables are reported at amortized cost net of write-downs. Write-downs are recognized in a separate account if there are objective indications of possible impairment (e.g. with default or delinquency of a debtor). Allowances based on portfolios are also recognized for certain classes of receivables based on past experience and taking into account the age of the receivables. These receivables are derecognized only in the event of permanent default on payment, e.g. insolvency.

Customer receivables from service contracts for consulting projects not yet concluded as of the end of the reporting period are measured using the percentage of completion method and reported as receivables from unbilled services under trade receivables. These receivables from unbilled services are estimated when determining project progress. The main factor is the percentage of completion, which is calculated as the number of hours worked to date compared with the estimated total hours (input-oriented calculation). The quotient of these two factors gives the share of project income to be recognized at the end of the reporting period. The estimate of the total number of hours to be worked is based on the company's past experience and the many years of experience of the employees concerned, as well as a specific assessment of the respective project. If the cumulative services exceed the advance payments made, the difference is recognized as an asset; if the opposite is true, the difference is recognized as a liability. Provisions are recognized for expected losses from orders.

OTHER NON-FINANCIAL ASSETS

Other non-financial assets are carried at their nominal amount or at cost. Non-interest-bearing or low-interest-bearing receivables due in more than one year are discounted.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in hand and bank balances with a term of less than three months. Foreign-currency items are measured at the closing rate at the end of the reporting period. Changes in fair value are recognized in net finance costs.

NON-CONTROLLING INTERESTS

Non-controlling interests include their share of the fair values of identifiable assets and liabilities on acquisition of the respective subsidiary. The value of these interests is updated annually on the basis of the allocable earnings components. The share of losses attributable to non-controlling interests in a consolidated company may exceed the share of equity attributable to the non-controlling interests of the company.

In line with the accounting option provided under IFRS 3 (2008), the goodwill attributable to non-controlling interests is capitalized on first-time consolidation and reported under non-controlling interests. When measured, it is assumed that the purchase price paid for the majority interests is equal to the pro rata fair value. The fair value of non-controlling interests is extrapolated on this basis.

Non-controlling interests are reported as a component of equity in the consolidated statement of financial position separately from the equity of the parent company.

PROVISIONS FOR PENSIONS AND OTHER EMPLOYEE BENEFITS

Pension provisions are measured using the projected unit credit method prescribed by IAS 19 for defined benefit plans. The pension obligations relate to the defined benefit commitments to current and former members of the Management Board of itelligence AG and obligations in respect of benefits to entitled active and former employees of GISA GmbH.

The obligations relate primarily to retirement, invalidity and surviving dependents' pensions. The individual commitments generally relate to the length of service and the remuneration of the GISA employees. The Prof. Dr. Klaus Heubeck 2005G mortality tables are used to measure pension obligations.

GISA GmbH processes its retirement benefit plans via the Mitteldeutsche Wirtschaft e. V. provident fund. GISA GmbH is liable to the beneficiaries should the pension obligations exceed the fair value of the fund assets.

Actuarial gains and losses are recognized fully in the fiscal year in which they occur. They are recognized outside the income statement as a component of other comprehensive income in the list of the recognized income and expenses.

Actuarial opinions were obtained for pension obligations.

GOVERNMENT GRANTS

Government grants relate to grants for assets in accordance with section 2 of the Investitionszulagengesetz (InvZulG – German Investment Subsidy Act) and taxable subsidies under the “Improving the regional economic structure” communal project. In accordance with IAS 20, such grants are recognized only if there are reasonable assurances that the related conditions will be fulfilled and the grants will be received. They are recognized as income in the period in which the expenses that are partially offset by the grants are incurred. Subsidies are recognized separately on the equity and liabilities side of the statement of financial position under non-current liabilities and taken to profit or loss on a straight-line basis over the useful life of the assets subsidized. Subsidies not yet received are carried on the assets side of the statement of financial position under other current assets until the cash inflow occurs.

OTHER PROVISIONS

Other provisions are recognized in accordance with IAS 37 if the company has a present legal or constructive obligation to a third party as a result of a past event which is likely to lead to an outflow of assets in future and this asset burden can be reliably estimated.

Non-current provisions with a residual term of more than one year are carried at the discounted settlement amount at the end of the reporting period.

The provision for partial retirement contained in other provisions is measured in accordance with IAS 19. Under the German Partial Retirement Act, there is the option to agree partial retirement arrangements with employees over the age of 55 with financial subsidization by the Federal Ministry for Labor and Social Affairs for a maximum of five years. The block model and the part-time model were agreed in individual agreements with employees. Under the block model, the employee continues to work as usual in the first phase of the partial retirement period (employment or working phase) and is fully exempt from work requirements in the second phase (exemption phase). The part-time model (also known as the

continuous model) can be freely designed and allows, for example, working half-days or only certain days of the week or even alternating weeks over the full partial retirement period. No potential cases were recognized.

Provisions for partial retirement obligations are recognized only for the block model. Provisions for top-up amounts are recognized for this pro rata from the conclusion of the individual agreements until the end of the active phase. The outstanding settlement amount is added in installments over the period of the working phase.

OTHER NON-FINANCIAL LIABILITIES

Other non-financial liabilities with fixed or determinable payments that are not quoted in an active market are mainly due to obligations to employees and tax authorities and are recognized at nominal or repayment amount.

PREPAID EXPENSES AND DEFERRED INCOME

Prepaid expenses comprise expenses recognized prior to the end of the reporting period that constitute expenses for a specific period after this date.

Deferred income comprises income recognized prior to the end of the reporting period that constitutes income for a specific period after this date.

DEFERRED TAXES

Total income tax expense is based on income for the year and includes deferred taxes. Tax provisions include future tax payments for past taxation periods. Tax receivables and liabilities refer to current deferred taxes. In accordance with IAS 12, deferred taxes are calculated using the liability method. Deferred taxes reflect the net tax effect of temporary differences between the carrying amount of an asset or a liability in the consolidated accounts and the tax base. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply for the periods in which an asset is recovered or a liability is settled. Deferred tax assets and liabilities are recognized irrespective of the date on which the temporary accounting differences are likely to reverse. Deferred tax assets and liabilities are not discounted and are reported in the statement of financial position as non-current assets and liabilities.

Deferred tax assets are recognized for all deductible temporary differences and losses carried forward to the extent that it is likely that taxable income will be available against which the temporary difference or losses carried forward can be utilized. At the end of each reporting period, the company reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. Previously unrecognized deferred tax assets are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Conversely, the carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the benefit of the deferred tax asset to be utilized, either in part or in full.

SEGMENTS

For the purposes of segment reporting, itelligence's activities are broken down by geographic region and by division in accordance with the provisions of IFRS 8.

The risks and rewards of itelligence are primarily determined by its activities in the different countries and geographical regions. Rates of return are also significantly influenced by the situation in the respective country. Management in the Group companies is structured on a regional basis. The foreign subsidiaries are run by the local general managers and the markets are developed by the respective local employees. The locations of the Group's customers correspond to those of the resources. Accordingly, internal financial reporting to the management and supervisory bodies is performed on a regional basis.

The geographical regions are the USA, Germany/Austria/Switzerland (DACH), Western Europe, Eastern Europe, Asia and Other.

The divisions are:

- Consulting (SAP consulting in connection with implementation and training as well as technical consulting)
- Licenses (SAP licensing)
- Cloud Subscription
- Managed Services (application management, hosting and servicing for SAP software)

STATEMENT OF CASH FLOWS

The statement of cash flows shows how itelligence's cash position has changed during the year under review as a result of cash inflows and outflows. The effects of acquisitions/divestments and other changes in the consolidated group are eliminated. Where subsidiaries have been consolidated for the first time, only the actual cash flows are shown in the statement of cash flows. The cash inflow/outflow from the purchase or sale of companies, i.e. the purchase price less/plus the funds acquired/disposed of by the company, is recognized as net

cash used in/from investing activities. The payments for investments in subsidized assets are shown without netting against the amounts received from investment subsidies and grants provided. In accordance with IAS 7, a distinction is made between cash flows from operating activities, investing activities and financing activities.

The cash and cash equivalents disclosed consist of cash in hand, checks, bank balances and current financial instruments.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is extremely remote.

Contingent assets are not recognized in the financial statements. However, they are disclosed in the notes if an inflow of economic benefits is probable.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Events after the end of the reporting period which provide new information and affect the financial position of the Group at the end of the reporting period are taken into account in the consolidated financial statements. Events after the end of the reporting period which are not required to be included in the consolidated financial statements at the end of the reporting period are presented in the notes and in the management report if they are significant.

H. INCOME STATEMENT DISCLOSURES

1. REVENUES

Revenues can be broken down by region and business area as follows:

KEUR	2016	2015
DACH	364,564	321,203
USA	135,708	130,797
Western Europe	177,625	154,796
Eastern Europe	83,284	74,657
Asia	12,488	10,663
Other	4,241	4,124
	777,910	696,240

KEUR	2016	2015
Consulting	331,411	310,054
Licenses	78,956	69,375
Cloud Subscription	6,573	2,731
Managed Services	360,162	310,640
Other	808	3,440
	777,910	696,240

Consulting revenues are composed of consulting and training revenues. Consulting revenues include primarily implementation support relating to the installation and configuration of SAP software products. Training revenues include training workshops for customers on how to use SAP software products and related topics. Licenses revenues result from license fees generated from the sale of SAP software products to customers. Cloud subscription involves the rental of database capacity. In the area of managed services, the intelligence Group provides application-based services to support IT organizations. This also includes revenues from customer support and IT hosting for SAP server system environments. There have been changes compared with the divisions presented in the 2015 consolidated financial statements. The new Managed Services division largely corresponds to the Application Management and Outsourcing & Services divisions presented in the previous year. The new Cloud Subscription division was included in Outsourcing & Services in the previous year.

Revenues in the amount of KEUR 22,376 were recognized in accordance with the percentage of completion method (previous year: KEUR 16,545). Costs of KEUR 17,289 were incurred for these unbilled services (previous year: KEUR 12,674). In total, a margin of KEUR 5,087 was generated (previous year: KEUR 3,871).

No revenues of more than 10% were generated with any single customer in fiscal years 2016 and 2015.

2. COST OF SALES

The cost of sales consists of the direct costs and overheads directly allocable to orders.

The cost of sales comprises the following expenses:

KEUR	2016	2015
Purchased merchandise and services	229,192	201,141
Personnel expenses	301,101	269,349
Depreciation, amortization and write-downs	21,420	19,306
Other expenses	49,341	43,563
	601,054	533,359

3. MARKETING AND DISTRIBUTION EXPENSES

Marketing and distribution expenses contain the staff and non-staff operating expenses, depreciation and amortization expense and advertising costs attributable to marketing and distribution.

Marketing and distribution expenses can be broken down as follows:

KEUR	2016	2015
Personnel expenses	59,508	50,737
Depreciation, amortization and write-downs	469	566
Other expenses	14,919	13,646
	74,896	64,949

4. ADMINISTRATION EXPENSES

Administrative expenses contain the staff and non-staff operating costs and depreciation and amortization expense attributable to administrative activities.

Administrative expenses can be broken down as follows:

KEUR	2016	2015
Personnel expenses	45,994	37,180
Depreciation, amortization and write-downs	4,033	3,664
Other expenses	14,551	17,269
	64,578	58,113

5. OTHER OPERATING INCOME

KEUR	2016	2015
Income from investment grants and subsidies	386	1,774
Income from the sale of non-current assets	65	95
Income from the triggering of contingent purchase price payments	919	0
Income from exchange differences	3,801	2,168
	5,171	4,037

The remeasurement of contingent consideration recognized in connection with an acquisition in the USA in fiscal year 2014 and classified as a liability resulted in income of KEUR 919 in fiscal year 2016. The remeasured contingent consideration amounted to KEUR 460 as at December 31, 2016. The payment in this amount was made by March 31, 2017.

6. OTHER OPERATING EXPENSES

KEUR	2016	2015
Bad debt allowances on receivables	1,211	1,559
Acquisition costs	1,097	579
Cost of asset disposals	36	17
Expenses from exchange rate differences and consolidation	2,132	2,698
	4,476	4,853

7. MEASUREMENT OF DERIVATIVES AND EXERCISE OF OPTIONS

KEUR	2016	2015
Income from the measurement of options	101	65
Income from the exercise of options	22	0
Expenses from the measurement of options	-1,975	-2,486
Expenses from the exercise of options	-1,960	-363
Income from derivatives	106	118
Expenses from derivatives	0	-198
	-3,706	-2,864

The put and call options agreed in the context of acquisitions can be exercised at fair value on the basis of future EBIT developments. Plan shortfalls on agreed EBIT targets resulted in income from the remeasurement of options of KEUR 101 (previous year: KEUR 65). Expenses from plan excess of KEUR 1,975 (previous year: KEUR 2,486) were incurred in this context.

Expenses of KEUR 1,960 (previous year: KEUR 363) and income of KEUR 22 (previous year: KEUR 0) were generated from exercising put and call options.

Currency forwards were concluded to hedge exchange rate fluctuations for items of the statement of financial position in fiscal year 2016, resulting in income of KEUR 5 (previous year: KEUR 118) and expenses of KEUR 0 (previous year: KEUR 64). Furthermore, income of KEUR 101 was generated in connection with the measurement of an embedded derivative as of the end of the year (previous year: expense of KEUR 134).

8. FINANCIAL INCOME/FINANCE COSTS

KEUR	2016	2015
Financial income	144	238
Finance costs	-2,260	-2,685
	-2,116	-2,447

Financial income contains interest received from bank balances and short-term fixed deposits (category: loans and receivables). KEUR 2,226 of finance costs (previous year: KEUR 2,422) relate to the total interest expense for financial liabilities not measured at fair value through profit and loss (largely loans to the Group parent company: Liabilities measured at amortized cost).

9. INCOME TAXES

Tax expenses are composed as follows:

KEUR	2016	2015
Current tax expense		
Current year	-10,572	-7,748
Adjustments for previous years	-66	-152
	-10,638	-7,900
Deferred taxes		
Formation and reversal of temporary differences	284	-1,708
Recognition of tax losses not previously recognized	376	827
Loss carryforwards not utilized and written down	-936	-439
	-276	-1,320
Tax expense	-10,914	-9,220

Current taxes are calculated on the basis of current tax rates. A combined tax rate of 31.47% (previous year: 31.31%) was applied in Germany, taking into account a corporate income tax rate of 15% plus a solidarity surcharge of 5.50% and trade tax of 15.64%. The slight change in the combined tax rate is due to the increase in the average corporate income tax rate.

Deferred taxes are calculated on the basis of the tax rates that apply or are expected to apply at the time of recognition in accordance with current legislation in the individual countries. A tax rate of 31.47% (previous year: 31.31%) was

assumed for Germany and a rate of between 10.0% and 38.2% (previous year: between 19.0% and 38.2%) was assumed for other countries.

The Group assumes that the tax provisions, taking into account a number of factors including the interpretations of tax law and past experience, are adequate for all outstanding tax years.

The following table contains a reconciliation of expected and reported tax expense and the reconciliation to the effective tax rate.

KEUR	2016	2016	2015	2015
Earnings before income taxes		29,092		30,350
Taxes on the basis of the domestic tax rate of the company	-31.47%	-9,155	-31.31%	-9,503
Tax loss carryforwards not utilized and written down	-3.22%	-936	-1.45%	-439
Utilization of unrecognized loss carryforwards	1.29%	376	2.72%	827
Difference to foreign tax rates and change in tax rates	6.54%	1,902	7.98%	2,422
Differences due to non-tax-deductible expenses and tax-free income	-10.24%	-2,981	-6.49%	-1,968
Backpayment and reimbursement of taxes for previous years	-0.22%	-66	-0.50%	-152
Other differences	-0.19%	-54	-1.34%	-407
Reported income tax expense	-37.51%	-10,914	-30.39%	-9,220

10. EARNINGS PER SHARE

Basic earnings

		2016	2015
Net profit after non-controlling interests	KEUR	16,868	18,786
Weighted average number of ordinary shares	Number	30,014,838	30,014,838
Earnings per share (basic)	EUR	0.56	0.63

I. STATEMENT OF FINANCIAL POSITION DISCLOSURES

11. INTANGIBLE ASSETS

Development of intangible assets as of December 31, 2016:

COST	IT software	Finance leases	Orders on hand and customer relationships	Goodwill	Intangible assets
KEUR					
January 1, 2016	16,473	4,560	23,323	116,220	160,576
Exchange differences	10	148	-281	-3,073	-3,196
Additions	7,022	146	1,406	0	8,574
Additions due to business combinations	236	0	0	37,994	38,230
Reclassifications	0	0	0	0	0
Disposals	-549	0	0	0	-549
December 31, 2016	23,192	4,854	24,448	151,141	203,635
CUMULATIVE DEPRECIATION	IT software	Finance leases	Orders on hand and customer relationships	Goodwill	Intangible assets
KEUR					
January 1, 2016	-11,541	-2,635	-9,329	-8,276	-31,781
Exchange differences	-11	-86	263	-74	92
Additions (scheduled amortization)	-3,685	-451	-3,177	0	-7,313
Reclassifications	0	0	0	0	0
Disposals	547	0	0	0	547
December 31, 2016	-14,690	-3,172	-12,243	-8,350	-38,455
Carrying amounts at December 31, 2016	8,502	1,682	12,205	142,791	165,180

Development of intangible assets as of December 31, 2015:

COST	IT software	Finance leases	Orders on hand and customer relationships	Goodwill	Intangible assets
KEUR					
January 1, 2015	17,694	0	20,429	106,926	145,049
Exchange differences	610	0	328	2,848	3,786
Additions	1,957	935	109	79	3,080
Additions due to business combinations	76	0	2,424	6,367	8,867
Reclassifications	-3,658	3,625	33	0	0
Disposals	-206	0	0	0	-206
December 31, 2015	16,473	4,560	23,323	116,220	160,576
CUMULATIVE DEPRECIATION	IT software	Finance leases	Orders on hand and customer relationships	Goodwill	Intangible assets
KEUR					
January 1, 2015	-10,004	0	-6,153	-8,040	-24,197
Exchange differences	-380	0	-188	-236	-804
Additions (scheduled amortization)	-3,235	-650	-2,988	0	-6,873
Reclassifications	1,985	-1,985	0	0	0
Disposals	93	0	0	0	93
December 31, 2015	-11,541	-2,635	-9,329	-8,276	-31,781
Carrying amounts at December 31, 2015	4,932	1,925	13,994	107,944	128,795

The cost of IT software includes internally generated intangible assets in connection with internal SAP system changeovers in the amount of KEUR 558, the cumulative amortization for which amounts to KEUR 557 (carrying amount as of December 31, 2016: KEUR 1). The average amortization period for IT software is three to five years. Amortization on intangible assets is included in cost of sales, marketing and distribution expenses and administrative costs.

The itelligence Group recognizes and measures the orders on hand and customer relationships of its acquired subsidiaries in first-time consolidation. Orders on hand are measured in the amount of forecast discounted earnings on the basis of full costs. Orders on hand are amortized according to the contract terms. Customer relationships are also measured in terms of income using the multi-period excess earnings method. The fair value is determined by calculating the income

from business relationships in place as of the measurement date based on a multi-period business plan. The loss of customers is taken into account when calculating income in the form of a natural churn rate derived from past data material. Customer relationships are written down over the planning period. The utilization of orders on hand and customer relationships is shown separately in the income statements as amortization.

In fiscal year 2016, no orders on hand or customer relationships were acquired as a result of company acquisitions (previous year: KEUR 2,424). KEUR 3,177 of the orders on hand and customer relationships capitalized in recent years were worked off or amortized in the fiscal year under review (previous year: KEUR 2,988).

Goodwill reflects the positive differences between the cost of subsidiaries and their assets and liabilities measured at fair value. Minority interests in goodwill were also capitalized in line with the new regulations of IFRS 3 (2008) as soon as the acquisition of an additional stake is contractually agreed. As a result of its company acquisitions, the Group added goodwill of KEUR 37,994 in fiscal year 2016 (previous year: KEUR 6,367).

Intelligence constantly tests goodwill for impairment using the DCF method (fair value in use). The cash flows used in DCF measurement are based on the current business plans adopted and internal planning, assuming a planning horizon of five years. Assumptions are made about future changes in revenues and costs (rising revenues coupled with rising margins). Future investments in the company's operating activities are assumed on the basis of past experience and past income patterns are projected into the future. The main assumptions used in estimating recoverable amount are shown below. The values assigned for the main assumptions are the Management Board's assessment of future developments in the relevant industry and are based on past values from external and internal sources. If the actual figures differ from the significant assumptions made, this could lead to the recognition of impairment losses in the future.

	Average cost of capital		Long-term growth rate		Planned EBIT growth rate (average for next five years)	
	2016	2015	2016	2015	2016	2015
USA	7.87%	8.81%	1%	1%	16%	21%
DACH	7.32%	7.88%	1%	1%	23%	8%
Western Europe	7.65%	8.45%	1%	1%	19%	21%
Eastern Europe	12.26%	14.54%	1%	1%	9%	8%

As in the previous year, the discount rate used was based on the capital asset pricing model and derived from the weighted average cost of capital and debt. The cost of capital rate is based on a risk-free capital market rate for the relevant period taking into account the beta factor for the industry and a risk premium related to the relevant capital market. Based on the tax rate an after-tax discount rate is derived.

The terminal growth rate does not exceed the long-term growth rates of the industry in which the cash-generating units operate.

As in previous years, impairment testing for 2016 was performed as of June 30. Also as in the previous year, no impairment was identified for the goodwill recognized by itelligence.

KEUR	USA	DACH	Western Europe	Eastern Europe	Total
Statement of financial position as at December 31, 2014	22,861	13,906	48,194	13,925	98,886
Additions	0	79	5,626	741	6,446
Exchange rate differences	2,575	0	1,011	-974	2,612
Statement of financial position as at December 31, 2015	25,436	13,985	54,831	13,692	107,944
Additions	0	37,994	0	0	37,994
Exchange rate differences	819	0	-2,779	-1,187	-3,147
Statement of financial position as at December 31, 2016	26,255	51,979	52,052	12,505	142,791

The estimated recoverable amount for the Eastern Europe CGU exceeds the carrying amount for the CGU by KEUR 9,766.

The management has identified a significant assumption according to which a possible change would lead to the carrying amount of the CGU exceeding its recoverable amount. If the Eastern Europe CGU falls below cash flow planning by 20%, the carrying amount for the CGU would correspond to its carrying amount.

12. PROPERTY, PLANT AND EQUIPMENT

Development of property, plant and equipment as of
December 31, 2016:

COST	Land, buildings and leasehold improvements	Assets under development	IT hardware	Operating and office equipment	Finance leases	Property, plant and equipment
KEUR						
January 1, 2016	42,173	4,652	70,035	12,253	26,913	156,026
Exchange differences	213	-11	52	-84	273	443
Additions	3,557	8,301	11,601	3,473	9,948	36,880
Additions due to business combinations	37	0	716	166	0	919
Reclassifications	3,630	-3,888	89	169	0	0
Disposals	-73	0	-2,292	-1,109	-4,883	-8,357
December 31, 2016	49,537	9,054	80,201	14,868	32,251	185,911
CUMULATIVE DEPRECIATION	Land, buildings and leasehold improvements	Assets under development	IT hardware	Operating and office equipment	Finance leases	Property, plant and equipment
KEUR						
January 1, 2016	-11,422	0	-48,486	-7,411	-7,718	-75,037
Exchange differences	27	0	31	32	-113	-23
Additions (scheduled depreciation)	-2,193	0	-9,396	-2,046	-8,150	-21,785
Reclassifications	0	0	-765	0	765	0
Disposals	72	0	2,126	958	4,872	8,028
December 31, 2016	-13,516	0	-56,490	-8,467	-10,344	-88,817
Carrying amounts at December 31, 2016	36,021	9,054	23,711	6,401	21,907	97,094

Development of property, plant and equipment as of
December 31, 2015:

COST	Land, buildings and leasehold improvements	Assets under development	IT hardware	Operating and office equipment	Finance leases	Property, plant and equipment
KEUR						
January 1, 2015	39,624	36	77,075	19,851	0	136,586
Exchange differences	1,456	0	1,508	141	0	3,105
Additions	1,146	4,623	8,164	2,557	9,433	25,923
Additions due to business combinations	3	0	15	53	0	71
Reclassifications	0	-7	-13,115	-8,468	21,590	0
Disposals	-56	0	-3,612	-1,881	-4,110	-9,659
December 31, 2015	42,173	4,652	70,035	12,253	26,913	156,026
CUMULATIVE DEPRECIATION						
KEUR						
January 1, 2015	-9,367	0	-47,729	-6,634	0	-63,730
Exchange differences	-132	0	-803	-80	0	-1,015
Additions (scheduled depreciation)	-1,976	0	-9,003	-2,745	-5,928	-19,652
Reclassifications	0	0	5,442	190	-5,632	0
Disposals	53	0	3,607	1,858	3,842	9,360
December 31, 2015	-11,422	0	-48,486	-7,411	-7,718	-75,037
Carrying amounts at December 31, 2015	30,751	4,652	21,549	4,842	19,195	80,989

Purchase obligations for property, plant and equipment amounted to KEUR 361 as of December 31, 2016.

As of December 31, 2016, properties with a carrying amount of KEUR 17,694 (previous year: KEUR 9,273) had encumbrances in the amount of KEUR 12,093 (previous year: KEUR 3,111) to secure bank loans.

13. OTHER FINANCIAL ASSETS

KEUR	Dec. 31, 2016	Dec. 31, 2015
Term deposits	230	377
Recovery receivables from third parties	2,637	2,636
Loans to NTT	0	214
Security deposits	925	1,015
Loans to employees	756	523
Partial retirement receivables	185	388
Other investments	10	10
Other financial receivables	493	249
	5,236	5,412

Other financial liabilities are reported under the following statement of financial position items:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Other non-current financial assets	863	1,129
Other current financial assets	4,373	4,283
Other financial assets	5,236	5,412

Long-term deposits are subject to restrictions and are linked to the term of the underlying transaction and the term of non-current loans. These loans have a remaining term of three to five years, which is longer than the useful lives of the assets to be financed. As in the previous year, term deposits are non-interest-bearing and serve as security for guarantees in the amount of KEUR 45 (previous year: KEUR 45).

The recovery claims from third parties consist of compensation committed to intelligence in the context of a business combination performed in 2013 (see also note 24).

Other investments include the shares in BfL (<1%) and the shares acquired in TBV ProVital Lemgo (8.35%). These are financial investments in unlisted equity instruments that are measured at cost less valuation allowances.

Other financial receivables relate primarily to negative balances on supplier accounts.

14. TRADE RECEIVABLES

KEUR	Dec. 31, 2016	Dec. 31, 2015
Trade receivables	155,341	136,101
Trade receivables from NTT	4,433	2,203
Receivables from unbilled services (POC)	22,376	16,545
Unbilled receivables	9,032	7,365
	191,182	162,214
Bad debt allowances	-4,336	-4,373
	186,846	157,841

KEUR	Dec. 31, 2016	Dec. 31, 2015
Non-current trade receivables	1,410	2,557
Current trade receivables	185,436	155,284
Trade receivables	186,846	157,841

Specific valuation allowances developed as follows:

KEUR	
December 31, 2014	4,884
Exchange differences	48
Reversal	-1,146
Utilization	-2,126
Addition	2,713
December 31, 2015	4,373
Exchange differences	123
Reversal	-1,094
Utilization	-1,434
Addition	2,368
December 31, 2016	4,336

The reported amount of receivables from unbilled services (POC) of KEUR 22,376 includes the total of the costs incurred and reported gains less any reported losses and partial bills. As of the end of the reporting period, advance payments of KEUR 494 were recognized for current projects. No amounts were retained by customers in connection with current projects as of the end of the reporting period.

15. OTHER NON-FINANCIAL ASSETS

KEUR	Dec. 31, 2016	Dec. 31, 2015
Prepayments for social security	7	2
Sales tax	300	320
Advance payments	603	1,789
Other non-financial receivables	914	527
	1,824	2,638

Other non-financial assets are reported under the following statement of financial position items:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Other current non-financial assets	1,824	2,638
Other non-financial assets	1,824	2,638

16. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets and deferred tax liabilities are composed as follows:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Deferred tax assets:		
Receivables	721	218
Loss carryforwards	764	1,051
Provisions and liabilities	6,325	6,828
Intangible assets and property, plant and equipment	1,404	1,117
Netted against deferred tax liabilities	-3,036	-3,387
	6,178	5,827
Deferred tax liabilities:		
Adjustment for percentage of completion method	3,610	2,998
Receivables	260	242
Provisions and liabilities	1,912	2,187
General warranty provision	330	235
Intangible assets and property, plant and equipment	12,066	12,508
Netted against deferred tax assets	-3,036	-3,387
	15,142	14,783

Deferred tax assets are netted against deferred tax liabilities if they relate to income taxes, are levied by the same tax authorities, are owed to the same tax obligor and the Group is entitled to offset current tax assets with current tax liabilities. When reporting deferred tax assets and liabilities in the consolidated statement of financial position, they are classified as non-current assets and liabilities.

In addition to the deferred tax expenses of KEUR 276 (see note 9), a reduction in deferred tax assets of KEUR 270 was recognized in equity. This relates to the actuarial gains on the measurement of pension provisions in fiscal year 2016.

The recoverability of deferred tax assets is determined by management on the basis of an assessment of whether it is likely that a deferred tax asset can be realized in the future. This ultimately depends on whether sufficient taxable income will be generated in the periods in which the respective temporary differences reverse. Based on past levels of taxable income and future planning, the company's management expects the recognized deferred tax assets to be recoverable.

The deferred tax assets recognized in 2016 relate to loss carryforwards of KEUR 2,702 (previous year: KEUR 3,576) that were measured at the future tax rate. A tax rate of 31.47% (previous year: 31.31%) was assumed for Germany and a rate of between 10.0% and 38.2% (previous year: between 19.0% and 38.2%) was assumed for other countries. The tax loss carryforwards are expected to be utilized over a period of three years.

Irrespective of the probability of expected use, additional potential tax loss carryforwards (tax loss carryforwards measured at the relevant tax rate) are available for utilization in the amount of KEUR 3,490 (previous year: KEUR 2,764). As the trend towards profitable growth has not been fully upheld, these potential tax savings have not been capitalized. If profitable growth occurs in the coming years, the other non-recognized deferred tax assets will be recognized, which would result in additional tax income. Recoverability is assessed on the basis of past levels of taxable income and future planning. The additional potential tax loss carryforwards primarily originate from the following countries:

KEUR		Forfeatability
Czech Republic	2,287	After five years
Spain	520	Non-forfeitable
Belgium	299	Non-forfeitable
Slovakia	155	After four years
Netherlands	117	After nine years
Ukraine	112	Non-forfeitable
	3,490	

17. CASH AND CASH EQUIVALENTS

KEUR	Dec. 31, 2016	Dec. 31, 2015
Current account balances and cash in hand	57,733	54,518
	57,733	54,518

Current account balances are non-interest-bearing.

18. PREPAID EXPENSES

KEUR	Dec. 31, 2016	Dec. 31, 2015
Advanced payments for servicing work	8,838	8,780
Insurance	7,867	6,970
Other	5,219	3,723
	21,924	19,473

Prepaid expenses for insurance relate essentially to payments to the voluntary and statutory pension fund for itelligence in Switzerland. Other prepaid expenses include costs of rent, marketing and headhunting.

19. SHARE CAPITAL**Share capital**

The corresponding amounts from the separate financial statements of itelligence AG are shown in the consolidated financial statements for share capital. The share capital amounts to EUR 30,014,838 and is divided into 30,014,838 no-par-value bearer shares, each with a notional interest in the share capital of EUR 1.00. Each share entitles the holder to one voting right and a right to dividends from resolved distributions. The capital was fully paid up.

Authorized capital

There was no authorized capital as of December 31, 2016.

Contingent capital

There was no contingent capital as of December 31, 2016.

20. CAPITAL RESERVES

The capital reserves contain the premiums from the shares issued less the external costs directly attributable to the equity transaction. There were capital reserves of KEUR 52,768 as of December 31, 2016.

The aim of the Group is to maintain a strong capital base in order to ensure the confidence of creditors and the markets, and to guarantee the sustainable development of the company. Capital describes the equity reported in the statement of financial position. Equity is controlled and monitored using the equity ratio. This ascertains whether equity satisfies its liability function and its function of financing non-current assets. The equity ratio at the end of fiscal year 2016 was 30.43% (previous year: 33.74%).

21. NET ACCUMULATED PROFIT

KEUR	
Net accumulated profit as of January 1, 2015	54,176
Consolidated net profit	18,786
Net accumulated profit as of December 31, 2015	72,962
Consolidated net profit	16,868
Net accumulated profit as of December 31, 2016	89,830

The Management Board and Supervisory Board will propose to the Annual General Meeting not to distribute a dividend from the unappropriated surplus of itelligence AG for fiscal year 2016.

22. OTHER COMPREHENSIVE INCOME

The differences arising from the currency translation of the financial statements of subsidiaries outside Germany taken directly to equity, the actuarial losses from the measurement of pension provisions and the post-tax effects of the exercise of put and call options outside profit or loss are reported in other comprehensive income.

KEUR	
As of January 1, 2015	-22,113
Exercise of options	5,340
Actuarial losses as per IAS 19	1,222
Currency translation	2,490
As of December 31, 2015	-13,559
Exercise of options	4,165
Actuarial gains as per IAS 19	-589
Currency translation	-5,543
As of December 31, 2016	-15,526

23. FINANCIAL LIABILITIES

Financial liabilities consist of loans from banks, third parties and NTT, liabilities from put options and liabilities from financial derivatives, from purchase price obligations and finance leases:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Liabilities from put options	6,067	10,365
Liabilities from financial derivatives	1,084	1,327
Liabilities from purchase price obligations	3,998	3,370
Loans from NTT	124,171	73,965
Amounts due to banks	12,844	5,799
Finance lease liabilities	22,483	20,961
Other loans	66	68
	170,713	115,855

Liabilities from purchase price obligations consist of contingent consideration in connection with business combinations conducted in previous years. Changes in the measurement of the contingent consideration for acquisitions conducted in previous years amounted to KEUR 919 in fiscal year 2016 (see note 5).

Financial liabilities are reported under the following statement of financial position items:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Non-current financial liabilities	103,489	88,554
Current financial liabilities	67,224	27,301
	170,713	115,855

Non-current financial liabilities are broken down as follows:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Liabilities from put options	6,067	1,838
Liabilities from financial derivatives	840	1,001
Liabilities from purchase price obligations	1,248	1,844
From NTT	124,171	73,965
of which current	-51,606	-6,000
	72,565	67,965
Amounts due to banks		
to banks in Germany	12,698	3,706
to banks outside Germany	146	2,093
of which current	-4,501	-3,008
	8,343	2,791
From other loans		
from other loans in Germany	0	0
from other loans outside Germany	66	68
of which current	-22	-44
	44	24
From finance leases		
from finance leases in Germany	13,275	10,598
from finance leases outside Germany	9,208	10,363
of which current	-8,101	-7,870
	14,382	13,091
	103,489	88,554

The maturities of non-current financial liabilities are broken down as follows:

KEUR	Total	Remaining term of between 1 and 5 years	Remaining term of more than 5 years
Liabilities from put options	6,067	6,067	0
(Previous year)	(1,838)	(1,838)	(0)
Liabilities from financial derivatives	840	840	0
(Previous year)	(1,001)	(929)	(72)
From NTT	72,565	72,565	0
(Previous year)	(67,965)	(67,965)	(0)
Amounts due to banks	8,343	3,926	4,417
(Previous year)	(2,791)	(1,331)	(1,460)
From other loans	44	44	0
(Previous year)	(24)	(24)	(0)
Finance lease liabilities	14,382	14,382	0
(Previous year)	(13,091)	(13,091)	(0)
Liabilities from purchase price obligations	1,248	1,248	0
(Previous year)	(1,844)	(1,844)	(0)
December 31, 2016	103,489	99,072	4,417
December 31, 2015	(88,554)	(87,022)	(1,532)

As part of the acquisition of shares in SAPCON a.s., Czech Republic, and 2C change AS, Denmark, the remaining shares (non-controlling interests) can be acquired over the coming years by way of put and call options. The put and call options can be exercised on the basis of future EBIT developments at fair value. As itelligence AG cannot avoid the future outflow of cash from contractual agreements a financial liability must be recognized in the amount of the expected outflow. The fair value of the put and call options is calculated on the basis of internal five-year planning for the respective company, discounted with a matched maturity cost of capital rate of 1.4% (previous year: 1.4%).

A change in the forecast future EBIT development of +/-10% would result in the recognition in profit or loss of a change in reported liabilities of KEUR 622.

A change in the discount rate of +/-1% would result in the recognition in profit or loss of a change in reported liabilities of KEUR 252.

The discounted values for the put and call options in connection with the acquisitions conducted are as follows as of December 31, 2016:

KEUR	Total	of which current	of which non-current
Liabilities from put and call options for 2C change	5,867	0	5,867
(Previous year)	(5,916)	(5,916)	(0)
Liabilities from put and call options for SAPCON	200	0	200
(Previous year)	(289)	0	(289)
Liabilities from put and call options for Turkey	0	0	0
(Previous year)	(4,160)	(2,611)	(1,549)
December 31, 2016	6,067	0	6,067
December 31, 2015	(10,365)	(8,527)	(1,838)

The liabilities to NTT relate to two long-term loans and one short-term loan granted by NTT DATA Corporation, Japan. A cash pooling account has also been newly concluded between NTT DATA Corporation and itelligence. All of these liabilities are denominated in EUR. They were used to finance new buildings at the Bielefeld, Bautzen and Cincinnati locations and to acquire international and German consulting companies:

KEUR	Interest rate in %	Total	of which current	of which non-current
Loan from Feb. 27, 2015 / 3-year term	0.839	68,456	491	67,965
(Previous year)		(68,445)	(480)	(67,965)
Loan from Jun. 22, 2015 / 252-day term	0.673	0	0	0
(Previous year)		(5,520)	(5,520)	(0)
Loan from Feb. 26, 2016 / 2-year term	0.7	4,628	28	4,600
(Previous year)		(0)	(0)	(0)
Loan from Jun. 23, 2016 / 256-day term	0.5	17,048	17,048	0
(Previous year)		(0)	(0)	(0)
Cash pooling account	0.25	34,039	34,039	0
(Previous year)		(0)	(0)	(0)
December 31, 2016		124,171	51,606	72,565
December 31, 2015		(73,965)	(6,000)	(67,965)

Finance leases are used predominantly for the expansion of data center capacity in Germany, Poland, Malaysia and the USA, as well as improvements in the office building in the USA.

Liabilities from finance leases are due as follows:

	Future minimum lease payments		Interest payments		Present value of minimum lease payments	
	2016	2015	2016	2015	2016	2015
KEUR						
Due within one year	8,862	8,218	761	348	8,101	7,870
Due between one and five years	14,892	13,403	510	312	14,382	13,091
Due after five years	0	0	0	0	0	0
	23,754	21,621	1,271	660	22,483	20,961

Within Germany, development loans for investments in the data center in Bautzen with a volume of KEUR 167 were utilized under the terms of a development program. The interest rate is 4.28%. There were assignments of security from itelligence OS in the previous year in connection with long-term deposits in the amount of KEUR 224 and inventories with a carrying amount of KEUR 199. These assignments expired on repayment of the corresponding loans.

The company had the following credit facilities at the end of the reporting period:

KEUR	2016	2015
Germany		
Credit facilities available as of December 31	17,000	14,500
Utilization through loans	-3,237	0
Utilization through guarantees	-249	-317
Unutilized credit facilities	13,514	14,183
Abroad		
Credit facilities available as of December 31	17,586	17,598
Utilization through loans	-146	-1,841
Utilization through guarantees	-306	-221
Unutilized credit facilities	17,134	15,536
Average interest rate	0.85% – 13.0%	1.6% – 5.0%

The credit facilities within Germany can be utilized in the form of loans or guarantees. Utilization of the credit facilities is not dependent on the company's adherence to additional or ancillary agreements in the form of financial ratios. A number of foreign subsidiaries have access to credit facilities that

are guaranteed by itelligence AG, enabling them to raise loans at the current interest rate in local currency up to a specific amount at short notice.

Current financial liabilities are broken down as follows:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Bank overdrafts	3,383	2,271
Loans from NTT	51,606	6,000
Liabilities from financial derivatives	244	326
Liabilities from put options	0	8,527
Liabilities from purchase price obligations	2,750	1,526
Finance lease liabilities	8,101	7,870
Current portion of non-current financial liabilities		
to banks in Germany	1,118	737
from other loans outside Germany	22	44
	67,224	27,301

The financial liabilities as of December 31, 2016 were borrowed by various companies in different countries within the itelligence Group. Their ratings and basic interest rates vary greatly. Furthermore, different agreements were made regarding collateral and pre-amortization, which also affect interest rates. The agreed interest rates did not change significantly in proportion to interest rates as of the end of the reporting period. In light of this, the amounts recognized for financial liabilities are essentially their market values.

24. OTHER PROVISIONS

Other provisions developed as follows in fiscal year 2016:

KEUR	January 1, 2016	Currency	Utilization	Reversal	Addition	Dec. 31, 2016	of which non- current
Provisions for potential losses	1,723	0	-1,197	0	2,301	2,827	659
Credit notes to be issued	139	0	-137	0	257	259	0
Severance payments	486	-7	-305	0	408	582	0
Warranties	1,230	4	-646	-185	929	1,332	0
Court costs	92	0	-15	0	175	252	0
Partial retirement	815	0	-496	0	314	633	302
Miscellaneous other provisions	4,988	8	-905	-345	424	4,170	0
	9,473	5	-3,701	-530	4,808	10,055	961

Provisions for potential losses were recognized for probable losses arising from project implementation and for service orders.

The provision for credit notes to be issued was recognized for probable credit notes to customers in connection with customer bonuses.

There are short-term severance provisions of KEUR 42 for the legal rights of employees in Austria to severance pay. In addition, provisions were recognized for employees who will leave the Group in 2017.

Provisions for warranties were recognized for the hours of work still to be performed under service contracts and for free additional work in projects.

Provisions for court costs relate to expected legal proceedings. As of December 31, 2016, provisions of KEUR 633 were recognized on the basis of partial retirement commitments for 18 employees. The discount rate was 0.0% (previous year: 0.5%). Provisions were offset against plan assets.

Miscellaneous other provisions relate to possible repayment of EU subsidies in the amount of MEUR 2.6. The obligation resulted from a business combination performed in 2013. An expected reimbursement of the repayment has been recognized at the same level under other financial assets (note 13).

25. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provision for defined benefit pension systems is calculated using actuarial methods. The following assumptions are made:

ASSUMPTIONS	2016	2015
Interest rate	1.1% – 1.6%	1.6% – 2.25%
Salary increases	2.75%	2.75%
Pension increases	2.0%	2.0%

If all other variables remained the same, a change in the calculated interest rate of one percentage point would result in a change in the pension provisions of KEUR 1,879.

For a description of the defined benefit plans for the members of the Management Board refer to note 34 e).

Defined benefit plans result in the Group assuming actuarial risks, such as longevity risk, interest rate risk and market (investment) risk.

As the assets to be transferred are to be qualified as plan assets in the sense of IAS 19, provisions for pensions and similar obligations were offset against the assets to be transferred as of December 31, 2016. Provisions are reduced accordingly. The pension expenses for the fiscal years are reported in all functional areas in the income statement and are as follows:

KEUR	2016	2015
Service cost	681	423
Interest expense	241	258
Interest income from plan assets	-89	-74
Net pension expenses	833	607

Changes in plan assets:

KEUR	2016	2015
Projected value as of January 1	5,270	4,851
Contributions added	485	434
Interest income from plan assets	89	74
Pension payment of the funds	-296	-114
Actuarial gains (+)/losses (-)	16	25
Value of plan assets as of December 31	5,564	5,270
Current return on plan assets	105	99

Plan assets relate primarily to pledged pension liability insurance policies concluded with renowned insurance companies. Pension liability insurance policies are concluded at the full amount for all beneficiaries.

Development of dynamic pension obligations (DBO):

KEUR	2016	2015
Dynamic pension obligations as of January 1	13,393	14,250
Acquired service benefits	681	423
Interest expense for claims already acquired	241	258
Benefits paid	-750	-466
Actuarial gains (-)/losses (+)	874	-1,072
Dynamic pension obligations as of December 31	14,439	13,393

Development of other comprehensive income:

KEUR	2016
Other comprehensive income as of January 1, 2016	-2,269
Income from plan assets (not including interest income)	16
Net actuarial gains (+)/losses (-)	-605
Other comprehensive income as of December 31, 2016	-2,858

KEUR 843 (losses) of gross actuarial gains/losses relates to changes in financial assumptions, while KEUR 15 (losses) relates to changes in demographic assumptions.

The changes in net pension provisions are shown in the following table:

KEUR	2016	2015
Net carrying amount as of January 1	8,123	9,399
Service cost	681	423
Net interest expense	152	184
Actuarial losses (+)/gains (-)	858	-1,097
Addition to plan assets	-485	-434
Pension payments	-454	-352
Net carrying amount as of December 31	8,875	8,123

The table below shows the historical changes over the past five years:

KEUR	2016	2015	2014	2013	2012
Defined benefit obligation	14,439	13,393	14,250	2,919	1,871
Cash surrender value of the employer's pension liability insurance policy	-5,564	-5,270	-4,851	-1,557	-1,406
Financing status	8,875	8,123	9,399	1,362	465

The Group expects to transfer contributions of KEUR 614 to plan assets in 2017.

The maturity profile of forecast pension payments (discounted) is as follows:

KEUR	
Due within one year	371
Due between one and five years	1,770
Due after five years	12,298
	14,439

The weighted average term of dynamic pension obligations is 17.83 years at itelligence AG (previous year: 17.73 years) and 12.68 years at GISA GmbH (previous year: 12.15 years).

Occupational pensions are made up of defined contribution and defined benefit systems. In the reporting year, a total of KEUR 29,410 was paid into defined contribution pension systems (previous year: KEUR 25,196). The expenses incurred at the German Group companies (employer contributions to statutory German pension insurance) amount to KEUR 15,337 (previous year: KEUR 12,595).

26. GOVERNMENT GRANTS

itelligence was awarded an investment grant from Sächsische Aufbaubank for itelligence OS's data center under the regional economic assistance program of the Free State of Saxony. itelligence OS was also granted an investment subsidy in accordance with section 2 of the German Investment Subsidy Act for operational investments. The authorities are entitled to review the use of the payments received. The subsidies are grants that are subject to the fulfillment of the main condition that the company acquires long-term assets and that these are held over a period of five years. Additional jobs must also be created.

The Czech subsidiary itelligence a.s., Brno, most recently received EU subsidies of KEUR 1,191 (converted) in 2015. The subsidies were grants linked to the main condition that the company retained the new jobs created in fiscal year 2015. The company was also required to carry out various training activities. Another subsidized project related to the use of renewable energies as a reliable source of energy for the Czech Republic.

As of the end of the reporting period, the company reported non-current liabilities in connection with government grants in the amount of KEUR 2,276 (previous year: KEUR 2,691). In the year under review, other operating income was recognized in the amount of KEUR 386 (previous year: KEUR 1,774). Amounts are generally recognized in profit or loss over the useful life of the subsidized assets.

27. OTHER NON-FINANCIAL LIABILITIES

KEUR	Dec. 31, 2016	Dec. 31, 2015
Bonuses and salaries	34,167	30,918
Advance payments received	13,436	14,164
Sales tax	11,641	7,974
Wage and church taxes	4,424	4,058
Social security	6,231	5,349
Accrued vacation	11,227	9,784
Services yet to be rendered	5,914	5,925
Legal, consulting and audit costs	890	825
Employer's liability insurance	881	738
Levy in lieu of employing the severely disabled	196	184
Restoration obligations	551	499
Other	4,212	5,995
Other non-financial liabilities	93,770	86,413

Other non-financial liabilities are reported under the following statement of financial position items:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Other non-current non-financial liabilities	551	1,724
Other current non-financial liabilities	93,219	84,689
Other non-financial liabilities	93,770	86,413

28. TRADE PAYABLES

KEUR	Dec. 31, 2016	Dec. 31, 2015
Trade payables to third parties	45,528	42,233
Liabilities to NTT	1,435	1,269
Trade payables from outstanding invoices	15,873	10,803
	62,836	54,305

J. OTHER DISCLOSURES**30. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS**

The fair values were calculated on the basis of the prevalent market conditions at the end of the reporting period and the measurement methods described below. They reflect the prices at which an independent third party would assume the rights or obligations from these financial instruments.

Cash and cash equivalents, trade receivables, trade payables and other financial assets are mainly of a short-term nature. It is therefore assumed that their fair values are approximately their carrying amounts.

Financial liabilities, except for derivative financial instruments, are measured at fair value on recognition and subsequently carried at amortized cost with the exception of derivative financial liabilities. The carrying amounts of floating-rate financial liabilities to banks are generally equal to their respective fair values. The fair value of fixed-rate loans is calculated using available market prices or by discounting cash flows with the market interest rates in effect at December 31.

The following table shows the carrying amounts and fair values of all categories of financial assets and liabilities:

DECEMBER 31, 2016	Note	Held for trading	Available for sale	Held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Carrying amounts	Fair value
KEUR								
Cash and cash equivalents	17	-	-	-	57,733	-	57,733	57,733
Trade receivables	14	-	-	-	186,846	-	186,846	186,846
Other financial assets	13	-	10	925	4,301	-	5,236	5,236
Financial assets		-	10	925	248,880	-	249,815	249,815
Trade payables	28	-	-	-	-	-62,836	-62,836	-62,836
Financial liabilities								
Loans	23	-	-	-	-	-137,081	-137,081	-135,437
Finance leases	23	-	-	-	-	-	-22,483	-22,483
Put options	23	-6,067	-	-	-	-	-6,067	-6,067
Purchase price obligations	23	-3,998	-	-	-	-	-3,998	-3,998
Other derivative financial instruments	23	-1,084	-	-	-	-	-1,084	-1,084
Financial liabilities		-11,149	-	-	-	-199,917	-233,549	-231,905
DECEMBER 31, 2015								
KEUR								
Cash and cash equivalents	17	-	-	-	54,518	-	54,518	54,518
Trade receivables	14	-	-	-	157,841	-	157,841	157,841
Other financial assets	13	-	10	1,015	4,387	-	5,412	5,412
Financial assets		-	10	1,015	216,746	-	217,771	217,771
Trade payables	28	-	-	-	-	-54,305	-54,305	-54,305
Financial liabilities								
Loans	23	-	-	-	-	-79,832	-79,832	-79,280
Finance leases	23	-	-	-	-	-	-20,961	-20,961
Put options	23	-10,365	-	-	-	-	-10,365	-10,365
Purchase price obligations	23	-3,370	-	-	-	-	-3,370	-3,370
Other derivative financial instruments	23	-1,327	-	-	-	-	-1,327	-1,327
Financial liabilities		-15,062	-	-	-	-134,137	-170,160	-169,608

Interest rates of between 2.40% (previous year: 1.10%) and 2.46% (previous year: 1.21%) were applied in calculating the market values of the loans.

For the financial instruments not recognized at fair value but for which a fair value is provided in the above table, the calculation is made on the basis of discounted cash flow. In accordance with the fair value hierarchy, the measurement models are based on observable market data (level II).

The following tables show the financial instruments reported in the statement of financial position broken down by category and basis of measurement. A distinction is made between those measured on the basis of quoted market prices (level I), observable market data (level II) or parameters not observed on the market (level III).

DECEMBER 31, 2016	Derivative financial assets held for trading	Financial liabilities held for trading	Total as of Dec. 31, 2016
KEUR			
Total	0	-11,149	-11,149
of which level I	0	0	0
of which level II	0	-1,084	-1,084
of which level III	0	-10,065	-10,065

DECEMBER 31, 2015	Derivative financial assets held for trading	Financial liabilities held for trading	Total as of Dec. 31, 2015
KEUR			
Total	0	-15,062	-15,062
of which level I	0	0	0
of which level II	0	-1,327	-1,327
of which level III	0	-13,735	-13,735

The impact on earnings is shown in note (7).

Level III financial instruments relate to put and call options in connection with the acquisitions conducted in the amount of KEUR 6,067. Measurement is made by Group Accounting and is based on the business planning adopted by the Supervisory Board. The appropriateness of the measurement is examined during the year on a quarterly basis and on the basis of the new business planning is adjusted after one year at the latest. The measurement model takes into account the present value of the expected value (on the basis of the forecast EBIT development), discounted with a discount rate specific to the risk.

The significant unobservable inputs are the forecast annual growth rates for revenues (11.0% to 12.0%; previous year: 3.0% to 4.0%) and the forecast EBIT margins (17.0% to 19.0%; previous year: 9.8% to 13.0%). Contingent purchase price obligations for company acquisitions in the amount of KEUR 3,998 continue to be recognized as level III financial instruments.

The table below shows the reconciliation between the opening and closing balances for liabilities from put and call options (level III financial instruments):

LIABILITIES FROM PUT AND CALL OPTIONS	
KEUR	
As of January 1, 2016	-10,365
Income from the measurement of options	101
Income from the exercise of options	22
Expenses from the exercise of options	-1,975
Expenses from the measurement of options	-1,960
Interest expenses	-34
Exercise of options outside profit or loss	8,144
As of December 31, 2016	-6,067

With the exception of KEUR 919 (see note 5), the change in liabilities from purchase price obligations from KEUR 3,370 as of January 1, 2016 to KEUR 3,998 as of December 31, 2016 was recognized solely in equity and resulted from payments and purchase price obligations newly assumed in the year under review.

31. OTHER FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

The Group rents property, plant and equipment under rental and lease agreements that qualify as operating leases under IAS 17. The resulting lease installments and rental payments are recognized directly as expenses in profit or loss. The expenses amounted to a total of KEUR 9,488 in fiscal year 2016 (previous year: KEUR 7,558).

The maturity structure of other future financial obligations is as follows:

KEUR	Dec. 31, 2016	Dec. 31, 2015
Due within one year	25,720	23,516
Due between one and five years	34,937	26,384
Due after five years	8,013	7,724
	68,670	57,624

These relate essentially to the annual costs for renting premises and equipment, land and leases for cars. The rental agreement for the office building at the Bielefeld location ends on April 30, 2019. There is an option to buy that can be exercised at fair value from December 31, 2018.

32. SEGMENT REPORTING

Segment reporting has been prepared in accordance with IFRS 8. The segments are defined in line with the Group's internal management and reporting (management approach). Internal financial reporting to the management and supervisory bodies is performed on a regional basis.

The geographical regions are the USA, Germany/Austria/Switzerland (DACH), Western Europe, Eastern Europe, Asia and Other.

Segment report as of December 31, 2016 and the previous year:

KEUR	USA	DACH	Western Europe	Eastern Europe	Asia	Other and consolidation	Group 2016
Segment revenues	137,341	373,125	186,327	87,143	14,326	4,765	803,027
Intersegment trade	-1,633	-8,561	-8,702	-3,859	-1,838	-524	-25,117
External segment revenues	135,708	364,564	177,625	83,284	12,488	4,241	777,910
EBITDA	10,941	30,421	13,872	4,750	2,773	1,241	63,998
Depreciation and amortization	-5,204	-17,815	-2,148	-2,546	-1,342	-44	-29,099
EBIT	5,737	12,606	11,724	2,204	1,431	1,197	34,899
Investment income	0	1	88	0	0	0	89
Measurement of derivatives and exercise of options	0	-3,706		0	0	0	-3,706
Exchange rate differences from financing activities	0	0	0	-74	0	0	-74
Interest income	15	116	0	10	3	0	144
Interest expenses	-286	-1,641	-73	-135	-125	0	-2,260
Earnings before tax	5,466	7,376	11,739	2,005	1,309	1,197	29,092
Income taxes	-1,645	-5,290	-2,446	-1,442	0	-91	-10,914
Consolidated net profit	3,821	2,086	9,293	563	1,309	1,106	18,178

KEUR	USA	DACH	Western Europe	Eastern Europe	Asia	Other and consolidation	Group 2015
Segment revenues	131,788	328,388	164,304	77,753	11,434	4,470	718,137
Intersegment trade	-991	-7,185	-9,508	-3,096	-771	-346	-21,897
External segment revenues	130,797	321,203	154,796	74,657	10,663	4,124	696,240
EBITDA	9,245	29,228	13,011	10,388	1,772	-1,105	62,539
Depreciation and amortization	-4,747	-16,558	-1,571	-2,560	-1,036	-52	-26,524
EBIT	4,498	12,670	11,440	7,828	736	-1,157	36,015
Investment income	0	17	0	0	0	0	17
Measurement of derivatives and exercise of options	0	-2,864	0	0	0	0	-2,864
Exchange rate differences from financing activities	0	-371	0	0	0	0	-371
Interest income	5	83	79	71	0	0	238
Interest expenses	-243	-2,078	-134	-140	-90	0	-2,685
Earnings before tax	4,260	7,457	11,385	7,759	646	-1,157	30,350
Income taxes	-1,349	-3,990	-2,098	-1,532	-152	-99	-9,220
Consolidated net profit	2,911	3,467	9,287	6,227	494	-1,256	21,130

Intersegment revenues are reported separately and eliminated. The transfer prices are the prices applied in arm's length transactions. A detailed list of the components of net finance costs can be found in notes (7) and (8).

KEUR	USA	DACH	Western Europe	Eastern Europe	Asia	Other	Group 2016
Investments in property, plant and equipment and intangible assets	3,567	31,866	4,137	4,336	1,547	1	45,454
Depreciation and amortization	-5,204	-17,815	-2,148	-2,546	-1,342	-44	-29,099

KEUR	USA	DACH	Western Europe	Eastern Europe	Asia	Other	Group 2015
Investments in property, plant and equipment and intangible assets	5,661	16,725	2,512	2,435	1,590	1	28,924
Depreciation and amortization	-4,747	-16,558	-1,571	-2,560	-1,036	-52	-26,524

The information for the divisions relating to revenues is as follows:

KEUR	Consulting	Licenses	Cloud Subscription	Managed Services	Other (unallocated)	Group 2016
Segment revenues	331,411	78,956	6,573	360,162	808	777,910

KEUR	Consulting	Licenses	Cloud Subscription	Managed Services	Other (unallocated)	Group 2015
Segment revenues	310,054	69,375	2,731	310,640	3,440	696,240

33. OTHER DISCLOSURES

a) Cost of materials

The cost of materials calculated using the nature of expense method amounted to KEUR 228,806 in fiscal year 2016 (previous year: KEUR 199,756). This includes inventories of KEUR 158,388 (previous year: KEUR 138,404) that were recognized as an expense in the reporting period. A further KEUR 70,418 related to the cost of purchased services (previous year: KEUR 61,352).

b) Personnel expenses

Personnel expenses calculated using the nature of expense method totaled KEUR 407,809 in fiscal year 2016 (previous year: KEUR 359,572).

c) Number of employees

The intelligence Group employed an average of 5,276 people in fiscal year 2016 (previous year: 4,493). An average of 582 persons were employed in administration (previous year: 529), 354 in sales (previous year: 300), 2,577 in consulting (previous year: 2,229) and 1,763 in outsourcing & services (previous year: 1,435). The Group had a total of 5,677 employees on December 31, 2016.

d) Executive bodies

The members of the Management Board and the Supervisory Board are as follows:

Management Board	Membership of supervisory boards and other comparable German and foreign executive bodies of enterprises not belonging to the itelligence Group (as of December 31, 2016)
Norbert Rotter CEO since July 1, 2016	
Herbert Vogel CEO until June 30, 2016	Chairman of the Supervisory Board of NTT DATA Deutschland GmbH Member of the Supervisory Board of Cayago AG Member of the Advisory Board of TBV ProVital Lemgo GmbH & Co. KG Member of the Advisory Board of symmedia GmbH
Dr. Michael Dorin CFO since January 1, 2017	
Supervisory Board	Membership of other executive bodies:
Friedrich Fleischmann Chairman since January 1, 2013 Independent business consultant Senior Managing Director Central Europe Adobe Systems GmbH, retired	
Prof. Heiner Schumacher Deputy Chairman since March 17, 2016 Independent auditor and business consultant, business consulting expert, Partner at KAP1 Consulting, Düsseldorf, honorary professor of business studies at the University of Bielefeld, specializing in external accounting	Member of the shareholders' advisory board of SOS Kinderdörfer Global Partner GmbH Member of the Supervisory Board of AvP Service AG
Tadashi Uhira Member since August 20, 2015 Director and Chairman of NTT DATA EMEA Ltd., London, United Kingdom	Member of the Supervisory Board of NTT DATA Deutschland GmbH
Koji Ito Member since August 20, 2015 Senior Vice President, Managing Director Global Business, NTT DATA Corporation, Tokyo, Japan	
Jens Christian Derdau-Sørensen Employee representative since March 17, 2016 Senior Project Manager	
Mersun Sezer Employee representative since April 28, 2016 Senior Manager Supply Chain Execution	
Dr. Stephan Kremeyer Deputy Chairman until March 17, 2016 Employee representative Customer Manager SAP Consulting	
Carsten Esser Employee representative until March 17, 2016 SAP Service Senior Professional	

e) Remuneration of the Management Board and the Supervisory Board

The remuneration report sets out the principles of the remuneration systems for the Management Board and the Supervisory Board and describes the amount and structure of the remuneration paid. The remuneration of the members of the executive bodies is disclosed as total remuneration broken down into fixed remuneration, performance-related components and components with a long-term incentive effect.

REMUNERATION OF THE MANAGEMENT BOARD

The following table provides a breakdown of the remuneration of the Management Board for fiscal year 2016:

NORBERT ROTTER	2016	2015
CEO since July 1, 2016 CFO until June 30, 2016		
KEUR		
Non-performance-related (fixed) remuneration	312	250
Performance-related (variable) current remuneration (current year)	134	147
Performance-related (variable) non-current remuneration (current year)	200	191
Total remuneration for the year	646	588
HERBERT VOGEL	2016	2015
CEO until June 30, 2016		
KEUR		
Non-performance-related (fixed) remuneration	250	500
Performance-related (variable) current remuneration (current year)	99	245
Performance-related (variable) non-current remuneration (current year)	273	440
Total remuneration for the year	622	1,185

The total remuneration paid to the members of the Management Board for fiscal year 2016 was KEUR 1,268 (previous year: KEUR 1,773).

The remuneration of itelligence's Management Board consists of non-performance-related (fixed) and performance-related

(variable) components. Fixed remuneration and expenses for retirement and ancillary benefits all constitute non-performance-related components. The performance-related elements are geared towards the company's short-term and long-term success. The Supervisory Board is responsible for determining the structure of the remuneration systems and the remuneration paid to the individual members of the Management Board. These matters are dealt with by the Staff Committee.

The remuneration components are broken down as follows:

- Non-performance-related fixed remuneration is paid in equal installments in the form of a monthly salary. Ancillary benefits relate primarily to contributions to accident and liability insurance and the provision of a company car reflecting the position of the respective member.
- Variable remuneration consists of a short-term incentive based on the Group's achievement of its earnings goal (consolidated EBIT) for the year, the Group's revenues target (consolidated) and personal performance. It is paid within five working days after the Annual General Meeting.
- The members of the Management Board also receive a bonus with long-term incentive effect based on a comparison of two average value added contributions (consolidated EBIT), each calculated over a four-year period. This is also paid within five working days of the Annual General Meeting for the fourth fiscal year of the relevant performance period. As the activities that give rise to a claim for remuneration were performed for the respective bonus tranches in fiscal year 2016, this is reported on a pro rata basis in the 2016 remuneration report. Any payment difference compared with the amount actually granted is included in the total remuneration for the fiscal year in which the legally binding commitment was made.
- The members of the Management Board are entitled to a life-long old-age pension from their 65th birthday irrespective of how old they were when they joined the company. The monthly pension amounts to EUR 10,000 for the departed CEO and EUR 4,500 for the current CEO.

The pension commitment also includes a widow's pension amounting to 65% of the pension of the respective member of the Management Board and an orphan's pension. If a member of the Management Board leaves the company before his 65th birthday while serving as a member of the Management Board, the pension commitment will remain in place but will be reduced proportionately.

- From January 1, 2014, the members of the Management Board receive an invalidity pension corresponding to 75% of the respective pension.

No loans were granted to members of the Management Board in fiscal years 2016 and 2015. There were also no similar benefits. The members of the Management Board do not receive any remuneration for mandates at Group companies.

There were no commitments for severance payments in the case of the regular termination or non-renewal of employment contracts or a change of shareholder or for transitional benefits. In the event of the early termination of a Management Board contract not resulting from justified extraordinary termination by the company, the members of the Management Board shall be paid the remuneration for the remainder of their contract as severance. A cap on severance has not been agreed. A post-contract prohibition on competition and post-contract customer protection has been agreed with the members of the Management Board for a period of 24 months after the end of the contract. The company undertakes to pay compensation of 50% of the final fixed remuneration of the respective members of the Management Board for the duration of the post-contract prohibition on competition. The company has imposed a prohibition on competition on the former CEO for a period of 24 months and recognized provisions of KEUR 375 for remuneration for the remaining months up to December 31, 2016.

The company has pension obligations to the members of the Management Board in the amount of KEUR 3,109, for which total expenses of KEUR 73 were incurred in 2016.

The financing status developed as follows:

HERBERT VOGEL	2016	2015
KEUR		
Defined benefit obligation	2,629	2,400
Cash surrender value of the employer's pension liability insurance policy	-1,138	-1,062
Financing status	1,491	1,338

NORBERT ROTTER	2016	2015
KEUR		
Defined benefit obligation	480	384
Cash surrender value of the employer's pension liability insurance policy	-193	-165
Financing status	287	219

The company has pension obligations to former members of executive bodies in the amount of KEUR 1,218, for which expenses of KEUR 18 were incurred in 2016.

The financing status developed as follows:

KEUR	2016	2015
Defined benefit obligation	1,218	1,144
Cash surrender value of the employer's pension liability insurance policy	-589	-561
Financing status	629	583

REMUNERATION OF THE SUPERVISORY BOARD

The following table provides a breakdown of the remuneration of the Supervisory Board for fiscal year 2016 and the previous year:

KEUR	Fixed remuneration component	Committee remuneration	Attendance fees	2016 Total remuneration
Friedrich Fleischmann (Chairman)	75.0	37.5	9.0	121.5
Prof. Heiner Schumacher (Deputy Chairman since March 17, 2016)	34.8	27.5	9.0	71.3
Jens Christian Derdau-Sørensen (since March 17, 2016)	19.6	3.3	7.0	29.9
Mersun Sezer (since April 28, 2016)	16.8	8.2	6.0	31.0
Tadashi Uhira*	25.0	5.0	9.0	39.0
Koji Ito*	25.0	10.0	8.0	43.0
Dr. Stephan Kremeyer (Deputy Chairman until March 17, 2016)	8.0	2.7	3.0	13.7
Carsten Esser (until March 17, 2016)	5.3	1.1	3.0	9.4
	209.5	95.3	54.0	358.8

KEUR	Fixed remuneration component	Committee remuneration	Attendance fees	2015 Total remuneration
Friedrich Fleischmann (Chairman)	75.0	37.5	9.0	121.5
Dr. Stephan Kremeyer (Deputy Chairman)	37.5	12.5	9.0	59.0
Prof. Heiner Schumacher	25.0	27.5	9.0	61.5
Carsten Esser	25.0	5.0	9.0	39.0
Kazuhiro Nishihata until August 20, 2015/ Tadashi Uhira*	25.0	5.0	5.0	35.0
Akiyoshi Nishijima until August 20, 2015/ Koji Ito*	25.0	0.0	5.0	30.0
	212.5	87.5	46.0	346.0

* Remuneration is settled on a cumulative basis with NTT DATA EUROPE GmbH & Co. KG, Bielefeld, to which the respective Supervisory Board members have assigned their claims.

The remuneration of itelligence AG's Supervisory Board is regulated by Article 16 of the Articles of Association. A resolution by the Annual General Meeting on December 12, 2013 introduced new provisions for the remuneration of the activities of the members of the Supervisory Board from fiscal year 2013. In line with these provisions, Supervisory Board members receive fixed remuneration in addition to the reimbursement of their expenses.

Each member of the Supervisory Board receives fixed annual remuneration of KEUR 25. The Chairman receives three times this amount, while the Deputy Chairman receives one and a half times this amount. In addition, each member of the Supervisory Board receives an attendance fee of EUR 1,000 per day for each meeting of the Supervisory Board or of a Supervisory Board committee attended.

Members of Supervisory Board committees receive additional fixed remuneration of EUR 5,000 for each membership of a committee. The chairman of a committee receives three times this amount, while the deputy chairman of a committee receives one and a half times this amount.

Remuneration is payable quarterly after the end of each quarter. Supervisory Board members not in office for the entire quarter receive their remuneration pro rata temporis.

itelligence also reimburses the members of the Supervisory Board for any value-added tax on their remuneration to the extent that this is invoiced or disclosed in a credit note by the respective Supervisory Board member. No advances on future remuneration or loans were granted to the members of the Supervisory Board. Furthermore, itelligence did not enter into any contingent liabilities for the benefit of the members of the Supervisory Board.

f) Related party disclosures

In addition to the Management Board, related parties as defined by IAS 24 include the Supervisory Board and shareholders. Transactions between the company and its subsidiaries considered as related parties are eliminated by way of consolidation and have not been described in these notes.

Several members of itelligence AG's Supervisory Board are or were employed in responsible and influential positions at other companies with which itelligence AG maintains ordinary business relationships. Purchase transactions for software and services with these related parties are conducted at arm's length conditions.

NTT DATA Corporation, Japan, granted itelligence AG the following loans to finance new buildings and the acquisition of international and German consulting companies:

KEUR	Interest rate in %	Total	of which current	of which non-current
Loan from Feb. 27, 2015 / 3-year term	0.839	68,456	491	67,965
(Previous year)		(68,445)	(480)	(67,965)
Loan from Jun. 22, 2015 / 252-day term	0.673	0	0	0
(Previous year)		(5,520)	(5,520)	(0)
Loan from Feb. 26, 2016 / 2-year term	0.7	4,628	28	4,600
(Previous year)		(0)	(0)	(0)
Loan from Jun. 23, 2016 / 256-day term	0.5	17,048	17,048	0
(Previous year)		(0)	(0)	(0)
Pooling account	0.25	34,039	34,039	0
(Previous year)		(0)	(0)	(0)
December 31, 2016		124,171	51,606	72,565
December 31, 2015		(73,965)	(6,000)	(67,965)

The interest rates are standard market interest rates.

In fiscal year 2016, companies of the itelligence Group generated the following income and expenses from activities with companies of the NTT Group that are not also companies of the itelligence subgroup:

INCOME in KEUR	
Consulting	10,140
Licenses	116
Managed Services	8,114
Other	296
	18,666
EXPENSES in KEUR	
Consulting	5,079
Managed Services	997
Administration	694
Other	299
Interest expense	709
	7,778

The negotiated prices are standard market prices for third parties.

itelligence AG has an advertising agreement with TBV Lemgo with an annual volume of KEUR 200 and a term until June 30, 2017.

g) Risk management

Market risk

As an international full-service IT provider for SAP, itelligence is exposed to risks from the ordinary course of business and from general conditions.

Resource-related risk

As a full-service IT provider, itelligence has focused on the traditional and upper midsize market in the SAP environment. As a result of this strong relationship with SAP in terms of content and strategy, the company is also highly dependent on SAP. This dependence greatly influences itelligence's net assets, financial position and results of operations.

Customer-side market risks and supplier-dependent or resource-dependent market risks are additional risks that are not within the company's control.

Resource-dependent risks include primarily risks relating to human resource management. Employees and managers form the basis of the company's success. Accordingly, ensuring the loyalty of highly qualified employees to the company in the long term and attracting new highly qualified staff is of the utmost importance to itelligence.

Currency risk

The operating companies of the itelligence Group predominantly settle their activities in their respective functional currency. Managing these income and expenses within local currency provides a natural hedging of cash flows, as a result of which the currency risk within the Group can be rated as low. Differences from the translation of financial statements in foreign currency into Group currency as part of the preparation of the consolidated financial statements do not influence currency risk as the respective changes in foreign currency are shown outside profit or loss in equity.

Interest rate risk

Interest rate risks arise from fluctuations in interest rates on money and capital markets and as a result of market changes in exchange rates.

The Group is subject to interest rate fluctuations on both sides of its statement of financial position.

On the assets side, income from investments of cash and cash equivalents in particular is subject to interest rate risks.

On the equity and liabilities side, interest expenses on current financial liabilities in connection with the utilization of credit facilities and other debt items are exposed to the risk of changing interest rates. Given the low utilization of current credit facilities (KEUR 3,383 as of December 31, 2016 and KEUR 2,271 as of December 31, 2015), there is very little interest rate risk here.

As of the end of the reporting period, the company had non-current financial liabilities denominated in EUR for long-term investments. Fixed interest rates have been agreed for the term of these loans. A sensitivity analysis was performed to quantify interest rate risk. An increase or reduction in the average interest rate of 1.54% by 100 basis points would have resulted in a reduction or increase in market value of KEUR 2,599.

For the purposes of goodwill impairment testing, individual capital costs are recognized for the underlying units in order to determine the present value of future cash flows. The same applies to the measurement of put-call options. Fluctuations in capital costs on the capital markets can result in future valuation risk for itelligence.

Credit risk

Within its business activities and individual financing activities, itelligence is exposed to a credit risk that lies in the non-fulfillment of contractual agreements by its partners. Credit risk arises from trade receivables. itelligence limits this risk by assessing its partners primarily on the basis of external ratings. There are no significant risks with any individual business partners.

The monitoring of the credit risk in operating activities is based on past data and external ratings. Outstanding amounts are monitored on an ongoing basis. Credit risks are taken into account on the basis of individual analyses and the maturity structure of receivables with specific and portfolio valuation allowances of KEUR 4,336 (previous year: KEUR 4,373). Furthermore, as a result of the trade credit insurance concluded, the del credere risk in Germany in particular was limited to the extent that, in the event of customer insolvency, 90% of the potential default is secured. The maximum credit risk for Germany is KEUR 26,394 (previous year: KEUR 5,067). Outside Germany, the carrying amounts of trade receivables of KEUR 96,283 is equal to the maximum credit risk (previous year: KEUR 107,173). Where write-downs are recognized due to customer insolvency, the respective adjustment account is eliminated against the written-down carrying amount of the receivables when the insolvency proceedings are completed.

The maturity structure of current trade receivables as of December 31, 2016 is as follows:

TOTAL in KEUR	Up to 30 days	Up to 60 days	Up to 90 days	Up to 120 days	Over 120 days
159,775	135,904	8,197	3,152	1,200	11,322
100%	85.1%	5.1%	2.0%	0.7%	7.1%
of which impaired					
4,336	399	0	239	11	3,687

The Management Board assumes that the amounts up to 120 days past due will be paid in full. This assessment is based on past payment behavior and extensive analyses in respect to the customer credit risk. This includes customer ratings, to the extent they are available.

Current trade receivables that are not past due and not written down relate to customers with a good credit rating and are not considered to be impaired.

On December 31, 2016 the Group held cash and cash equivalents of KEUR 57,733 (previous year: KEUR 54,518). This figure is therefore also the maximum credit risk in connection with these assets. Cash and cash equivalents are deposited only with banks or financial institutions of good to very good credit quality.

Liquidity risk

The liquidity risk consists of the company being unable to meet its financial obligations from, for example, loan agreements, leases or trade payables.

KEUR	Up to 1 year	1 to 5 years	More than 5 years	Total
Financial liabilities	67,224	99,072	4,417	170,713
Trade payables	62,836	0	0	62,836
Interest payments	1,542	988	116	2,646
Cash flows from financial liabilities as of December 31, 2016	131,602	100,060	4,533	236,195

Working capital, which represents the net current assets of an entity (current assets less current liabilities), amounted to KEUR 26,325 as of the end of the year (previous year: KEUR 51,723). The excess of current assets over current liabilities is available to the itelligence Group for the maintenance and expansion of its business activities.

itelligence has a central financial management system for global liquidity management. Its overriding aim is to secure and optimize the necessary liquidity within the Group. To this end, the itelligence companies participate in central cash management. Cash and cash equivalents are monitored throughout the Group and investments are made in accordance with uniform principles. Long-term investments are always financed on a long-term basis in order to further increase itelligence's liquidity reserves for operations.

As of December 31, 2016, the Group had cash and cash equivalents of KEUR 57,733 (previous year: KEUR 54,518), consisting of current account balances and cash in hand.

itelligence has also agreed credit facilities with its key relationship banks in order to ensure the supply of liquidity.

h) Auditor's fees and services

At the Annual General Meeting on March 17, 2016, the shareholder of itelligence AG elected KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor of the separate and consolidated financial statements of itelligence AG for fiscal year 2016.

In the current fiscal year, the itelligence Group paid the following fees to the auditor as defined by section 319(1) sentences 1 and 2 HGB:

KEUR	2016	2015
Fees for audits of financial statements by KPMG AG	269	223
Fees for tax advisory services	68	109
Fees for other services	294	205
	631	537

i) Group affiliation

itelligence AG prepares the consolidated financial statements for the smallest group of companies. They are published in the electronic Bundesanzeiger (Federal Gazette). NTT CORPORATION, Tokyo, Japan, prepares the consolidated financial statements for the largest group of companies.

34. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no significant events after the end of the fiscal year.

Bielefeld, March 15, 2017
itelligence AG, Bielefeld

Norbert Rotter
CEO

Dr. Michael Dorin
CFO

AUDITOR'S REPORT

The statutory auditor has issued the full consolidated financial statements and Group management report with the following unqualified auditors' report:

"Auditors' report

We have audited the consolidated financial statements prepared by itelligence AG, comprising the consolidated statement of financial position, consolidated income statement and statement of other comprehensive income, consolidated statement of cashflows, consolidated statement of changes in equity and notes to the consolidated financial statements, together with the group management report, for the financial year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a (1) of the German Commercial Code [HGB] are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of

those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Bielefeld, March 15, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Original German version signed by:

Kuntz
Wirtschaftsprüfer

Lo Conte
Wirtschaftsprüfer

INCOME STATEMENT
GERMAN COMMERCIAL CODE

EUR	1.1. – 31.12.2016		1.1. – 31.12.2015	
1. Sales		181,946,183.91		169,732,185.00
2. Increase in work in progress		8,445,015.97		7,455,830.51
3. Other operating income		8,233,304.00		6,411,497.47
4. Cost of materials				
a) Cost of purchased merchandise	-16,966,241.36		-15,577,118.36	
b) Cost of purchased services	-75,202,154.86	-92,168,396.22	-69,698,945.31	-85,276,063.67
5. Personnel expenses				
a) Wages and salaries	-78,957,840.48		-72,185,818.38	
b) Social security, post-employment and other employee benefit costs	-11,255,867.05	-90,213,707.53	-10,190,142.56	-82,375,960.94
– of which in respect of post-employment benefits				
EUR -97,204.34 (previous year: EUR -24,000.88) –				
6. Depreciation, amortization and write-downs				
a) Amortization and write-downs of intangible fixed assets and depreciation and write-downs of tangible fixed assets	-2,029,386.32		-1,790,385.79	
b) Write-downs of current assets to the extent that they exceed the write-downs that are usual for the corporation	-5,260,309.34	-7,289,695.66	-182,624.40	-1,973,010.19
7. Other operating expenses		-33,292,831.84		-31,942,855.65
8. Income from long-term equity investments		3,614,638.46		4,005,270.10
– of which in respect of affiliated companies				
EUR 3,613,871.52 (previous year: EUR 3,988,595.58) –				
9. Income from profit and loss transfer agreements		23,210,024.00		24,799,987.29
10. Other interest and similar income		1,435,668.48		1,697,826.21
– of which in respect of affiliated companies				
EUR 1,368,376.50 (previous year: EUR 1,624,136.78) –				
11. Interest and similar expenses		-845,952.35		-1,335,482.51
– of which in respect of affiliated companies				
EUR -729,576.86 (previous year: EUR -740,658.03) –				
12. Taxes on income		-1,836,552.60		-3,425,473.76
13. Earnings after taxes		1,237,698.62		7,773,749.86
14. Net profit for the year		1,237,698.62		7,773,749.86
15. Retained profits brought forward		15,287,251.28		7,513,501.42
16. Net retained profits		16,524,949.90		15,287,251.28

BALANCE SHEET
GERMAN COMMERCIAL CODE

ASSETS EUR	Dec. 31, 2016		Dec. 31, 2015	
A. Fixed assets				
I. Intangible assets				
Purchased concessions, industrial and similar rights and assets and licenses in such rights and assets		2,744,605.21		1,799,457.00
II. Tangible assets				
1. Land, land rights and buildings, including buildings on third-party land	6,278,633.00		6,479,109.00	
2. Technical equipment and machinery	58,805.00		125,738.00	
3. Other equipment, operating and office equipment	2,357,232.00		2,371,888.00	
4. Prepayments and assets under construction	244,333.89	8,939,003.89	203,784.00	9,180,519.00
III. Long-term financial assets				
1. Shares in affiliated companies	159,169,062.98		101,643,916.99	
2. Loans to affiliated companies	15,285,920.21		19,654,087.34	
3. Other long-term equity investments	10,225.84	174,465,209.03	10,225.84	121,308,230.17
		186,148,818.13		132,288,206.17
B. Current assets				
I. Inventories				
Services in progress		43,355,869.73		34,910,853.76
II. Receivables and other assets				
1. Trade receivables	30,040,388.50		26,221,094.35	
– of which with a remaining term of more than one year EUR 1,410,349.67 (previous year: EUR 2,557,328.23) –				
2. Receivables from affiliated companies	35,950,170.22		32,770,178.12	
– of which with a remaining term of more than one year EUR 623,311.83 (previous year: EUR 4,410,633.87) –				
3. Other assets	1,043,213.13	67,033,771.85	773,437.82	59,764,710.29
– of which with a remaining term of more than one year EUR 20,876.76 (previous year: EUR 78,136.56) –				
III. Cash in hand, bank balances and checks		4,992,069.69		13,608,033.69
		115,381,711.27		108,283,597.74
C. Deferred income		2,284,149.58		1,860,147.45
		303,814,678.98		242,431,951.36

EQUITY AND LIABILITIES EUR	Dec. 31, 2016	Dec. 31, 2015
A. Equity		
I. Subscribed capital	30,014,838.00	30,014,838.00
II. Capital reserves	45,880,856.84	45,880,856.84
III. Net retained profits	16,524,949.90	15,287,251.28
	92,420,644.74	91,182,946.12
B. Provisions		
1. Provisions for pensions and similar obligations	1,055,692.00	1,214,642.00
2. Provisions for taxes	2,185,779.00	2,337,000.00
3. Other provisions	20,213,648.36	20,250,048.17
	23,455,119.36	23,801,690.17
C. Liabilities		
1. Payments received on account of orders	42,270,473.68	35,312,423.27
– of which with a remaining term of one year or less EUR 42,270,473.68 (previous year: EUR 35,312,423.27) –		
2. Trade payables	12,288,375.33	10,187,584.32
– of which with a remaining term of one year or less EUR 12,288,375.33 (previous year: EUR 10,187,584.32) –		
3. Liabilities to affiliated companies	127,305,882.14	77,072,962.98
– of which with a remaining term of one year or less EUR 54,740,882.14 (previous year: EUR 9,107,813.68) –		
– of which with a remaining term of more than one year EUR 72,565,000.14 (previous year: EUR 67,965,149.30) –		
4. Other liabilities	5,397,078.94	4,019,930.11
– of which with a remaining term of one year or less EUR 4,135,744.94 (previous year: EUR 4,008,263.11) –		
– of which with a remaining term of more than one year EUR 1,261,334.00 (previous year: EUR 11,667.00) –		
– of which in respect of taxes EUR 3,678,141.08 (previous year: EUR 3,104,695.10) –		
– of which in respect of social security EUR 16,955.70 (previous year: EUR 17,903.01) –		
	187,261,810.09	126,592,900.68
D. Deferred income	677,104.79	854,414.39
	303,814,678.98	242,431,951.36

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